THE DEVELOPMENT OF FOUR HOTEL COMPANIES IN THE UK, 1979-2004

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Abstract

The evolution of big business in manufacturing and some service industries, together with the role played in this by merger and acquisition (M&A) activity has been thoroughly researched and is well documented. However, despite the increasing economic and social importance of the UK hotel industry, its development has been largely neglected. Therefore, this thesis set out to explore the development of big business in the hotel industry through the study of M&A activities.

This study employs the multiple case study approach (four UK hotel companies), using M&A theory as the theoretical framework; extensive historical secondary data and semi-structured interviews were carried out for the study, covering a period of 26 years. The analysis was conducted by synthesising data with the M&A theory, in terms of two levels, organisational motives and macro environmental factors. The findings confirm those in the existing literature on what is encompassed by the term big business and the part played by M&A activity in the creation of big business. They also suggest that in the hotel industry the acquisition of brand name and brand rights is an important motive, one which has been neglected in the general M&A literature discussion. These findings added several new dimensions to big business concepts, through illuminating the role of brand and brand right acquisition in the context of the UK hotel industry. This thesis confirms the utility of deploying the wide range and large quantity of publicly available historical secondary information, which is rarely used. In addition, the application of a qualitative and longitudinal approach, applied to management theory, has broadened the research agenda in the study of hotel business, business history and business management theory.

Keywords: Big business, Business history, Merger and acquisition, UK hotel companies, UK hotel industry

Dedication

To my siblings and siblings-in-law:

Ji-Hia, Dennis, Alice, Jenny, Richard, Sok Hua, Susan, John, Roland, Nelson, Sammy, May, Chong Boon and Amy,

&

In loving memories of

my parents and sisters, Keng and Linda

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Table of Contents

Abstract i
Acknowledgement ii
Table of contents iii
List of tables vi
List of figures viii
List of abbreviations ix

1. Introduction: 1
   1.1. Background for the research 1
   1.2. Definitions 9
   1.3. Historical studies of the development of UK hotel industry 11
   1.4. Hotel business and M&A activities 18
   1.5. Aim and objectives 21
   1.6. Structure of the thesis 22

2. The UK macro environment, the 1970s – early 2000s 25
   2.1. Macro environment in the UK 25
      2.1.1. The political and economic changes 25
      2.1.2. The UK financial Sector 28
      2.1.3. The UK and EU takeover policies 29
      2.1.4. The Single European Market 35
      2.1.5. Information Technology (IT) 37
      2.1.6. The gaming industry 41
      2.1.7. The brewing industry 42
      2.1.8. The property market 46
   2.1. Summary 48

3. Mergers and acquisitions 50
   3.1. Types of merger and acquisition activity 50
   3.2. Value maximisation motives 52
   3.3. Non-value maximisation motives 59
   3.4. Industry shocks concept 62
   3.5. Summary 68

4. The UK Hotel Industry 71
   4.1. Evolution of the UK hotel industry 71
   4.2. UK hotel industry changes, early 1980s – early 2000s 75
   4.3. Summary 87

5. Research design 91
   5.1. Research design 92
   5.2. Multiple-case study 96
   5.3. Sample selection 97
   5.4. Data collection and analysis 99
      5.4.1. Secondary data collection 100
      5.4.2. Semi-structured interviews 112
      5.4.3. Data analysis 117
   5.5. Validity, Reliability and Generalisability 120
   5.6. Research limitations 121
   5.7. Summary 125

6. Forte Group plc (THF) 127
6.1. The beginning of Forte Group plc 127
6.2. Hotel expansion – major M&A activities 129
6.2.1. The Savoy 129
6.2.2. Hanson Trust 134
6.2.3. Kennedy Brookes 136
6.2.4. Crest Hotels 137
6.2.5. Le Meridien Hotels 137
6.3. The end of Forte Empire - the reverse takeover 139
6.4. Comparison of motives for M&A deals 143
6.5. General development of THF 153

7. Ladbroke Group plc (Ladbroke) 157
7.1. The beginning of Ladbroke Group plc 157
7.2. Hotel expansion – major M&A activities 159
7.2.1. Myddleton Hotels 160
7.2.2. Comfort Hotels 160
7.2.3. Rodeway Inns 162
7.2.4. Hilton International 163
7.2.5. Stakis Hotels 166
7.2.6. Scandic Hotels 170
7.3. Comparison of motives for M&A deals 171
7.4. General development of Ladbroke 182

8. Bass Group plc (Bass) 188
8.1. The beginning of Bass Group plc 188
8.2. Hotel expansion – major M&A activities 189
8.2.1. Clingendael Group 190
8.2.2. Centre Hotels 190
8.2.3. Holiday Inns Hotels 191
8.2.4. InterContinental Hotels 196
8.2.5. South Pacific Hotels Corporation 198
8.2.6. Bristol Hotels and Resorts Inc. 200
8.2.7. Post House 201
8.2.8. Candlewood Suites 202
8.3. Comparison of motives for M&A deals 203
8.4. General development of Bass 216

9. Whitbread Group plc (Whitbread) 223
9.1. The beginning of Whitbread Group plc 223
9.2. Hotel expansion – major M&A activities 225
9.2.1. Marriott Hotels 225
9.2.2. Swallow Hotels 227
9.2.3. Premier Lodge 229
9.3. Comparison of motives for M&A deals 232
9.4. General development of Whitbread 240

10. Discussion on the development of four hotel companies 245
10.1. Motives which support the M&A literature 246
10.1.1. Organisational motives: Value maximisation 246
10.1.2. Organisational motives: Non-value maximisation 250
10.2.3. Macro environment 257
10.2. Brand and brand right acquisitions 263
10.3. Brand acquisition and big business 268
10.4. M&A activities and changes in corporate strategies 270
10.5. Summary 275

11. Conclusion 277
11.1. Contributions to knowledge 277
11.2. The implications for managers and academia 283
11.3. Recommendations for further research 284
11.4. Reflections on research process 289

Appendices:

Appendix A: Hotel grading in the UK 294

Appendix B: Largest UK hotel companies (most number of hotel rooms) 1983 – 2004 296

Appendix C: Inflation and Interest rates in the UK (1975-2004) 301

Appendix D: Exchange rates US$ / GBP (1979 – 2004) 302

Appendix E: Indices for hotel sales and inflation rates, 1975 – 2005 303

Appendix F: Largest hotel companies worldwide (most number of hotel rooms) 1983 – 2005 304

Appendix G: Semi-structured interview questions 308

Appendix H: Sample letter to respondent 309

Appendix I: Participant information sheet 310

Appendix J: Informed consent form 313

Appendix K: Disposal of THF's assets after the 1996 takeover by Granada plc 314

Appendix L: THF's sales and profits by activities (£ million) 315

Appendix M: Ladbroke's sales and profits by activities (£ million) 316

Appendix N: Bass's sales and profits by activities (£ million) 318

Appendix O: Whitbread's sales and profits by activities (£ million) 320

Appendix P: Research related-activities and learning outcome 322

Appendix Q: 8th European Business History Association conference paper 325

References 358

List of Tables

Table 1.1: Historical studies on the UK hotel industry 12

Table 1.2: Studies of hotel development and M&A activities 18

Table 2.1: Estimate of public house ownership, 1989 and 2004 43

Table 2.2: Top six brewers in Great Britain in terms of market share (year ending December 2003) 45

Table 3.1: Summary of variables driving M&A activities (developed for this study) 70

Table 4.1: Single asset transactions in the UK, 2001 - 2004 84

Table 5.1: Types of secondary data 101

Table 5.2: Types of Secondary data collection and sources 104

Table 5.3: Search terms used in relation to M&A deals 106

Table 5.4: Background of respondents 114

Table 5.5: Interview and incidence 116

Table 5.6: Newspapers article extract with variables attached (Example: Bass bought Holiday Inns) 118

Table 6.1: Major merger and acquisition activities, 1981 -1994 127

Table 6.2: THF's motives for M&A activity, 1981 – 1994 150

Table 6.3: Comparing analysts' comments on THF's motives for M&A activity, 1981- 1994 151

Table 6.4: Comparing THF's motives for M&A activities, 1981 - 1994 152

Table 7.1: Major merger and acquisition activities, 1979 – 2001 157

Table 7.2: Ladbroke's motives for M&A activity, 1979 – 2001 179

Table 7.3: Comparing analysts' comments on Ladbroke's motives for M&A activity, 1979 - 2001 180

Table 7.4: Comparing Ladbroke's motives for M&A activity, 1979 – 2001 181

Table 8.1: Major merger and acquisition activities, 1979 – 2003 188

Table 8.2: Bass's motives for M&A activity, 1979 – 2003 211

Table 8.3: Comparing analysts' comments on Bass's motives for M&A activity, 1979- 2003 213

Table 8.4: Comparing Bass's motives for M&A activity for M&A activity, 1979 - 2003 214

Table 9.1: Major merger and acquisition activities, 1995 - 2004 223

Table 9.2: Whitbread's motives for M&A activity, 1995 – 2004 237

Table 9.3: Comparing analysts' comments on Whitbread's motives for M&A activity, 1995 - 2004 238

Table 9.4: Comparing Whitbread's motives for M&A activity, 1996 – 2004 239

List of Figures

Figure 1.1: Comparing total employment in different sectors and industries in the UK 5

Figure 1.2: GDP indices of hotel and catering, all service industry and manufacturing industry in the UK, 1978 – 2005 6

Figure 1.3: Overseas visitors' spending in the UK by purpose (£million) 7

Figure 2.1: M&A activities in the UK (Total outlay closed in £m) 33

Figure 2.2: M&A activities in the UK (Average outlay per deal closed in £m) 33

Figure 4.1: Travel accommodation: per cent change in year on year growth in value of internet sales by direct suppliers and intermediaries, 2000 – 2005 86

Figure 10.1: EPS and Dividends per share for THF, 1979 – 1995 252

Figure 10.2: EPS and Dividends per share for Ladbroke, 1979 – 2004 253

Figure 10.3: EPS and Dividends per share for Bass, 1979 – 2004 253

Figure 10.4: EPS and Dividends per share for Whitbread, 1979 – 2004 254

Lists of Abbreviations

AA: Automobile Association

AR: Annual Report

BoE: Bank of England

BTA: British Tourists Authority

CAMRA: Campaign for Real Ale

CC: Competition Commission

CCH: Country Club Hotel

CCHG: Country Club Hotel Group

CEO: Chief Executive Officer

DGFT: Director General of Fair Trading

DIY: Do-it-yourself

DTI: Department of Trade and Industry

DNW: Non-document Written (materials)

DW: Documentary Written (materials)

EC: European Commission

ECU: European Currency Unit

EEC: European Economic Community

EPS: Earnings per share

ERM: European Exchange Rate Mechanism

ETC: English Tourism Council

EU: European Union

FRS: Financial Reporting Standards

FSA: Financial Services Authority

GDP: Gross Domestic Product

HDIS: Hotel Development Incentives Scheme

HHC: Hilton Hotels Corporation

HI: Hilton International

HPT: Hospitality Properties Trust

ICH: InterContinental Hotels

IMF: International Monetary Fund

KIO: Kuwait Investment Office

KLM: Koninklijke Luchtvaart Maatschappij (commonly known as KLM Royal Dutch Airlines)

LSE: London Stock Exchange

LMSR: London, Midland and Scottish Railway

MAB: (Multiple) Area based

MD: Managing Director

MMC: Monopolies and Mergers Commission

MPC: Monetary Policy Committee

MTS: (Multiple) Times Series based

M&A: Merger and acquisition

NOPGCIT: No Page Cited

OFT: Office of Fair Trading

ONS: Office of National Statistics

RAC: Royal Automobile Club

REITs: Real Estate Investment Trusts

RevPAR: Revenue per available room

SAH: (Survey) Ah Hoc surveys

SARS: Severe Acute Respiratory Syndrome

SC: (Survey) Censuses

SCS: (Survey) Continuous and regular Surveys

SEA: Single European Act

SPHC: Southern Pacific Hotels Corporation

THF: Trust House Forte plc

TWA: Transworld Corporation (previously known as Trans World Airlines)

UK: United Kingdom

US: United States

USA: United States of America

WCI: Whitbread Coaching Inns

Chapter 1:
Introduction

This thesis explores the development of big business in the UK hotel industry through the study of merger and acquisition activity (M&A). Although M&A activities have been widely used as an expansion tool in the development of big business in many industries, they have not been investigated in the hotel industry. Therefore, there is a knowledge gap about hotel companies' development through the use of M&A activity. The questions this thesis asks are:

- What circumstances triggered hotel expansion?
- How did these activities - hotel expansion and M&A activities - occur?

This thesis therefore will engage in the analysis of historical context, to seek answers to the research questions, based on longitudinal research, which is widely agreed to be a useful approach for studying changes and the causes of changes over a period of time.

In this chapter, section one presents an overview of the background for the research. Section two defines several terms used in this thesis. Section three evaluates historical studies of the development of the UK hotel industry. Section four examines studies related to M&A activities and the hotel industry. Section five states the aim and objectives of this thesis and the final section explains its structure.

1.1. Background for the research

This section provides the background for this study, by explaining what big business is and what it means in the hotel business, the rationale for focussing on the UK hotel industry and the specific period studied of 1979 – 2004.

In the evolution of big business, M&A activities were used widely as an expansion tool in both the manufacturing and service industries. For instance, Hannah and Kay (1977) posited that M&A activities were the main driver of industry concentration in the manufacturing industry between 1907 and 1973, and the driver of rapid growth in the size of large companies. Similarly, Hannah's (1983) study of the rise of the corporate economy between the early 1900s and the 1980s found M&A activities to be an important driver leading to the emergence of big business in the UK manufacturing industry. Channon (1978) examined the strategy, structure and financial performance of the 100 largest service industry corporations in the UK over the post-war period (1950-75) and posited that M&A activities played a pivotal role in achieving strategic change. Cassis (1997) also noted the use of M&A activities in the evolution of big business, highlighting the emergence of the five largest banks in 1918 as being a result of M&A activities by the then ten largest banks in Britain. In addition, the author pointed out that British companies have generated high profits [compared to other European countries], because 'one of the reasons for the overall higher profitability of British big business was its diversity [in the service industry], the fact that expanding sectors could compensate for declining ones' (pp. 233). For example, brewing, tobacco, textiles, chemicals and electricity were strong segments in the industrial sector, whilst equally strong in the service sector were shipping, retailing, press and financial companies. However, despite the fact that many other sectors in the service industry have been widely investigated for their historical expansion, the hotel industry has been neglected.

Cassis (1997) has pointed out that big business has often been identified with the largest industrial companies and linked to the manufacturing industry, which was why the concepts of big business were more 'designed' for this particular industry. This is particularly conspicuous in Schmitz's (1993) description of a big business in manufacturing industry as one characterised by owning huge capital assets and high headcounts. As a result of a need for a large amount of financial support for expansion, funds for development were generated from outside the company through financial institutions and the stock markets.

According to Cassis (1997, pp. 5),

> "Big business, however, is a wider concept. Excessive attention to the structure of the firm has led to losing sight of a basic fact: that big business is a matter of large-scale operations, of money and power, whatever the type of activity or the forms of organisation".

Hotel companies and their activities are increasingly becoming important economic and social contributors to local economies, for instance, providing economic benefits through invisible exports such as the earnings from foreign currencies, and providing social contributions to the local community such as job creation and infrastructure development (Harris, 2006). Moreover, globalisation has made trading across borders easier as well as improving the mobility of people throughout the world. This has increased the demand for hotel services, and in turn, encouraged the development of hotel companies worldwide. Hotel companies have become a large-scale operation in terms of their presence worldwide. Hotel companies are structured to spread out over different locations at the same time. This is mainly due to it's the industry's dual nature of simultaneous production and consumption (Cooper *et al.*, 2005). At the same time, opportunities from globalisation, coupled with the saturation of certain hotel markets led to the need to expand regionally or internationally. Therefore, the nature of this business requires companies to be present at several locations to offer their goods and services, has in turn driven the expansion of such companies across international borders and even in different cities within each country.

A number of the characteristics of big business described so far fit in with the hotel industry. Firstly, the majority of the hotel companies, particularly the big hotel companies are running and selling a variety of different products, in terms of rooms at different market levels (one-star to five-star) and in a number of locations. This concurs with Schmitz's (1993) description of a big business that integrates the production and sales of a diverse number of products and / or geographic areas. In addition, this also coincides with Cassis's (1997) notion of large-scale operations, in any kind and form of activity and organisation.

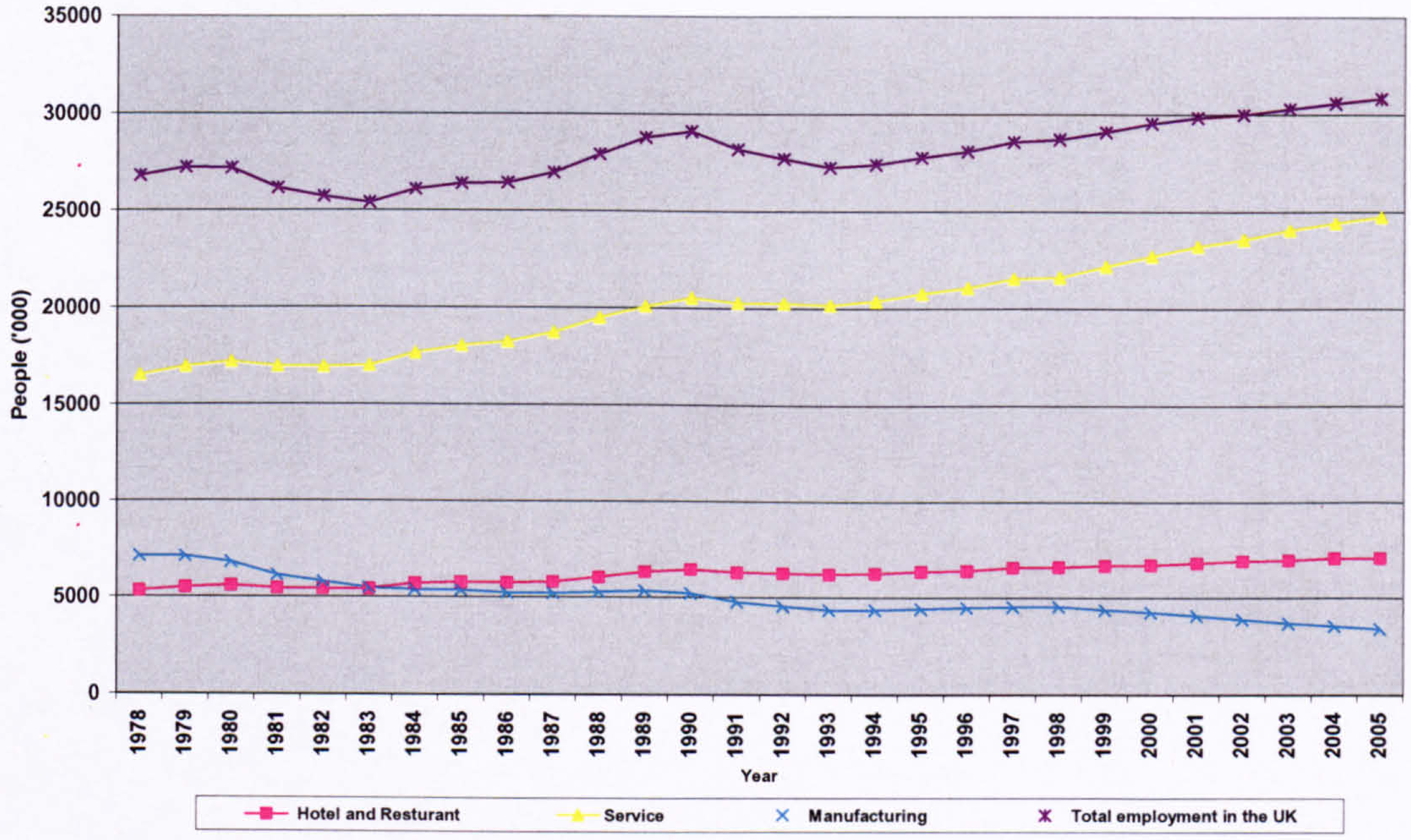
Secondly, the nature of the hotel industry has an inherent high fixed cost structure, and consequently, high investment costs (Litteljohn, 2003; Phillips, 1997). This coincides with Schmitz's (1993) definition of big business i.e., 'owning a huge capital asset' and as a consequence of company expansion, resulting in increased financial burden. Therefore, funds for development had to be sourced from outside the companies (Cassis, 1997; Schmitz, 1993).

Thirdly, the evolution of the UK hotel industry fits in with the big business argument proposed by both Schmitz and Cassis, whereby a limited number of large companies compete with one another in the same industry. This phenomenon is pronounced, with a decreasing number of hotel companies whilst the sizes of the surviving companies are increasing. An estimated 16,000 hotel companies were recorded in the UK in 1980, and the number has dropped to an estimate of 10,250 in 2000 and 9,535 in 2003 (Hotel and Catering International Management Association, 2002; Key Note, 2003).

Fourthly, the use of M&A activities in the evolution of big business is particularly pertinent to the hotel industry because of the nature of the business. The hotel business is cyclical in nature, as a consequence of change in the macro environment (Ward, 1997). In other words, demand for goods and services is dependent on economic growth or decline. During a period of economic growth, the demand for hotel room increases, but hotel room capacity is inadequate to meet demand because of high investment costs and time needed to build a hotel from scratch (Euromonitor, 2001; Reece, 2004). This applies particularly in the UK and Europe, where constraints such as a lack of suitable land and difficulties in obtaining permits for building new hotels caused the building of new rooms to lag behind the demand for them by 12 to 18 months (Euromonitor, 2001; Reece, 2004). Therefore, M&A activities become attractive for hotel owners and operators, as a means for expansion in the UK, as well as a quick solution to bridge the time lapse between demand and supply of hotel rooms.

This research has concentrated on the UK hotel industry for several reasons. First, the UK is the first industrialised country and was one of the first to develop its service economy (Cassis, 1997; Wardley, 1991). The UK hotel industry has become a major player via its increasing economic contribution to the UK economy (Hotel and Catering International Management Association, 2002; Key Note, 2003; Office for National Statistics, 2006b).

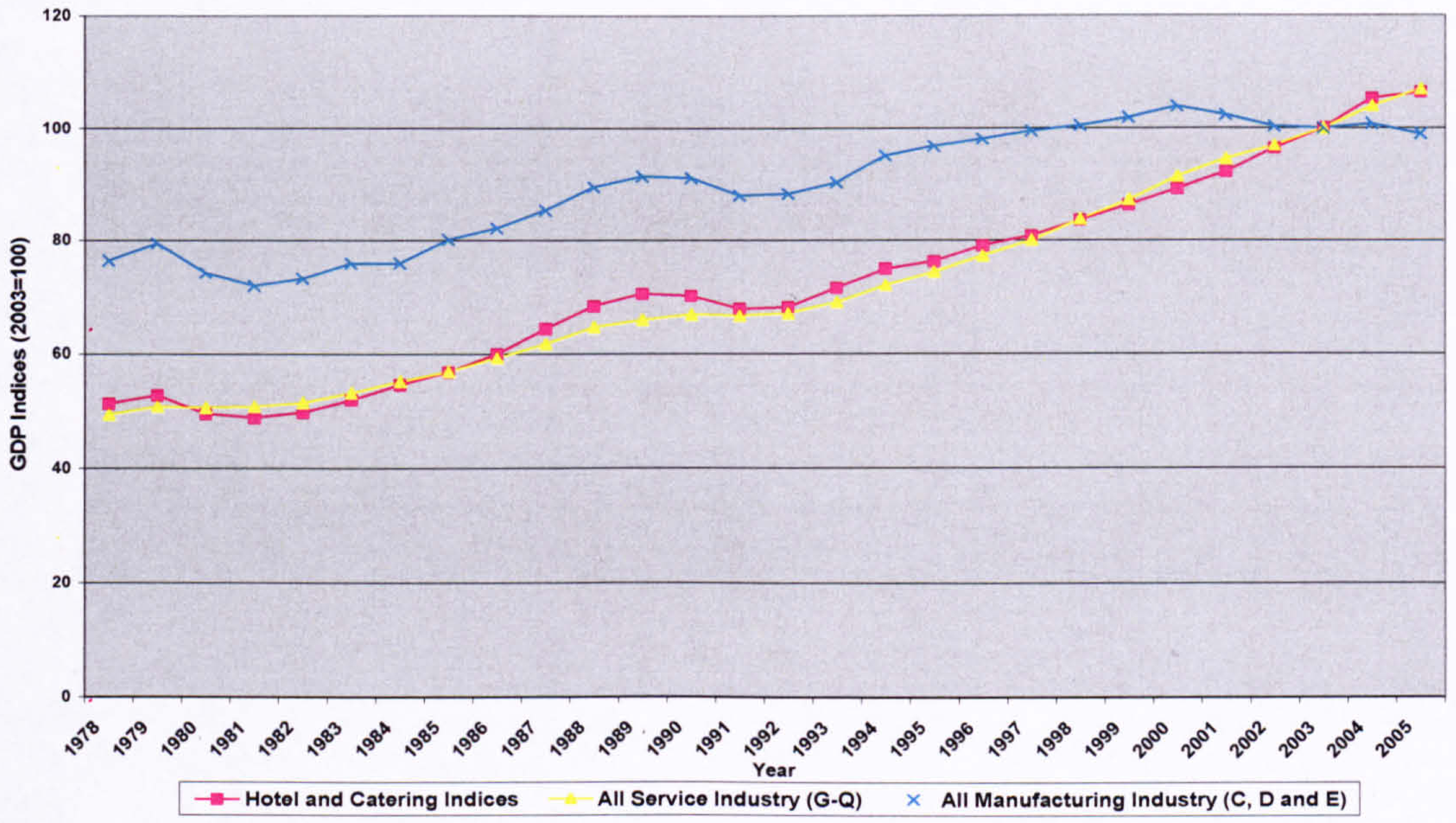
Figure 1.1: Comparing total employment in different sectors and industries in the UK



Source: Lovegrove (2006); Macleay (2000)

In Figure 1.1, employment in the manufacturing industry declined from 1990, whilst service industry continued to increase on the whole. Although there was a decline between the period 1990 – 1993 (due to recession, etc. see Chapter 2) in the service industry, this industry recovered quickly whilst manufacturing industry continued to fall. This figure not only reveals the growing importance of the hotel industry as part of the growing service industry, it also sheds light on its contribution to the UK economy in terms of its provision of stable employment while manufacturing industry, which was previously the biggest employer, declined.

Figure 1.2: GDP indices of hotel and catering, all service industry and manufacturing industry in the UK, 1978 – 2005

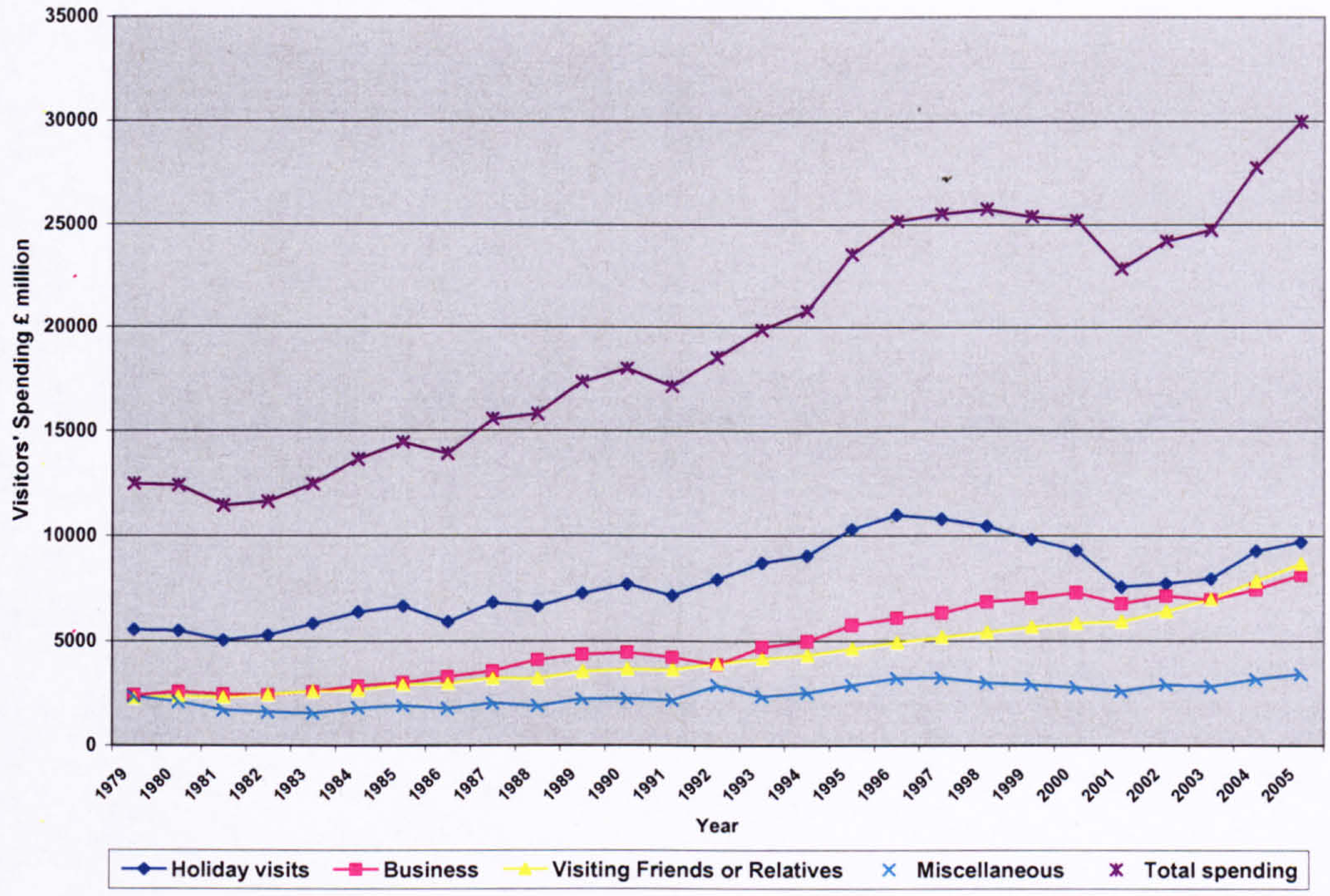


Source: Office for National Statistics (2006b)

Moreover, the hotel and catering industry contributed more in terms of Gross Domestic Product (GDP), to the economy on average, as compared to that of the service industry, particularly between the mid-1980s and the late 1990s (see Figure 1.2). The gap in GDP contribution to the UK economy between service and manufacturing industries closed from 2003 and the former, including hotel and catering industries, overtook the latter.

Second, the UK continues to be one of the most visited countries for both business and tourist visitors. The historical attractions and London's position as one of the most important business cities are the drivers for increasing the number of tourist visits and nights spent (Economic and Social Research Council, 2006; Lovegrove, 2006; Macleay, 2000). This is evident from the amount of income generated by overseas visitors' (business and holiday) spending in the UK (see Figure 1.3).

Figure 1.3: Overseas visitors' spending in the UK by purpose (£ million)



Source: Lovegrove (2006); Macleay (2000)

The declines in visitor spending shown in the years, 1992 and 2003, were partly the results of reductions in the volume of cross border travels caused by the first and second Gulf Wars respectively, and world recessions. In particular, the declines in the number of visitors between 1999 and the mid-2002 was due to the 9/11 terrorist attack in New York City (2001), the foot-and-mouth outbreak in the UK (2001), the Severe Acute Respiratory Syndrome (SARS) epidemic in the Asia Pacific region and North America (2003) and wars in Afghanistan and Iraq (since 2002 and 2003 respectively). These events had created fear among travellers, and led to a fall in demand for hotel accommodation and visitors' spending in the UK and worldwide.

The UK hotel industry has been growing and is growing as regards its economic contribution in terms of GDP and the stable supply of jobs in employment. In conjunction with the steady flow of visitors to the country and their increasing spending, the hotel industry has evolved into a big player in the UK economy and it warrants an in-depth investigation to understand its growth.

This particular period between 1979 and 2004 has been selected for this study because of changes in the macro environment in the UK and its wider context in terms of world events.

Firstly, the UK economy went through two economic booms and two slumps during this period. In the 1980s, the boom was led by the anticipation of the deregulation of the UK financial sector in 1986, and more funds being made available for investment (see 2.2.2). The establishment of the Single European market in 1992 also induced a high volume of M&A activity within the UK and in other European countries (Garcia and Torre-Encisco, 1995; Goergen and Renneboog, 2004). The two economic slumps in the late 1980s and the late 1990s were results of the world economic slowdown and adverse events mentioned previously. In addition, the UK economy was challenged by a high inflation and interest rates between the late 1980s and early 1990s.

Secondly, this period is suitable for the purpose of this enquiry as competition in the UK hotel industry intensified with the entrance of foreign competitors. In the earlier periods (1960s and 1970s) of hotel development in the UK, the industry was dominated by two major players, namely Grand Metropolitan and Trust House Forte (Channon, 1978; Taylor and Bush, 1974). In contrast, the 1980s onwards saw major hotel companies in the US and Asia purchasing UK hotels. For example, US hotel companies wanted to expand out of the US due to market saturation in their country and Japanese companies were expanding because of their strong economic growth and a high balance of payment surplus, which enabled them to engage in M&A activities outside Japan (Caterer and Hotelkeeper, 1986i).

The above discussion sets the stage for studying the emergence of big business in the UK hotel industry, between the periods 1979 – 2004 and in turn has illustrated the use of M&A activities as an essential tool to drive this emergence. M&A activities are not only an expansion mechanism, but are also considered as an 'investment decision by the acquiring firm' (Halpern, 1983, pp.298). Therefore, M&A activity would be an appropriate point of departure to investigate the development of companies and industry into big business. The next section provides some definitions for key terms used throughout this thesis.

1.2. Definitions

The key terms will be defined in the following in order to enable a consistent comparative analysis. They are the terms 'hotel' and 'merger and acquisition activity' (M&A).

(i) Hotel

The word 'hotel' was used after 1760 in England (Medlik and Airey, 1978). It referred to large houses consisting of apartments for let by the day, week or month. The rental activity in hotels is usually supported by the provision of food and drink and other related services (Harris, 2006; Harrison and Johnson, 1993). Thus, not only is the character of hotels made up of a composite of activities, but hotels are also categorised into different kinds of room and service provision. Hotels can be classified based on the prices they charge, namely budget or economy, mid-scale and up-scale (Coopers *et al.*, 2005). Hotels may also be grouped under the types of specialised services and facilities they offer, such as family, all-inclusive and extended-stay, resort destination, airport, convention, all-suite and casinos (Coopers *et al.*, 2005; Vogel, 2001). Hotels are also categorised under one-star to five-star ratings, referring to the quality of provision from basic to excellent respectively (see Appendix A). These classifications are used by authoritative organisations, namely the English Tourism Council (ETC), the Automobile Association (AA) and the Royal Automobile Club (RAC) (VisitBritain, 2006). In this thesis, hotel refers to any or all of the above types and categories. However, to enable a smooth discussion throughout, the classification referred to by these organisations will be used. This classification covers a wider range, compared to economy, mid-scale and up-scale. Moreover, the latter is generally used interchangeably with star ratings, in which mid-scale could refer to the two or three star hotel market. In addition, for each type of facilities offered, different market levels exist, namely an economy or one-star airport hotel and an up-scale or five-star airport hotel.

In this study, budget hotels will be treated as a separate category from the one- to five-star rating hotels. Most UK budget hotels were previously located close to main roads, within motorway service areas and / or other high-traffic locations. They can also be found in city centres currently (Mintel, 2005b). Most of these budget hotels offer en-suite shower, no-frills facilities, and normally do not have built-in restaurants. This type of hotel can and has developed into different hotel types, namely discount budget, middle budget and upper economy (Mintel, 2005b). Therefore, to facilitate a smooth discussion, this study considers budget hotels as a separate category from one-star hotels, but as at the same time, considered as the same category within the same budget sector.

(ii) Merger and acquisition activity (M&A)

Several meanings for each of the terms 'merger' and 'acquisition' have emerged as a result of research conducted in this area. According to Schoenberg (2003, pp. 96), an acquisition is the purchase by one company, which is called 'the bidder', of a controlling interest in another company, known as 'the target'. Acquisitions are also referred to as takeovers because the bidding company will take over the control of all assets, both tangible and intangible, of the target entity when an acquisition is completed. Ingram *et al.* (1992, pp. 196) shared a similar view when they defined a takeover as 'a game of strategy involving a number of players in which the management of one company attempts to gain control of another'. Gaughan (2007) held a different view as he found the term 'takeover' vague because it can refer to various types of transactions including both friendly and unfriendly mergers. Moreover, the term 'merger' has also been widely used for combinations that involve companies of both different and similar sizes, so that the distinction is unclear. In contrast, Schoenberg (2003) argued that 'merger' can be viewed as amalgamation of two separate organisations that are of approximately similar sizes, which simply combine all their assets rather than involving one acquiring the other. However, the author also pointed out that the terms - takeover and merger - generally represent similar purposes and factors for success and therefore in practice, these terms are often used interchangeably (Schoenberg, 2003). In view of the various existing ways of defining the terms 'acquisitions', 'mergers' and 'takeovers', the term mergers and acquisitions activity (M&A) will be used throughout this thesis.

The next section evaluates previous historical studies into the development of the UK hotel industry.

1.3. Historical studies of the development of UK hotel industry

The purpose of this section is to discuss historical studies conducted in the area of UK hotel industry development in general, and to highlight the need to extend this kind of study both more widely and deeply.

Borer (1972), Medlik and Airey (1978) and Taylor (2003) provided overviews of the UK hotel industry spanning A.D. 43 to 1987 (see Table 1.1). Borer's (1972) book narrates the historical evolution of different types of accommodation from A.D. 43 to the 1970s. She makes use of archival data and secondary sources to provide an account of the development of British accommodation, particularly emphasising the context of transportation change since the 13^{th} century. It highlights the shift from the use of horses, stage coaches and mail coaches to railways and to motor cars, in relation to the different types of hotel conditions and degrees of hospitality received by travellers.

Medlik and Airey's (1978) book presents a comprehensive profile of the UK hotel and catering industry in the 1970s. It is based on secondary sources, such as material from government departments, international organisations and trade journals. It offers a brief historical development and evaluates the characteristics and structures of these industries. Moreover, it highlights their economic perspectives, such as market demand, supply, employment and the various voluntary or government sponsored organisations.

Table 1.1: Historical studies on the UK hotel industry

Period studied	Author(s)	Focus
From the A.D. 43 until the 1970s	Borer (1972)	Provided the account of the different types of accommodation evolving from the A.D. 43, when the first inn started.
From the mid 19th century to 1974.	Taylor and Bush (1974)	Highlighted the evolution of the UK hotel industry through the stories of major events that took place and several prominent hoteliers.
From the early Britain days to 1975	Medlik and Airey (1978)	Provided an overview of the evolution of the hotel and catering industry through a multi-level discussion comprising the companies, industry and institutions.
1839 – 1914	Simmons (1984)	Examined the development of UK hotel industry through the study of railway development between 1839 and 1914
From 1837 to 1987	Taylor (2003)	Illustrated the history of the UK hotel industry, an extended version from his previous co-authored book (see Taylor and Bush, 1974).
From the early 20th Century	Nickson (1997)	Explored the historical development of the hospitality industry by reviewing the autobiographies and biographies of four industry entrepreneurs who started four well-known hospitality companies from the early 20th century onwards.
1918 - 1939	Pope (2001)	Examined the development of UK railway resort hotels.
1924 - 1938	Pope (2000)	Compared the performance of three hotel groups in the 1920s and 1930s.
1930s – 1980s	Stewart (1991)	Narrated the growth and development of Trust Houses and Forte Holdings by tracing their past.
1945 - 1989	Stewart (1996)	Conducted a study of the growth of 12 hotel companies in the UK.

The historical profile that Medlik and Airey (1978) provide is significantly relevant to the present, particularly with regard to method of capital investment used. The authors also highlight the constraints of this industry, for instance the highly capital-intensive requirements. Moreover, the turnaround for capital investment was said to be slow, requiring 10-12 years for returns to be made to investors. According to the same authors, 90% of the capital was invested in fixed capital alone, comprising land, buildings and interior facilities such as equipment and furniture. This leads to the need of outsourcing for funds to expand the hotel business. They point out that in the 1970s sale-and-leaseback deals became an important way to finance hotel expansions, as such arrangements reduced the capital requirement and hotel operators could become more asset-light. They also identify that a number of hotel buildings were owned by developers, sometimes as part of some larger project, and leased to a hotel operator. This offers an interesting insight that sale-and-leaseback is not a recent phenomenon for hotel expansion, but it existed and was fairly widely used in the 1970s. In addition, they pointed out that hotel development through the use of management contracts and franchising was 'non-existing in the UK in 1977, except for some franchised hotels established by overseas companies' (pp. 133).

Nickson's (1997) article provides a broad understanding of how the hospitality industry started through the examination of autobiographies and biographies of the entrepreneurs who created four large hotel companies: Forte Group plc (UK), Hilton Hotels Corporation (USA), Marriott International (USA) and Holiday Inn Hotels (USA). This article points out the lack of research into the historical development of the hospitality industry, and emphasises the importance of historical knowledge suggesting that 'some understanding of the industry past', will help to 'enhance our level of understanding of the current development' of the hotel industry (pp. 180). This article can be linked to the present management debate. For instance, all the pioneers of these four hotel companies: Charles Forte (Forte Group plc), J. W. Marriott (Marriott International), Conrad Hilton (Hilton Hotels Corporation) and Kemmons Wilson (Holiday Inn Hotels) displayed centralised control mentalities and this is linked to the current hospitality debate on standardisation and globalisation of products and operations, or organisational structural issues. Although this article does not provide an in-depth discussion of the historical development of the hotel industry, it contributes to the provision of an agenda for further research in the area of historical analysis, specifically on the hotel industry.

Taylor and Bush's (1974) book provides an informative narration of hotel development between 1837 and 1862. Their study is based on secondary sources such as books, trade journals and newspapers. They examine predominantly the growth of luxurious British hotels, to some extent that of the railway hotels and provide a brief introduction to lodgings for the poor. The focus on the luxury market (equivalent to the five-star market in this study) is not surprising as during the period studied, travellers who were rich and famous were the main patrons of hotels. In 2003, Taylor's book extends the narration of the development of hotel industry in the book by Taylor and Bush (1978) from the 1970s to the 1980s. Data were also retrieved from secondary sources: books, trade journals and newspapers. This book covers more events, including the two World Wars and more entrepreneurs and hotel operators who contributed to the growth of the UK hotel industry. The two World Wars highlighted the fact that the role of hotels was not confined to being an economic contributor to the country, but also had its social contribution as a functional unit for the facilitation of food rationing, shelters for school children and accommodation for those displaced from their home, as well as for both domestic and overseas military groups.

Simmons' (1984) article studies the development of railways and their impact on the growth of hotels and tourism in Great Britain, based on both archival documents from the Public Record Office (currently known as the National Archive) and secondary data such as books and trade magazines. In the context of rail development, the extension of rail lines facilitated hotel development in major cities and rural areas. According to this author, hotel development by railway companies was initiated by the motive of creating a 'feeder of traffic to themselves [railway transportation]' (pp. 206). In other words, railway companies developed hotel services to attract more customers to use their transport services. Simmons (1984) also highlights the expansion of hotels into major cities to cater to businessmen as well as tourists, between the period 1839 and 1914. This is significantly familiar if compared to the UK hotel industry in the 1980s. This was the period when conference hotels evolved to meet demand from the business community for conference rooms to be used for training and meeting purposes.

Stewart's (1991) article provides a comprehensive background of the early development of Forte Group plc by describing how Charles Forte started his empire, highlighting the various methods Forte Group plc used to expand. Examples include, the Hotel Development Incentives Scheme (HDIS) to increase its room numbers in the early 1970s and M&A activities within the UK and across national borders from the late 1970s. The HDIS enacted under the Development of Tourism Act 1969 provided government grants of up to £1,000 per bedroom for new hotel projects that started before April 1971 and were completed before April

1973 (Stewart, 1991). He also briefly evaluates the success of Forte Group plc. One of the successful factors for Forte Group plc was experience accumulated in M&A activities via a range of professional advice after its resistance of the Allied Breweries bid in 1971 and the other was Charles Forte, who was considered to possess a unique entrepreneurial style in businesses. This article was an early part of a larger piece of work in Stewart's (1996) PhD thesis.

Stewart's (1996) thesis studies the development of 12 hotel companies between 1945 and 1989. His sources are based on company archival documents and interviews with some hoteliers from these companies. The author segments the samples into three hotel sectors: the independent sector, the sector that was geared to the UK market and the sector that developed on an international scale. In this thesis, the research narrates the development of the 12 companies and evaluates their success factors. He concludes that the drivers of the successful growth and development of these companies include the dual roles of the hotel industry as property and retail operations, strategic locations, techniques and timing for M&A activity, the professional advice received and management techniques. He provides descriptive narrations of M&A activities to highlight the growth of each company and ascribes success in using M&A activity as a tool for expansion to management skills, management intuitions and management's ability to time these activities, including buying undervalued assets.

In the author's evaluation, three out of the four international companies – Grand Metropolitan plc, Queen Moat Houses plc and Forte Group plc – presented 'opportunistic decision-making rather than a response to the economic circumstances of the economy as a whole' in their M&A activities before the 1980s (pp. 184). The fourth company, Bass Group plc, was the only company in this international group to have made strategic moves in its hotel acquisitions (Esso Motor Hotels and the Coral Leisure Group Limited which included Centre Hotel). However, since his analysis of Forte Group plc's M&A activities included only J. Lyons (1977) and The Savoy (1981), it is not surprising that his conclusion for this Group is based more on opportunistic rather than strategic moves, as will be discussed in detail in Chapter 6.

Pope's (2000) article studies the development of railway resort hotels in Great Britain from 1918 to 1939. He uses a combination of archival data retrieved from the Public Record Office and secondary data obtained from articles, trade journals and government organisations to explain railway hotel development before the Second World War. Of particular relevance to the present are the strategic moves hotels took in response to changes in the external market environment and competition. For instance, in the 1930s, hot and cold running water and telephones were installed in the bedrooms. These demand-led changes are mirrored in the current situation of the UK and general hotel industry, as seen by the provision of facsimile machines in hotels in 1989 (Wall Street Journal, 1989a) and the installation of internet access services in guests' rooms in the early 2000s (Taylor, 2006; Young, 2004). Although history does not repeat itself (Kieser, 1994), responses to situations by management are almost identical at different times and in different places.

Pope (2001) approaches hotel development from a different angle, via the study of consumer service between the period 1924 and 1938. In this article, he uses financial documents of companies retrieved from the Public Record Office in the most part, and, to a smaller extent, trade journals and books, to examine the financial performance of three hotel companies. These companies are positioned in three different market levels in this industry: the Savoy (five-star); the London, Midland and Scottish Railway (three-star) (hereafter known as LMSR); and Trust Houses (two-star). Pope bases his analysis in the context of transportation changes and their influences on the demand for types or locations of hotels. As in his previous study, Pope's results draw attention to how the hotel business is highly dependent on the external environment. In addition, they also reinforce the importance of locations in this industry. For instance, the business of railway hotels situated next to the train station was affected adversely by the increasing number of motor-car travellers.

In general, the historical studies discussed above provide a comprehensive narration of the evolution of the hotel industry from the A.D. 400 to the late 1980s. Half of these studies illustrate the chronological development of the UK hotel industry (Borer, 1972; Nickson, 1997; Stewart, 1991; Taylor, 2003; Taylor and

Bush, 1974) and some have analysed the development specifically linking to transportation changes (Borer, 1972; Pope, 2001; Simmons, 1984). Medlik and Airey (1978) and Stewart (1996) provide more evaluative studies by placing the development of the hotel industry in the context of broader economic and external environmental changes. Although Pope's (2001) study mentioned that Trust Houses used M&A activity as a major tool for expansion between 1932 and 1938, he did not provide a more in-depth investigation of this method.

Stewart's (1996) thesis in particular disseminated a clear sense of the development of the UK hotel industry as compared to the other studies. Again, M&A activities were mentioned in these studies, but there was a lack of in-depth discussion on why and how M&A activities were used. Moreover, the period of study ends in 1987 and several major world and economic events have occurred since. For instance, globalisation and technological advancement have changed the way businesses operate.

In 1987, the study of UK hotel development was further recognised through the publication of annual directories of UK hotel groups (1987 – 1996, and 2000) by the Hotel & Catering Research Centre at Huddersfield Polytechnic (later University of Huddersfield). The centre was the first in the UK hotel industry to conduct research, with emphasis on hotel companies and their corporate affiliation, via a breakdown of public, private and hotel consortia. Since then, the analysis of hotel companies has been more the premise of industry analysts and consultancies. Although these directories do not provide a historical view of the hotel development, they are useful for learning the context of the external environment in which hotel companies operated at specific years as published.

In view of the dynamism of the business environment, the understanding of the development of a company or an industry cannot be removed from the external environment. As mentioned previously, M&A activities can provide the platform from which to elicit this understanding. Therefore, to provide further information for the background of this study, the following section examines past studies with regard to the development of the hotel industry with specific focus on the use of M&A activities.

1.4. Hotel business and M&A activities

In the area of study on hotel development and M&A activities, in particular, there have been relatively few studies conducted (see Table 1.2). Moreover, each study has focussed on different aspects of M&A activities, which will be evaluated in the following discussion.

Stewart (1996) provides a comprehensive view of the development of hotel companies in the UK between World War II and the 1980s (see 1.3). His study posits that timing of M&A activities contributed to the success of the growth and development of UK hotel companies under study. Although his study was the only one concentrated on the UK and its hotel industry, M&A activities formed part of his bigger investigation of the industry development, and not a major evaluation of the companies and environmental factors specifically.

Table 1.2: Studies of hotel development and M&A activities

Period studied	Author(s)	Focus
1945 - 1989	Stewart (1996)	This thesis studies the growth of 12 hotel companies in the UK (see 1.4)
1980s	Kwansa (1994)	This article focussed on acquired hotel companies, specifically on M&A activities and their effects on shareholders' wealth.
1980s	Mahjan *et al.* (1994)	The focus of their paper is on proposing a methodology to deal with the question of how to determine the perceived importance of brand equity of a potential target company in M&A activity.
1980s	Arbel and Woods (1988)	The article provides a list of anti-takeover strategies to top executives, as the volume of M&A activities increased during the period under study.
1981 - 1988	Crawford-Welch and Tse (1990)	The authors investigated M&A and alliance activities in the European hospitality industry (Hotels; Restaurants and bars).
1982 - 1999	Canina (2001)	This article focussed on acquiring and acquired hotel companies, specifically on M&A activities and their effects on shareholders' wealth.

Kwansa's (1994) research focuses on M&A performances of acquired companies. The author's sample consisted of 18 publicly quoted hotel companies in the US, between the 1980s and 1990. He uses the share prices to examine the returns of acquired companies, and concluded that shareholders of acquired hotel companies in the 1980s had benefited from the M&A activities. In another similar study, Canina (2001) extended Kwansa's research, in terms of the period of study, to the year 1999. In addition, she included data analysis of the acquiring companies, whilst Kwansa only examined the acquired companies. The author also uses share price reactions to merger announcements for her analysis. Her results show that shareholders of both acquiring and acquired companies gained, which also supports Kwansa's findings.

The focus of Arbel and Woods' (1988) article was to provide a list of anti-takeover strategies as the M&A activities picked up during that period. The list has its practical implications, being meant for top corporate management as a precaution against being taken over. They divided their 'shark-repellent' strategies into two types – long-term pre-emptive strategies and short-term reactive strategies (pp. 31). As they pointed out, the list provided was long, but not 'exhaustive' (pp. 39). However, this article was written not to evaluate the motives for M&A activities, but to provide a conceptual proposition, particularly about anti-hostile takeover strategies. Similarly, Mahjan *et al.*'s (1994) paper aims to propose a methodology to practitioners. The authors recognised the increasing number of discussions emerging with regard to the power of brands and the added value they give to the acquiring and acquired companies. Their study explores how the perceived importance of brand equity of a potential target company in M&A activity can be determined, using the all-suites segment in the US hotel industry as a pilot study. Therefore, both these studies have different aims from this thesis. Moreover, their geographical focus was on the US and the period examined was confined to the 1980s; this reinforced the lack of previous study of M&A activities and the hotel industry from a longitudinal perspective.

Crawford-Welch and Tse (1990) investigated M&A and alliance activities in the European hospitality industry in the period between 1981 and 1988. The hotel industry and the UK formed part of this hospitality M&A study. According to the authors, 83 transactions worth approximately US$10,118 million in the hotel industry represented an estimated 60% of the total hospitality M&A transactions

($19,877) during that period. Among these transactions, 71 deals involved transactions between US companies; nine deals concerned non-US companies in the acquisition of US companies (US$3,806.7 million) while only three US companies were engaged in overseas hotel acquisition. The authors posited that the high level of activity by European hospitality organisations entering the US, particularly UK companies, was ascribed to a lower rate of capital return (as low as 6%) for the latter, in comparison to that of US companies (12-15%) (Crawford-Welch and Tse, 1990).

The studies discussed above cover an extensive and important period for hotel development. These studies are linked to M&A activities and the hotel industry, but are limited to an organisation perspective, such as shareholder value (Canina, 2001; Kwansa, 1994), and a mixture of industries, such as hotels, restaurants and bars (Crawford-Welch and Tse, 1990), with little investigation of the external influences from the macro environment. For example, Crawford-Welch and Tse commented that rate of capital return was an influential factor for European companies to acquire in Europe, explicitly showing an organisation-centred motive. They did put forward their view with regard to M&A activities in an external environmental context - mentioning that more European companies would acquire US companies in anticipation of US economic growth. However, this was a prediction from the authors and was not an empirical study addressing the causal relationship between M&A activities during that period (the early 1990s) and the macro environment. It is thus observed that there is a lack of investigation concerning the holistic development of hotel companies and M&A activities specifically in relation to the macro environment.

Therefore, the main thrust of this thesis attempts to explore 'how' and 'why' hotel companies became big business, through the understanding of 'how' and 'why' M&A activities took place, in relation to companies' motives and external influences from the macro environment.

1.5. Aim and objectives

In summary, the reasons for choosing this topic are:

1. The increasing importance of the hotel industry, in terms of its economic and social contributions to the UK economy, and the lack of study of this industry as a big business.

2. The lack of previous studies into the hotel industry in the business history research area.

3. There is insufficient research on the development of UK hotel companies, particularly in relation to the use of the M&A mechanism as an expansion tool.

Given the above discussion, the overall aim of this research is:

> To explore and understand the development of big business in the UK hotel industry by examining the motives for M&A activity, the main expansion tool used in creation of big business.

In order to achieve the above aim, the following objectives have been set:

1. To analyse the expansion of the four leading hotel companies in the UK from their historical data.
2. To analyse the use of M&A activity as a mode of expansion among the hotel companies.
3. To examine gaps as to 'how' and 'why' hotel companies expand through the understanding of 'how' and 'why' the M&A activities took place, in relation to the internal motives and external influences from the macro environment.
4. To explore the strategic changes of hotel companies and their impact on the hotel industry in the UK, and vice versa.
5. To contribute to the study of M&A and business history through historical analysis of the leading hotel companies in the UK.

1.6. Structure of the thesis

This first chapter provides the rationale and states the aim and objectives for this thesis. The study of big business and hotel business is explored, and a common trait between the two was found to be M&A activity being used as a growth mechanism. A further gap has been identified as the lack of existing studies on M&A activities in the hotel industry. Moreover, there is also a lack of in-depth research into the historical development of the hotel industry.

Chapter two explores and describes major events that took place in the UK economy between the 1970s and the early 2000s to provide a historical context for this thesis. The general environmental areas highlighted include: political and economic changes, the deregulation of the UK financial sector, the changes in the UK and EU takeover policies, the emergence of the Single European Market and technology advancement, particularly about Information Technology in the hotel industry. Specific industries such as gaming, brewing and the property market, which are closely linked to the analysis of the four samples, are also evaluated.

Chapter three reviews the literature on M&A activities. The concepts are based on two different levels, found in the general M&A literature, namely organisational and macro environmental levels. On the organisational level, it is generally discussed in terms of two schools of thought: value maximising and non-value maximising motives. Value maximising motives are underpinned by efficiency theory, whilst non-value maximising motives are linked to managerial theory. For the macro environmental level, it is associated with the drivers of merger waves, and this is referred to as 'industry shocks' in the generic literature. Value maximising motives include economies of scale and scope, market power, speed and strategic fit. Non-value maximising motives are linked to growth (in terms of company sales and size) and managerial welfare. Under macro environmental factors, growth (in terms of industry growth or decline), deregulation, technology change, and foreign competition are evaluated. During the M&A literature review process, it is found that there is a gap in this literature. There is a lack of research adopting both organisational and macro environmental levels to provide a more rounded understanding of 'why' and 'how' M&A took place, in turn providing insights for the development of companies and industry. Thus, the analysis of this study will be carried out, based on the theoretical framework derived, encompassing the interactions between organisational and macro environmental factors.

Chapter four provides a general overview of the evolution of hotel industry in the context of transportation change from the coaching inn period to the mid -19th century. This chapter also highlights the macro environmental factors such as economic boom and slump and their impacts on the characteristics or nature of the UK hotel industry, predominantly between the 1980s to the early 2000s. This in turn sheds light on the nature and vulnerability of this industry, and provides a context for its means of expansion through the use of M&A activities.

Chapter five provides the explanation for choosing the particular research design and how this design had been operationalised to achieve the aim of this thesis. This epistemology is based on critical realism, which recognises the importance of multi-level study and this complements the aim of understanding the interactions of organisational and macro environmental factors leading to growth of companies. Longitudinal and qualitative approaches are taken, in conjunction with a multiple-case study research strategy. Four hotel companies were selected based on their ranking as the largest hotel companies (see Appendix B for Largest UK hotel companies, 1983 - 2004). Forte Group plc (Forte Hotels), Ladbroke Group plc (Hilton International), Bass Group plc (InterContinental Hotels; Holiday Inns) and Whitbread Group plc (Whibtread Hotel Company) have been selected as they represent a critical sample which will provide in-depth understanding of the historical development of the hotel industry. Secondary data collection is the main research method and this is complemented by semi-structured interviews to address validity, reliability and generalisability issues. Finally, the actual implementation of the research process and limitations of this research are explained.

Chapters six to nine describe the development of four UK hotel companies, with particular attention given to several major M&A activities in each company. Each of these chapters presents a case study, and each company is the unit of analysis. In each chapter, a brief historical development of the company and findings about major M&A activities between 1979 and 2004 are presented. A comparison of motives for M&A activities within each case is then made between secondary data collected from public sources and semi-structured interviews conducted with industry analysts. Finally, each case ends with a discussion on the development of the hotel division, in a wider context of each company's corporate development and the macro environment.

Chapter ten sums up the findings across the four cases, presents a cross examination of the motives for M&A activities across four hotel companies, and evaluates findings that support and do not support the literature. It also traces strategy changes among the four companies, through the synthesis of hotel development in response to changes in the macro environment, to shed light on the emergence of big business in the hotel industry.

The final chapter firms up this study by providing the conclusion for the research question. It presents the contributions to knowledge of this thesis and links them to the five objectives set out in chapter one. It also identifies areas for further research and reflects on learning outcomes from this research process.

Chapter 2:

The UK macro environment, the 1970s – early 2000s

This chapter explores changes in the UK macro environment in the period between the 1970s and the early 2000s to provide a historical context for this thesis. The rationale for studying the UK hotel development within this period has been briefly mentioned in the previous chapter (see 1.1). It has been pointed out that changes within the macro environment are not confined within the UK, but also its wider context in terms of world events. Therefore, the first section in this chapter presents details of the macro environmental changes, and the second section summarises this chapter.

2.1. Macro environment in the UK

The changes in the UK macro environment is illustrated through general factors such as political and economic changes, the UK financial sector, UK and European takeover policies and the Single European Market. These factors are influential on business development in general, and pertinent in enhancing the understanding of this study in particular. Equally important are the industry-specific factors, namely gaming, brewing and property industries, in view of their business connections to the four hotel companies under study in this research.

2.1.1. The political and economic changes

In the 1970s, the UK went through a considerable economic crisis caused by both domestic and international environments. Between 1973 and 1975, the first oil crisis occurred and led to a rise in world commodity prices (Dow, 1998). This incident coincided with the expansionary economic policy adopted by the government, who floated the sterling currency in mid -1972. Thereafter, the value of sterling was controlled by market forces, rather than the central bank, and this event together with the oil crisis, resulted in a steep rise in import prices for the UK (Dow, 1998). In 1974, although there was a change of government from Conservative to Labour, the expansionary policies remained unchanged, despite the fact that oil prices had increased four fold (Burk and Cairncross, 1992). This resulted in a high inflation rate and a severe balance of payment deficit in April 1975 because of the combination of higher public spending, higher commodity prices and wage inflation. In August 1975, a special Cabinet meeting was held and the government borrowed from the International Monetary Fund (IMF) to solve the severe balance of payments problem (Burk and Cairncross, 1992).

The UK economy met with another crisis between 1979 and 1981. During this period, the world encountered the second oil crisis and this coincided with a change in the UK government and its policy. In a move to counteract a high domestic inflation rate in 1979, the new government decided to check inflation by controlling money supply via increases in taxes and interest rates (Dow, 1998; Jeremy, 1998). The interest rate reached a record level of 17% in 1979 (see Appendix C). The consequence was lower exports for the British as sterling became stronger and made UK exports more expensive and uncompetitive for the other countries in international markets to import (see Appendix D). The UK economy started to recover in autumn 1982, when the world economy recovered and interest rates in the UK started to fall to around 9% (Jeremy, 1998).

In the early 1980s, the UK experienced a boom, stimulated by tax cuts and falling interest rates. The boom was also driven by deregulation of the UK financial sector (see section 2.2.2.) and higher consumer expenditure on both durable and non-durable goods. The period of the boom ended in the late 1980s, as interest rates were raised to curb consumers' expenditure and rising house prices, complemented by a reduction in government spending (Clark and Dilot, 2004; Griffiths and Wall, 2004). The economic slow down extended into the early 1990s, which saw the UK economy being challenged by higher rates of inflation, interest and wages as compared to the other EU members (Griffiths and Wall, 2004; Jeremy, 1998). Thus, the government decided to join the Exchange Rate Mechanism (ERM) in October 1990, in the hope that the fixed exchange rate imposed by the ERM would maintain the value of sterling and help to keep import costs low and ease inflationary pressures (Griffiths and Wall, 2004; Zurlinden, 1993). However, sterling faced further tension, brought about by pressure in the foreign exchange markets in September 1992 due to the uncertainty arising from progress toward monetary union (Zurlinden, 1993). As the value of sterling continued to fall, the Bank of England intervened, chiefly on the foreign exchange market, to prevent it from falling below the lower margin of 2.778 Deutsche Mark to the pound. ECU 10 billion (US$14.3 billion) in the international market was borrowed to increase Britain's foreign exchange reserves on September 3, 1992 (Zurlinden, 1993). The Bank also raised its base rate, but could not prevent sterling value from falling, which led to the UK's withdrawal from the ERM on September 16 (Hallet and Wren-Lewis, 1997; Zurlinden, 1993). Subsequently, the government continued to restrain public spending, in conjunction with tax cuts, in order to encourage efficiency in corporations and induce employment (Griffiths and Wall, 2004).

The change of government in 1997 saw a change in macroeconomic policy, which emphasise on the stability of economy by controlling inflation via interest rates and by policy-making, through institutional changes (Griffiths and Wall, 2004; Howson, 2004). In May 1997, the government restructured the Bank of England in order to improve the quality of financial sector supervision and to protect consumer interests in an increasingly complicated financial marketplace. An independent Monetary Policy Committee (MPC) of the Bank of England was established to monitor and adjust interest rates in order to sustain an inflation rate set at 2.5% (Howson, 2004). Bank of England also relinquished its supervising role of the banking sector to the Financial Services Authority (FSA) and its responsibility for debt management to the Treasury department (Howson, 2004). Since the institutional changes, the UK economy has been experiencing a stable inflation rate (between 2% and 3.1% in the period between 1997 and March 2007) (Financial Times, 2007).

The intention of the above is to present an overview of the economic turmoil the UK faced, as a consequence of interactions between the UK political and economic policies and the world. More importantly, it shows how the world economy and businesses are becoming more interdependent, and the vulnerability of businesses in a more open global environment. Changes in government monetary policies such as interest rates, coupled with dynamic world events, could trigger a boom or slump in an economy, and in turn, could lead to a high level of business activities or stagnancy. Similarly, the government's decision to restructure its economy can also have an impact on businesses. This is most evident in the 1980s period, when the government decided to deregulate the UK financial sector, specifically to meet international competition in the financial market. The following section will evaluate the deregulation of the UK financial sector and its impact on UK businesses.

2.1.2. The UK financial sector

The deregulation of the UK financial sector was spearheaded by the change in the Restrictive Trade Practices Act 1956. Initially, the then Prime Minister - Edward Heath – had wanted to extend the Restrictive Trade Practices Act 1956 to include the control of services, by the establishment of the Restrictive Trade Practices (Services) Order 1976 (Reid, 1988). Under this new Order, all companies were to register with the Restrictive Trade Practices (Services) Order. During the registration, the Director General of Office of Fair Trading (OFT), Sir Gordon Borrie who administered the restrictive practice policy, took the view that the Stock Exchange's 170-item 'rule book' of restrictions contained restrictive practices and should be referred to the Restrictive Practices Court. This led to a six-year debate between the OFT and the Stock Exchange, which was headed by Sir Nicholas Goodison (Reid, 1988). In 1983, the case was settled out of court with conditions, such as the abolishment of minimum commission rules and the single capacity system on 27 October 1986 (Jeremy, 1998; Reid, 1988). The removal of minimum commission rules enabled stock exchange member companies to negotiate their commissions with clients, which made the market more competitive (Reid, 1988; Watson, 2004). The elimination of the single capacity system created an overlap in job scope for brokers and jobbers. The former used to act as investors' agents and the latter trade over the counter and each had its own distinctive responsibility in the UK stock market. The other consequence of this change in the single capacity system was the restructuring of the Stock Exchange trading system. The trading centre installed a new computer system in order to handle this change, as well as increasing global competition in trading (Reid, 1988).

Although these changes in the UK financial sector, widely known as 'Big Bang', were to take place on 27 October 1986, the UK financial sector started to go through a major restructuring from 1983 (Moir, 1986). For instance, a high volume of activities such as mergers, acquisitions, strategic alliances and joint ventures occurred and diffused traditional industry boundaries (Ennew *et al.*, 1990; Reid, 1988). Different types of financial institutions took advantage of the opportunity to diversify their portfolios and compete directly across the financial sectors (Ennew *et al.*, 1990). Banks began to branch out into stock broking, which had been exclusive to stock broking companies previously (Reid, 1988). Banks also moved into the mortgage market and competed with building societies. In the insurance sector, the considerable commission earnings generated by retailing insurance products also attracted new entrants (Ennew *et al.*, 1990). In conjunction with these changes, the realisation of the importance of customers and the disappearance of traditional industry boundaries led many corporate strategies of financial institutions to become more customer orientated and to compete for the same customers (Ennew *et al.*, 1990; Moir, 1986).

As a result of this structural change in the City from 1983, a bigger pool of funds became available for M&A activities. According to Jeremy (1998), funds from building societies' shares and deposits rose from £1,265 million in 1951 to £97,512.6 million in 1984 and life assurance premiums rose from £390 million in 1952 to £31,077 million in 1984. As for pension funds in the UK, financial institutions handling these funds had increased from the amount £4.5 billion in 1963 to £200 billion by the end of 1986 (Reid, 1988). Therefore, the 1980s' deregulation and restructuring of the UK financial sector created more opportunities for the use of these increasing resources. The availability of resources for reinvestment within the UK, together with international competition in stock trading had in part encouraged and induced the fourth and fifth merger waves. Correspondingly, regulations directly connected to M&A activities will also have effects on merger waves and this will be discussed in the following section.

2.1.3. The UK and EU takeover policies

The purpose of takeover policies is to regulate this kind of activities, so as to maintain fair competition among companies in the economy, reduce monopolistic power to command price, as well as to protect consumers' interests. It has been pointed out that the UK had been less subject to government regulations and restrictions than countries such as the US (Cosh *et al.*, 1980). This is supported by Roberts (1992) who pointed out that there were no legal or formal rules for the M&A activities in the UK prior to the 1950s. Mergers were carried out by private negotiations between boards of directors and it was not necessary to have sets of rules for their conduct beyond the minimal framework provided by the Stock Exchange rule book, the Companies Acts, and the law of the land on fraud.

According to Fairburn (1989, pp. 195), the lack of formal regulations and restrictions on M&A activities, and the opinion that these activities were 'a powerful means of restructuring British industry' was evident in 1966 through the establishment of the Industrial Reorganisation Corporation (IRC), a new policy development. The IRC was largely made up of businessmen who were given few constraints by formal procedures. Thus, this establishment indirectly led to the mergers of industries determined to be too fragmented and small by IRC to enable British companies to compete effectively on world markets. Its principal role became one which promoted rationalisation of industries and facilitated mergers among them to encourage growth and efficiency (Fairburn, 1989).

Therefore, this implies the absence of a structured system to monitor M&A activities, which could be part of the contributing factor to the merger waves. At this point, it will be appropriate to provide a brief background of previous merger waves to put these policies into context. Merger waves are periods of high volume merger activity, which are characterised by cyclical activity and are followed by periods when relatively fewer mergers take place (Gaughan, 2007). Globally, merger waves peaked in 1899, 1929, 1968 and 1988 (Schoenberg, 2003). The first wave occurred around the turn of the century, 1898 -1901; the second wave took place between the years 1929 - 1939; the third happened from 1965 to 1969; the fourth wave appeared between 1981 and 1989; while the fifth started around 1993 (Gaughan, 2007; Melicher *et al.*, 1983; Schoenberg, 2003; Weston and Chung, 1990 and Weston and Weaver, 2001).

Generally, each merger wave was found to be tied to a special feature. The first wave (1898-1901) was dominated by horizontal integration, which led to the consolidation of companies and move towards monopoly (Melicher *et al.*, 1983; Schoenberg, 2003; Stigler, 1950; Weston and Chung, 1990; Weston and Weaver, 2001). The second merger wave (1929-1939) featured vertical integration and was deemed to give rise to oligopoly (Stigler, 1950; Melicher *et al.*, 1983; Mueller, 1977). The third merger wave (1965-1969) took place after the World War II, when companies were diversifying into non-related businesses, and this wave was also considered as the conglomerate age (Melicher *et al.*, 1983; Mueller, 1977; Schoenberg, 2003; Weston and Chung, 1990; Weston and Weaver, 2001).

According to the Takeover Panel (2006), the Governor of the Bank of England and the Chairman of The Stock Exchange initiated the establishment of the Takeover Panel in 1968, as a non-statutory body to administer the City Code on Takeovers and Mergers in response to the high level of M&A activities taking place during that period. The Takeover Panel has no power to enforce law, but its objective is to ensure fair practices in takeover offers to protect the interests of shareholders of both listed and unlisted public companies (Competition Commission, 1999; Pike and Neale, 2006). The Takeover Panel consists of representatives from major associations whose members are involved with takeovers, such as advisors, shareholders and regulators. Members are drawn, for instance, from the City and other leading business institutions, such as the Stock Exchange and the Institute of Chartered Accountants in England and Wales (Competition Commission, 1999; Pike and Neale, 2006). Subjects such as public interest are dealt with by the Office of Fair Trading (OFT), Competition Commission (CC), the Department of Trade and Industry (DTI) or the European Commission (EC) (The Takeover Panel, 2006).

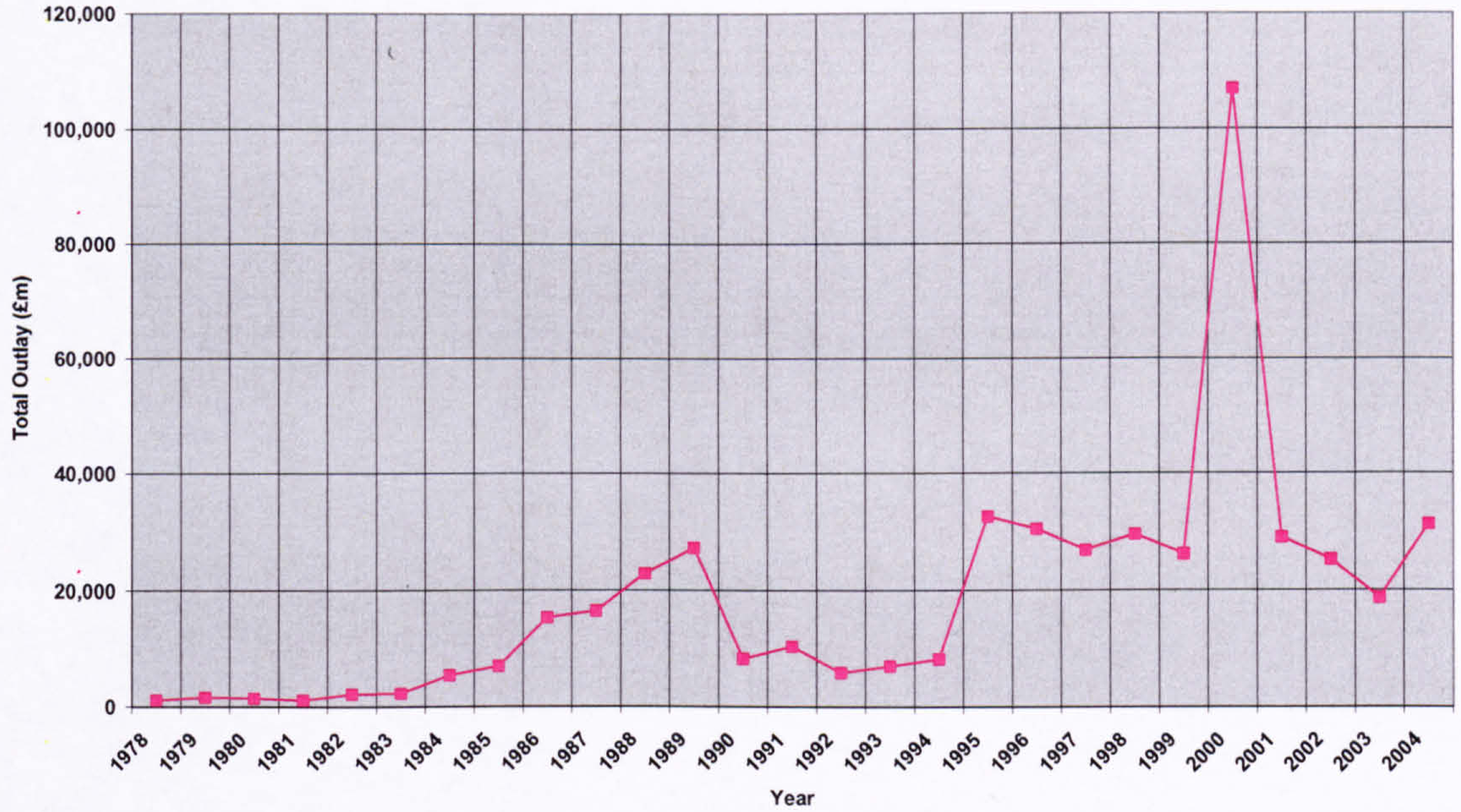
The OFT monitors various industries' monopolies and anti-competitive behaviour, carries out initial inquiries and calls for in-depth investigations by the Monopolies and Mergers Commission (MMC) if necessary. The MMC was an independent tribunal, which investigated specific markets, or the behaviour of companies and their M&A deals, and decided whether they might be expected to operate against the public interest. The MMC was headed by the Director General of Fair Trading (DGFT) who also acts as the Registrar of Restrictive Trading Agreements and brings cases of restrictive agreements before the Restrictive Practices Court

(RPC). Although the MMC's role was to investigate and report on matters referred to it, it had no power to initiate its own investigations or to implement policy (Competition Commission, 1999).

During the 1980s, the world experienced the fourth merger wave, which has been characterised in terms of 'mega mergers' due to a rise in total dollar value and the average size of transactions in the US (Gaughan, 2007; Schoenberg, 2003). Similarly, 'mega mergers' occurred in the UK, as evinced by the large sum paid for each deal in the 1980s. The total outlay in the UK increased from £7,090 million in 1985 to £15,370 million the following year (see Figure 2.1). At the same time, the average value per deal closed in 1986 was large, at £18.254 million (Figure 2.2). The fifth wave began in 1993 and was characterised as one of 'strategic mega-mergers' (Weston and Weaver, 2001, pp. 2). In the US, the average value of M&A deals during this wave was slightly higher than US$1.5 trillion towards the end of the period 1998 to 2000 (Weston and Weaver, 2001). In the UK, the total outlay peaked in 2000 at £106,916 million and the average value per deal closed was £182.4 million (see Figure 2.1 and 2.2 respectively). This is similar to the 'mega-mergers' of the fourth wave. However, the fifth wave also had the strategic element, which has been linked to factors such as the desire to gain scale economies and to provide a base for global expansion (Griffiths and Wall, 2004, Pike and Neale, 2006).

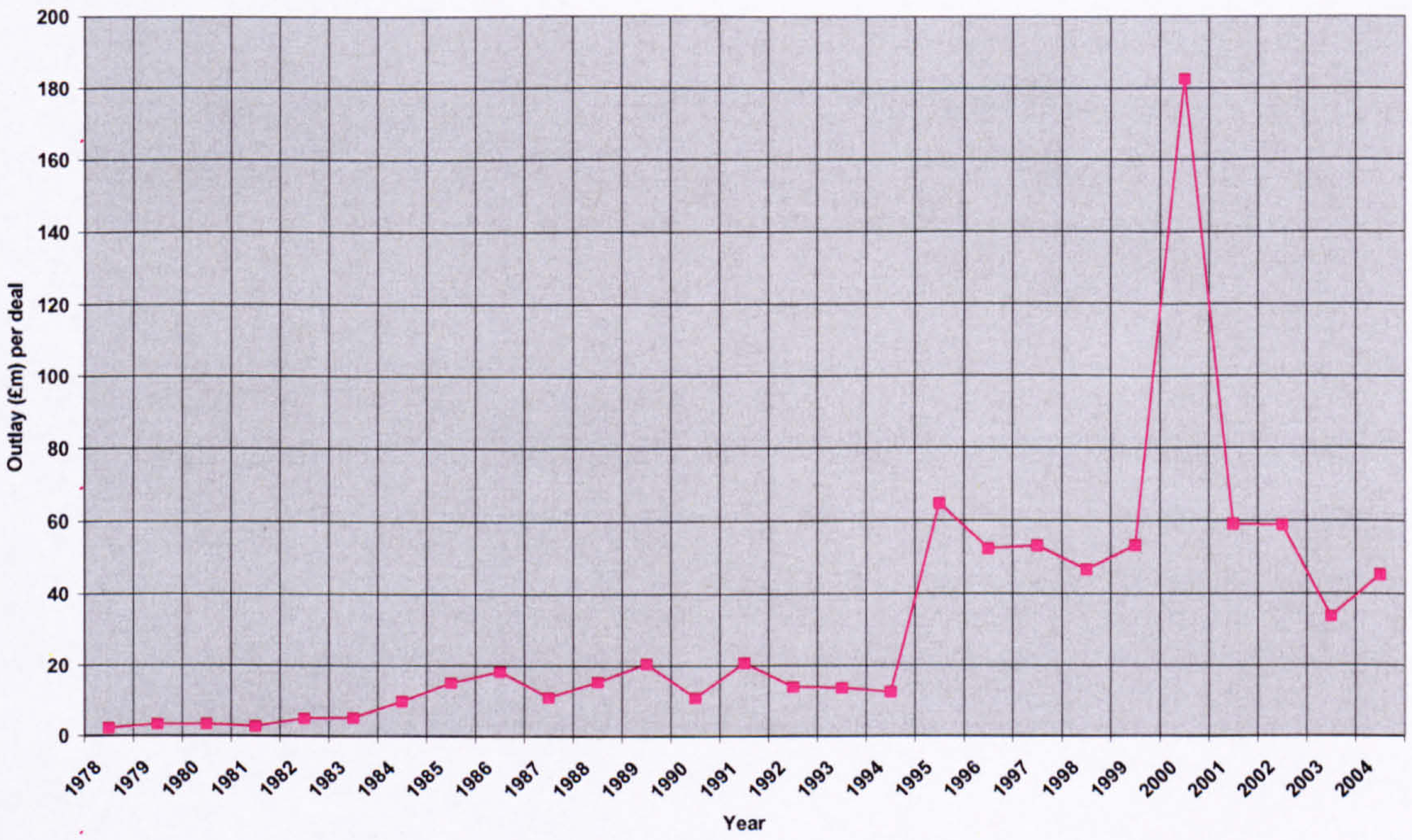
During the fourth and fifth merger waves, a high volume of cross-border activities was also present (Conn *et al.*, 2003). According to Conn *et al.* (2003), the value of cross-border M&A activities between 1986 and 2000 accounted for 26% of the worldwide total value of these activities. Within this global trend, the UK played a dominant role, becoming the most active country in cross-border M&A activities, as well as accounting for 31% of the total value of all cross-border acquisitions in 2000 (Conn *et al.*, 2003).

Figure 2.1: M&A activities in the UK (Total outlay closed in £m)



Source: Adapted from Pike and Neale (2006)

Figure 2.2: M&A activities in the UK (Average outlay per deal closed in £m)



Source: Adapted from Pike and Neale (2006)

In 1998, as part of the Government's reform of competition law, the Competition Act 1998 became law. Thus, MMC was dissolved on 1 April 1999 and its functions were transferred to the Competition Commission (Competition Commission, 1999). In the early 2000s, the Enterprise Act 2002 was passed, providing some significant amendments to previous legislation, but maintaining the UK merger control frame in terms of the 'turnover test' and the 'share of supply' test (Competition Commission, 1999, pp. 28). For the former, a relevant merger is one involving a target company with a UK turnover exceeding £70 million. The latter refers to merged enterprises which make up a total of 25% of all those particular goods or services supplied in the UK or a substantial part of the UK (Competition Commission, 1999). This takeover policies in turn had direct and indirect impact on the case companies in this thesis. For example, Forte Group plc's growth in the hotel and catering industry (see 6.2.2) was almost delayed by the 25% market share rule in the Takeover code. Similarly, Bass and Whitbread, another two of the case companies were affected by the stringent takeover policies, leading to their failure to continue expansion into the brewing industry (see Chapter 8 and 9 respectively).

In conjunction with national monitoring bodies and legislation, the UK has also had to comply with European competition policy since 1990. The European Commission works closely with national governments and carries out investigations into whether mergers are compatible or incompatible with the Single European Market and, if they are found incompatible, may require that off-setting conditions are met or that the merger be banned (European Competition Policy, 2006). However, with the enlargement of the European Union, new regulations were introduced in January 2004 and commenced on 1 May 2004 to coincide with its enlargement (European Commission Representation in the UK, 2005).

2.1.4. The Single European Market

The Single European Market is defined as

> "an area without internal frontiers in which the free movement of goods, persons, services and capital is ensured in accordance with the provisions of this Treaty" (Europa, 1986b).

The objective of the Single European Act (SEA) enacted in 1986 was to open the way to political integration and economic and monetary union (Europa, 1986a). In 1992, the Treaty of Maastricht (1992) was signed to modify previous treaties – Paris (1952), Rome, (1957), and the Single European Act (1986 - 1992) and the European Economic Community (EEC) (became known as European Union (EU) in 1993) (Europa, 1986a; 2007). Thus, the SEA provided for the transformation of the European markets into a single market in the EU states on 1 January 1993 by creating new Community competencies and reforming the institutions. Consequently, with the establishment of the SEA, issues such as the protection of national markets within the EU were removed. Companies were prevented by the EU's competition policy from fixing prices or dividing markets among them (Europa, 1986a). This translates into fair competition between different companies, originating from different countries in the EU.

The benefits that were anticipated to become available when the Single European Market came into force in 1992 included the easing of labour movement, resulting in a bigger pool of talents to tap into; the removal of barriers to trade in services and manufacturing, implying efficiencies in production and lower prices for EU consumers; and unrestricted access to more than 456 million consumers by producers in the EU (Europa, 1986a). These benefits in part spurred the aggregate M&A activities that created the fourth and fifth merger waves.

The anticipation of increased business volume when the SEA was established and the progress towards Economic and Monetary Union, has been widely proposed as an explanation for the high volumes of European cross-border activity (Nellis and Lockhart, 1995). As mentioned previously, the UK became a dominant player in M&A activities from the 1980s, particularly in the US and Europe. Boyce and Ville (2002, pp. 97) noted that 'the UK and US are characterised by freely competitive markets, transparency in corporate affairs and regulatory structures to protect investors from the incompetence and dishonesty of agents'. According to Geroski and Vlassopoulos (1990), one of the reasons proposed for the high volume of acquisitions in the US by UK companies was the extremely open nature of the capital markets in both countries, and their similar business cultures. It had been recorded that 42.3% of the foreign-based acquisitions of US companies were closed by UK companies in 1985, and their share of total acquisitions rose to 56.6% in 1988. However, it has also been observed that UK companies shifted their targets from the US to the European region in the late 1980s (Berton, 1990).

Mark Dixon, editor of Translink's British American Deal Review, a newsletter on British mergers, noted that British companies had been making more acquisitions in Europe in the 1980s, amounting to $1.8 billion in France, $1.4 billion in West Germany and $1.3 billion in the Netherlands (Berton, 1990). In their study on M&A motives in the 1980s, Ingram *et al.* (1992, pp.202) also found that 53% of their sample had been involved in overseas M&A activities, which they attributed to the increasing 'Europeanization of industry'. Geroski and Vlassopoulos (1990) studied the Continental mergers between 1983 and 1987 and found that the UK accounted for nearly three quarters of all European mergers in 1988, and for most of the value involved in such transactions.

Similarly, Bleeke *et al.*'s (1990) work also supported this view, as they found that UK companies accounted for 39% of the intra-European cross-border M&A activities between 1988 and 1989. According to Garcia and Torre-Enciso (1995), the expected industrial restructuring as a consequence of the emerging Single European Market drove the high level of M&A activities. The UK was particularly active in the early 1990s, evinced by 751 deals closed (26.9% of total deals), which were worth a total of $26.3 billion (32.26% of total value) in 1993. The UK also emerged with the greatest number of bids in the period between 1993 and 2000, and accounted for 19 out of 69 cross-border bids as compared to the other European countries (Goergen and Renneboog, 2004). Faccio and Masulis (2005) also found that UK companies made up the largest group of bidders (65.3% of total number of bidding companies) in European M&A deals, as well as the largest targeted group (47% of total targeted companies), between 1997 and 2000.

The high volume of M&A activities across European countries reflected the opportunities created by the European Single Market, as well as the unrestricted access to more consumers. The implications of these opportunities for the UK hotel industry are increased in demand for accommodation, leading to a growing industry which is attractive to both domestic and international hotel companies. This regional development can be linked to a wider context, in which globalisation was taking place about the same period. Globalisation has been linked to technology change and advancement, which enabled ease of communications and travel across borders. The next section discusses technology change in general, and particularly information technology change and its link to the hotel industry.

2.1.5. Information Technology (IT)

According to Jeremy (1998), technology in the nineteenth century was dominated by the railway and in the twentieth century by a succession of transport and communications inventions, space vehicles and information technology (IT). In the early 1900s, technology in terms of mass production techniques was a partial explanation for the 'tide of increased scale economies ebb[ing] and flow[ing] in all industries at the same time' (Hannah and Kay, 1977, pp. 93). Since the 1990s, IT could be claimed as part of that 'tide'. For instance, the use of 'geo-stationary' satellites permitted simultaneous cheap voice, data, and video links worldwide (Jones, 2005, pp.35).

In the hospitality industry, IT was first used in the 1950s by multinational hotel companies, as an experiment with the developing field of computer science (O'Connor and Piccoli, 2003). The experiment started with initial applications centred on accounting and automating repetitive and time-consuming tasks. In addition, software was borrowed from other industries, such as the airline booking system, on the assumption that it could be easily adapted for use by hospitality companies (Hartmann, 2004). However, such conversions were usually only partially successful and a large number of changes to business processes and procedures were often needed to accommodate the requirements of the computerised system (Hartmann, 2004; O'Connor and Piccoli, 2003).

According to Harrington (1978), the nature of the hotel industry is fragmented, comprising many small individually owned hotel units did not justify the high cost of developing specialised programmes for individual hotel units. These programmes would have to cover a range of general and specific functions namely, reservations, conference bookings, room status, travel agents' commissions, accounting, front office guest accounting and the production of hotel statistics (Harrington, 1978). The hotel industry first modified the airline electronic booking system - Global Distribution System (GDS) - for room bookings. However, the airlines system was catering to a limited type of seats and journeys between two destinations whilst the complexity of the hotel business, in terms of its variety of room types and multiple locations made the room reservation and transaction process complicated (Hartmann, 2004). Therefore, the expense and technicality involved in both developing and running systems made the use of computerisation economical only for the largest companies (O'Connor and Piccoli, 2003).

In the US, the group of Holiday Inns was the pioneer for the use of computers as an operational and management system in the hotel industry. The Group developed and improved it from the 1960s, produced the first computerised hotel reservation system with a succession of developments, and became the first hotel company with on-line reservation service in 1995 (Sangster, 2000b). In the UK, Trust House Forte, in the early 1980s, was the first hotel company to develop a hotel reservation system – Fortres - connecting all its hotels to the central reservation offices, by the use of micro computers (AR/ THF, 1984; Goymour, 1985). Fortres demonstrated an evolution of UK hotel computer technology: from its invention and implementation in the early 1980s to the sophisticated computer reservation and operational system used worldwide in 2004. The Group commissioned Applied Communications, a subsidiary of Applied Communications Inc. of Nebraska, USA to develop its worldwide reservations system in 1981, and the system – Fortres – started operations in 1983 (Goymour, 1985). Applied Communications Inc. was well-known for pioneering the development of electronic funds transfer systems which enabled banking or charge cards to be authorised and processed over telephone lines. However, the advancement of technology in general, and for the hotel industry in particular, was late, as hotel guests were still unable in 1985 to pay their bills via the authorising or processing of charge cards over telephone lines (Goymour, 1985).

The use of IT in the hotel industry evolved from using computers, on a hotel unit level, related to accounting and costing records in the early 1980s, to other functions such as the integration of word-processing and information between accounting (back-office) and front-desk (front-office) billing records, thus cutting out the need to re-enter guest history files. By this time, smaller hotel companies and independent hotels in the UK were also beginning to use these integrated systems. In the mid 1980s, computer systems in the hotel industry had developed from operating to marketing functions (Whitehall, 1985). For example, the recording began with customers' personal data which enabled hotel companies to profile customers and market to their target more efficiently. This increasingly popular practice led to new legislation requiring hotel companies that kept personal staff or client information on computers to register under the new Data Protection Act by May 10th 1986 (Caterer and Hotelkeeper, 1985f).

By the mid 1990s, computers and other electronic systems had become common in hotels. They could make room bookings, take orders in restaurants and keep tracks on purchasing and stocks (Lanigan, 1996). Like all other service industries, the hotel industry aims to have repeat customers and IT had developed into a relationship marketing tool, between a hotel and its client via records of guests' preferences, and to respond to such preferences on subsequent bookings in electronic format (Baines, 1998). In addition, IT in the form of the Internet also enables smaller establishments, such as bed and breakfasts, to reach a larger market. The Internet disseminates information for these small companies to both local and international market (Lituchy and Rail, 1999).

From the late 1990s, IT technology progressed from facilitating management control systems to interaction with customers (e-distribution) and suppliers (e-procurement) (O'Connor and Piccoli, 2003). The progress in technology is evidenced by the reduction in cost. For example, the cost of data storage reduced from £1 per character in the 1960s to one penny per million characters in the 2000s (O'Connor and Piccoli, 2003). The Internet in particular is increasingly being used to market destinations worldwide, because sales of travel products via the Internet reduce costs and present low entrance barriers in terms of financial investment and know-how (International Labour Organisation, 2001). Companies also increasingly saw IT as a key competitive advantage (Hotel Report, 1999b; O'Connor and Piccoli, 2003). This development is also evidenced by the shifting of responsibilities for web design from technical staff to include marketing and sales staff, because more people are booking their hotel reservations online (Allenson, 2004). In 2004, other electronic facilities became important in attracting customers, particularly business travellers. After the initial stage of installing high speed internet in guest rooms, the electronic attraction shifted to adopting self service check-in kiosks, Wi-Fi enabled roaming and recharging cradles in rooms for Apple iPod personal players (Woodyard, 2004).

The changes in the development of technology in the service industry in general, and the hotel industry in particular, reflect the importance of technology as an influential factor on management decision-making processes regarding strategic issues in business operations and company expansion. The arrival of the Internet provided an impetus for the growth of the hotel industry. In view of the nature of this industry which made up of many scattered hotel units worldwide, IT enhances value by information disseminations and cost reduction by the capabilities of the technology in handling a vast amount of information.

In summary, the discussion in the previous sub-sections reviewed general environmental factors such as political and economic policies, the liberalised financial sector, increasing stringency in takeover policies and IT as factors that either facilitate or slow down the development of companies. These factors were important drivers for M&A activities in the UK during the fourth and fifth merger waves. In addition to these general environmental influences, industry-specific changes are equally influential on companies' growth: for instance, legislation in the gaming and brewing industry and the cyclical nature of property market. These industries and their changes have produced corresponding effects on the sample under study in this thesis. For instance, Ladbroke Group plc originated in the gaming industry while Bass Group plc was connected to this industry to a lesser extent (see Chapter 7 and 8 respectively). These changes in the gaming industry are discussed in the next section.

2.1.6. The gaming industry

In the UK, the Gaming Act was passed in 1968 and the Gaming Board was established to discourage gaming, to stamp out illegal commercial gaming and to ensure that gaming was honestly conducted in decent surroundings (Gaming Board, 2005). There was no amendment of the Act until the early 1990s, when the call for a change in the gaming regulations was first brought to attention by a proposal to launch the National Lottery (Hencke, 1993). The National Lottery launched in 1994 was deemed to be a threat to employment in other gaming sectors, particularly pools workers because of the similar nature of two games (lottery and pool) (Hencke, 1993). Besides the threat to employment, the National Lottery was given permission to roll over its prize money if no one won, while, under the Gaming Act 1968, the pools were not allowed to (Hencke, 1993). A further violation was the televised draw for the Lottery, which worked against the Gaming Act's forbidding of stimulating demand for gambling (Daneshkhu, 1997a; Hencke, 1993).

These instances led to lobbying by other sectors in the gaming industry to relax the tight rules. By late 1997, restrictions on the advertisement of bingo and football pools (betting on the results of soccer games) was lifted, betting shops were allowed to open up their shop fronts and fruit machines were allowed higher stakes and prizes (Daneshkhu, 1998; Doward, 1997). However, the rules on the casino industry were still more stringent, such as limited advertising rights which disallowed casinos listing their addresses in a directory or placing advertisements on TV channels (Daneshkhu, 1998). It was estimated that only 3% of the adult population visit casinos in the UK on a regular basis, as compared to much higher percentages in countries such as France and the USA, where the figure was closer to 20% (Harris, 2003). Moreover, sport betting industry, bingo industry and the National Lottery together accounted for 88% of the population who participated in gambling in one form or another, spending upwards of £13 billion per year on the activity (Harris, 2003). This inconsistency in the gambling deregulation resulted in the gaming industry and Gaming Boards demanding for a thorough review of the legislation (Daneshkhu, 1998). Consequently, the Gambling Act 2005 was enacted and the Gaming Board was replaced by the Gambling Commission on October 1, 2005 (Gambling Commission, 2007).

For the most part, these changes related to the gaming industry are specifically pertinent to the hotel business development of Ladbroke Group plc (see Chapter 7), which started its business in the gaming industry, and, to a certain extent, to Bass Group plc, which was the biggest bingo hall owner before changing its focus to the hotel industry in 1998 (see Chapter 8). Equally important to Bass Group plc is legislation changes in the brewing industry, since this Group's original business was brewing. Likewise, Whitbread Group plc also originated as a brewing company was affected by new brewing legislation (see Chapter 9) and the next section highlights changes pertinent to the brewing industry.

2.1.7. The brewing industry

Brewers in the UK have long been involved in the hotel industry, particularly through the initial establishment of rooms for customers who drank at their inns (Gourvish and Wilson, 1994). In the 1970s, several UK brewers began to venture into the hotel business, partly as a diversification strategy, and partly to explore the growing hotel industry. The Beer Orders introduced in March 1989 had a direct influence on many brewers, in particular on their hotel expansion strategies.

The new legislation was established by the MMC to 'increase competition in brewing, wholesaling and retailing' (House of Commons, 2004, pp. 10). This legislation was an outcome of an investigation initiated by the Director General of Fair Trading (DGFT) following brewery consolidation and vertical integration in the beer market. The investigation was particularly aiming at the relationship between breweries and pubs in 1986 (House of Commons, 2004). There were four types of pubs in the UK, tied houses, free houses, retail pub chains and management houses. 'Tied houses' were linked closely to the national brewers because they were obligated by contract to sell only the brands of the national brewers. At the other extreme, 'free houses' were pubs that were free to sell any brand of beer they chose. As for the retail pub chains and management houses, they were owned and operated by the brewers themselves (House of Commons, 2004). Therefore, the main concern of the Beer Orders was the relationship between the national brewers and the tied houses. In the report - The Supply of Beer – it was found that a monopoly system existed, in the form of contract agreements between brewers who owned tied houses or who had tying agreements with free houses in return for loans at favourable interest rates (House of Commons, 2004).

Table 2.1: Estimate of public house ownership, 1989 and 2004

1989			2004	
Company (Country)	**Numbers of public houses**		**Company (Country)***	**Numbers of public houses**
Bass Group plc (UK)	7,190		Enterprise Inns	8,739
Allied Breweries Ltd. (UK)	6,678		Punch Taverns	8,410
Whitbread Group plc (UK)	6,483		Spirit Group	2,468
Grand Metropolitan plc (UK)	6,419		Wolverhampton & Dudley Breweries	2,112
Courage (Australia)	5,002		Greene King	2,100
Scottish & Newcastle (UK)	2,287		Mitchells & Butlers	2,077
			Scottish & Newcastle	1,094
			Wellington Pub Company	835
			Avebury Taverns	750
			London & Edinburgh Inns	696
Total	**34,059**			**29,281**

Source: Adapted from House of Commons (2004)

**All these companies are under UK ownership.*

Under the Beer Orders, breweries that owned more than 2,000 pubs were forced to sell their excess properties by November 1, 1992 (Goldsmith, 1993; Monroe, 1990). The decision was aimed at reducing the monopoly power of the 'Big Six' - Bass Group plc, Allied Breweries Ltd, Whitbread Group plc, Grand Metropolitan plc, Courage, a unit of Australia's Foster's Brewing Group Ltd and Scottish &

Newcastle plc (House of Commons, 2004; Goldsmith, 1993; Monroe, 1990). The Big Six were vertically integrated national brewers, who were also the producer, distributor, wholesaler, and retailer and they controlled about 77% of the market; more than a third of the country's 83,000 pubs were tied to them in 1989 (see Table 2.1). After the implementation of the Beer Orders, the national brewers sold off some 11,000 pubs nationwide, which added to the level of M&A activities within the industry (Goldsmith, 1993). In 1993, a further consolidation between Courage and Grand Metropolitan plc, and Allied Breweries Ltd and Carlsberg-Tetley resulted in five big companies that held about 84% of the market share: Bass at 21%, Grand Metropolitan - Courage at 20%, Allied - Carlsberg at 17%, Whitbread Group plc at 14%, and Scottish & Newcastle at 12% (Goldsmith, 1993).

According to the House of Commons (2004), although the Beer Order had reduced the monopolistic power of the biggest six brewers, the concentration in pub ownership had increased since the 1990s with the creation of pubcos. Pubcos are chains of tied public houses, owned and operated by companies that do not own breweries. The disposal of tied public houses by both national and regional brewers provided the chance for pubcos to become a dominant business sector in the brewing industry. For instance, concentration of this sector grew via M&A activity in the 1990s, so much so that the two largest owners of pubs, with 8,739 and 8,410 respectively, owned more units than the top two in 1989 (see Table 2.1). Moreover, all pubcos, own around 70% of UK public houses, with the remaining 30% owned by free house operators by 2004 (House of Commons, 2004). In 2003, the Beer Orders were revoked as it was found that brewers affected by the Beer Orders previously no longer owned more than 2,000 public houses.

This structural change has highlighted changes in both international and domestic scenes. As evident from Table 2.2, at the end of 2003 the top six brewers held 84% of the on-trade market in terms of supply. The structural change in the UK brewing industry, as evident from the penetration of foreign owners, for example international brewing companies originating from USA, and Denmark, became the top six brewers, reflected the internationalisation of this industry. Thus, these changes in the brewing industry also added to the volume of M&A activities in the fifth merger wave.

Table 2.2: Top six brewers in Great Britain in terms of market share (year ending December 2003)

Company	Market Share	
	On-Trade (%)	Off-Trade (%)
Scottish Courage Ltd. (UK)	26	23
Coors Brewing Company (USA)	20	17
Interbrew UK (UK)	16	26
Carlsberg-Tetley (Denmark)	14	11
Diageo plc (UK)	6	3
Anheuser Busch (USA)	2	4
	84	**83**

Source: Adapted from House of Commons (2004)

The decline in demand for beer and socio-cultural changes forced brewers to consolidate or look outside their core brewing business (Parker-Pope, 1995). According to Sylvain Massot, an analyst at Morgan Stanley & Co., 97% of world beer consumption was of lager while the majority of beer brewed in the UK was ale, which hindered the UK brewer from expanding in the international market. Another analyst pointed out that other European brewers, such as Heineken NV of the Netherlands and Belgium's Interbrew SA, which were facing the same problem with declining beer consumption in their home markets, had focused on expanding their core business in other drink markets (Parker-Pope, 1995). In contrast, the British brewers were diversifying for companies' growth and entered the leisure and food retailing industry. For example, Bass Group plc expanded through the operation of bingo shops, betting clubs and hotels (Parker-Pope, 1995), and Whitbread Group plc also diversified its businesses to concentrate on building itself up as a retailing company in food, restaurant and hotel sectors (AR/ Whitbread, 1993).

Another important industry specific factor that plays a major role in UK M&A activities in the fourth and fifth merger waves was real estate related. The cyclical nature of the property market has a direct impact on the hotel industry since the latter is also an asset-heavy industry. The following section reviews the UK property market changes.

2.1.8. The property market

The UK property market experienced a boom in the early 1970s, stimulated by several events (Scott, 1996). First, there was a change to the Land Commission legislation. The government, which took office in 1971, relaxed the controls on office development and repealed this legislation in order to reduce upward pressure on rents and allow offices space to expand, in anticipation of increased demand following Britain's entry to the EU (Scott, 1996). Second, banks increased their lending to fund property developers due to the favourable performance of the property market (Scott, 1996).

Third, the financial institutions were active in property development activity in the early 1970s because of the new Corporate Tax. According to Scott (1996), the new Corporate Tax had provided incentives for property companies to reinvest their profits rather than distribute them as dividends to shareholders. Financial institutions took this opportunity to own properties directly in order to avoid the payment of Corporate Tax. This led to a growth in assets and the low dividends depressed share prices, which led to a big gap between the market capitalisation of a company's shares and the net value of its assets. These conditions in turn escalated the concentration of the property company sector as more financial institutions and other property companies started to acquire undervalued property assets via corporate acquisitions (Scott, 1996).

However, the boom was followed by the 1974 property crash (Baum, 1999; Scott, 1996). The crash was caused by the worldwide oil crisis, a high inflation rate and a rise in interest rates on bank loans in the UK (Scott, 1996). Thus, between 1974 and 1978, over £2 billion worth of property assets were transacted by British property companies (Baum, 1999). The period between 1975 and 1982 saw the financial institutions displacing property companies to become the major owners of UK properties. The value which financial institutions held rose from £7 billion to

£27 billion, comprising 20% of all institutional investment (MacLeary and Nanthakumaran, 1988).

In the mid 1980s, there was another property boom, primarily in the service and financial sectors (Baum, 1999). Over the period 1985 -1987, the financial deregulation and the arrival of overseas financial service companies increased demand for office space. For example, the number of foreign banks in the City rose from 77 in 1960 to 226 in 1973 and 399 in 1986 (Baum, 1999). According to Baum (1999) and Scott (1996), the boom was caused by a high demand and low supply in properties and a relaxation of the City Corporation's planning restrictions. The lack in supply of office space was claimed to have escalated rents, causing an increase of 108% between 1984 and 1988. During this period, developers and bankers became the main property investors rather than institutional investors, such as pension funds and insurance companies, because the latter were much more involved with investment in securities and shares (Scott, 1996).

The UK property boom ended when rising unemployment and high inflation affected the demand for property in the late 1980s (Scott, 1996). As the government raised interest rates in October 1989 in an attempt to reduce inflationary pressures, it was considered as 'a double blow to the property development market' because the demand for new buildings would decrease while cost for building would rise (Scott, 1996, pp. 230). During the same period, a new group of overseas investors entered the UK property market. The relaxing of Swedish and German cross-border investment restrictions and changes in German tax policy had further driven funds out from these savings-oriented countries and into UK property (Baum, 1999). According to Jacobs (2005), during the 1990s, overseas banks from Ireland, Scotland and Germany, as well as private individuals, became the major investors. These banks' investments in UK commercial property rose from £0.2 billion in 1987 to £3.3 billion in 1990, remaining well above £1 billion every year thereafter. Similarly, Baum (1999) found that 12.5% of all property transactions over the period 1988 to 1995 in UK commercial property were bought by overseas owners.

Therefore, the property market is a sensitive industry, not only because it is dependent on the macro environment, but also it is a capital intensive industry which is dependent on various investors for capital. This industry's characteristic is very similar to that of the hotel industry. The hotel industry has traditionally been linked closely to property ownership because of its physical product (Stewart, 1996). Thus, fluctuations in property prices have had important implications for this industry in terms of financing expansion and finding investors for capital investment. This affiliation between property market and hotel industry will be discussed in chapter 3.

2.2. Summary

In summary, it can be said that the fourth and fifth merger waves in the 1980s and 1990s were driven by the interactions of factors within and outside of the UK. The former included events such as the liberalised financial sector, the change in political and economic policies, changes in legislation in different industries (gaming; brewing) as well as socio-cultural changes which affected consumers' demand for goods and services. The latter is connected to the establishment of the Single European Market, EU takeover policies and technological advancement, which brought with them increasing international competition in the UK.

Change in political and economic policies highlighted the interdependence of national and international changes, and the vulnerability of business which is dependent on both. Deregulation of the financial sector triggered a spill over effect into other industries, nationally and internationally, in terms of increase in funds made available by both domestic and international financial institutions. The previous relaxed takeover policies were seen as one of the drivers for M&A activities and increasing concentration in certain industries in the UK. The advancement in technology in general, and IT in the hotel industry in particular, provided an impetus for this industry to grow. In view of the nature of the hotel industry, as one which operates either on a small scale of one unit or a big scale comprising many units, scattered worldwide, IT provides the solution to information dissemination for marketing, as well as operational features such as room management and maximisation of room sales. Changes in gaming and brewing legislation have not only displayed socio-cultural changes, but also reveal the drivers for hotel business development and strategy change in three of the four case companies. By the same token, the property market, which is similar to the hotel industry, in terms of high investment cost and its cyclical nature, reflected the difficulties hotel companies faced when planning to expand and finding investors to invest. This is particularly difficult when there were economic slow down and increased interest rates.

The implications of this discussion highlight the macro environmental factors which would affect companies' business development in either positive or negative ways. Different companies would have been affected directly or indirectly in their business performance by one or more of the above changes and, in response to them, companies change their strategies. Since investment decisions are part of a company strategy, and M&A activities are one of those decisions, taken as a mechanism for change and expansion, the above serves as a context for further discussion in relation to the four case companies in particular and the UK hotel industry in general.

The next chapter evaluates M&A literature with particular emphasis on the motives for engaging in these activities, both from the organisational perspective and in terms of macro environmental influences.

Chapter 3:
Mergers and acquisitions

The previous chapter reviewed several factors linked to the opportunities, created by both general and industry-specific factors, for companies to use M&A activities for expansion in general, and provided a historical context for this study in particular. The purpose of this chapter is to evaluate the literature on M&A activities as the agent of expansion, and identify the gap in this theory and highlight the relevance of this gap in relation to this study. The literature review is also intended to provide a theoretical framework to firm up the analysis of the four cases. The first part explains the different types of M&A activity. The second and third parts study the motives for M&A activities at the organisational level from the value maximising and non-value maximising perspectives respectively. The fourth part examines the industry shocks concept, based on the relation between M&A activities and macro environment. The final part summarises the discussion.

3. 1. Types of merger and acquisition activity

In general, the common types of M&A activities are conglomerate, horizontal and vertical integration (Gaughan, 2007; Ingram *et al.*, 1992; Kitching, 1967). A number of authors have further segregated conglomerate mergers into related- and unrelated-diversification (Hayn, 1989; Salter and Weinhold, 1978). According to Ansoff (1957), diversification is a growth alternative when the company departs from and develops a product line and market structure that is different from its existing business. A conglomerate merger is one that has been sub-divided into product extension, market extension and other 'pure' varieties (Stern, 1969, pp. 20). Pure diversification is generally linked to an unrelated-diversification when an acquirer purchases a target company where there are no similar products and markets (Salter and Weinhold, 1979). Lubatkin and Chatterjee (1994) posited that an unrelated diversification is based on the notion that a companies' unsystematic risk can be reduced. On the other hand, Singh and Montgomery (1987) suggest that both unrelated and related M&A activities are able to gain some efficiency and market power. However, they argue that the benefits of the former are more general as compared to the latter. For example, gains from unrelated M&A

activities may result in reduced financing costs, but the cost-benefits from these activities should also be available in related M&A activities. In contrast, the specific gains from related M&A activities are not expected to be present in unrelated M&A activities. Therefore, the authors expected companies engaging in related M&A activities to gain more benefits.

According to Lee and Alexander (1998), a related M&A activity involves the purchase and consolidation of companies in the same or related product markets. This activity could occur in two simple forms: horizontal and vertical activities. A horizontal M&A refers to combining two companies that have the same or similar products existing at different geographical locations, and the purpose is to derive economies of scale or increase market share (Ingram *et al.*, 1992; Kitching, 1967). A vertical M&A is the integration of supplier and customer of the buying company in the same industry (Gaughan, 2007; Kitching, 1967), and the purpose is to seek ownership or increase control of its supplier (backward integration) or distribution system (forward integration). Thus, vertical acquisitions assured companies of a stable supply of inputs for production, in addition to the ability to distribute effectively though its own distribution channels (Gaughan, 2007; Ingram *et al.*, 1992).

Therefore, the main difference between horizontal and vertical integration is that the latter integrates suppliers into the business operation, which neither increases the volume of production nor the product market share of the combined companies. However, the different types of M&A activities are interlinked upon closer scrutiny, particularly in the case of related activities. The motives for related M&A activities have been linked to expanding production capacity or extending distribution channels in order to maximise value for the company (Gaughan, 2007; Hitt *et al.*, 1998; Ingram *et al.*, 1992; Schoenberg, 2003; Singh and Montgomery, 1987; Teece, 1980; Willig, 1979).

In view of this thesis which is exploring how and why companies used M&A activity to expand their hotel business in the hotel industry, this study is thus closely linked to related M&A activities and particularly the motives of M&A activities. Therefore, the term 'related M&A activity' is used in this thesis in a broad sense to include horizontal acquisitions, of companies with same products / markets, as well as acquisitions of companies with similar products / markets to those of the acquiring company. Companies that share a common skill, resource, market or distribution system to serve similar markets are also considered in terms of related M&A activities. Motives for M&A activities are generally argued in the form of two schools of thoughts – value and non-value maximisation.

3.2. Value maximisation motives

The value-maximising motive is based on expected value creation through synergies for shareholders of both the acquiring and acquired company (Berkovitch and Narayanan, 1993; Lee and Alexander, 1998; Seth, 1990a).

According to Seth (1990b, pp. 432),

> 'The concept of value creation is synonymous with that of synergy. Synergy exists in M&A activities when the value of the combined entity exceeds the sum of the values of the two combined'.

The underlying assumptions to maximising or creating value in M&A activities are linked to the efficiency theory, such as cost reduction or value enhancement between two merging companies (Gaughan, 2007).

These efficiency-related factors are generally based on the views that M&A activities have been planned and executed to achieve synergies, such as operational, financial, strategic and managerial synergies (Schoenberg, 2003; Trautwein, 1990). According to Trautwein (1990), operational synergies arise from combining operations of different operating units or from knowledge transfers, and these synergies result in lower costs for the combined business units or a higher value through new products and services. Similarly, Ghosh (2004) argued that the underlying force for operational synergy lies in better asset management and higher profitability, which is derived from a bigger market share. It is also argued that value is created through financial synergies when the combined companies increase the company's size, resulting in a lower expected risk with the enlarged company size, thus getting access to financial capital at a lower interest rate (Kusewitt, 1985; Lubatkin, 1983; Uhlenbruck and De Castro, 1998; Yagil, 1996).

Smalter and Lancey (1966) posit that strategic synergies are achieved when value is enhanced through diversification into growth markets and reducing dependence on existing activities for earnings growth. Value is also created through managerial synergies as a result of managerial efficiency, which improves production techniques in the combined companies' resources and capabilities and derives economies of scale or scope (Kim and Singal, 1993). The different synergies can be linked to motives of achieving value creation, based on the most consistently-observed assumptions from other studies in examining value maximisation motives, namely, (i) economies of scale and scope, (ii) market power, (iii) strategic fit and (iv) speed (Halpern, 1983; Hart, *et al.*, 1973; Salter and Weinhold, 1979; Seth, 1990a; Schoenberg, 2003; Singh and Montgomery, 1987; Smalter and Lancey, 1966; Teece, 1980; Vermeulen and Barkema, 2001; Willig, 1979). Similarly, non-value creating motives can be based on (v) growth in sales and (vi) managerial welfare as the underlying assumptions (Baumol, 1967; Berkovitch and Narayanan, 1993; Jensen and Meckling, 1976; Marris, 1964).

The following sub-sections will discuss the relationship between factors that encompassed the efficiency theory and illuminate the value maximising motive for M&A activities.

(i) Economies of scale and scope

Economies of scale and scope are commonly cited in the belief that as the size of companies increases, scale economies are achievable, as per unit cost of production and distribution goes down (Gaughan, 2007). Likewise, as the company grows, economies of scope can be attained when the same resources are used to produce or distribute a wider range of products (Gaughan, 2007; Singh and Montgomery, 1987). In other words, there has to be some degree of relatedness in the resources used for production or distribution in order to derive economies of scale and scope in M&A activities.

According to Salter and Weinhold (1979) the underlying forces for realising economies of scale and scope rest on the relationship between supplementary and complementary resources in the combined companies. Supplementary resources entails there being similar resources which reduce cost or add value to the existing products in the new entity, while the phrase complementary resources refers to the addition of the same kind of resources to reduce cost or add value to the combined company. Ingram *et al.* (1992) conducted empirical research on the motives for M&A activity and M&A performance by using the concept of supplementary and complementary resources, which supported the related-complementary and related-supplementary classification that Salter and Weinhold proposed. In their survey of 146 of the UK's top 500 companies, they found bidders were more concerned with buying a company whose operations suited precisely their particular needs rather than 'getting a bargain', and the important factor in the selection of target companies was 'the nature of the target company's operation' (Ingram *et al.*, 1992, pp. 204).

The elimination of excess capacity also leads to a lower cost of production and value enhancement, and in turn, derives operational and financial synergies for the combined companies. According to Halpern (1983), economies of scale are gained through horizontal M&A activities when excess capacity in some factor(s) of production, such as managerial or financial control, are eliminated. This is achieved through the reduction of people and physical facilities. Dutz (1989, pp.12) also argued that the reorganisation of assets into more efficient configurations, to increase production and improve the product or service quality, will lead to 'operating efficiencies' and in turn, 'synergies' will emerge because of cost reduction in production or distribution. In the same vein, Häkkinen *et al.* (2004) agreed that lower costs in production and elimination of excess capacity through procurement, production, administration and marketing lead to operational synergies. Capron (1999) used the term asset divestiture to refer to the extent to which merging companies dispose of their physical assets and cut back their personnel in different areas, including R&D, manufacturing, logistics, sales networks and administrative services. According to Hart *et al.* (1973), M&A activities become a natural means of rapid growth for companies in an expanding market and an efficient way of reallocating resources in order to eliminate excess capacity when demand is declining.

Economies of scope are derived by producing and distributing a range of products to different markets, leading to operational efficiency for the combined companies after the M&A activity. Teece (1980) and Willig (1979) refer to economies of scope as the sharing or utilising of inputs by related activities to achieve a potential source of benefits. Economies of scope could also generate cost advantages when the same input is applied to generate a range of products and services (Gaughan, 2007; Teece, 1980; Willig, 1979). According to Singh and Montgomery (1987), scope economies can also occur outside the production area, for example in distribution systems, while intangible assets like brand names can be the source of scope economies if they are used for more than one product. In the same way, Teece (1980) and Willig (1979) posited that the sharing of specialised know-how is another important source of scope economies. Baldock (2000, pp.18), pointed out that economies of scope 'reappeared in a new guise in the late 1990s', when companies were using diversification through related businesses and cross selling a wider range of goods with the same infrastructure. In this view, it is the notion of relatedness in resources between two different companies that brings benefits and operational synergies to M&A activities.

According to Kusewitt (1985) and Lubatkin (1983), financial synergies are attained when M&A activity undertaken by companies sharing a common industry increases company size, leading to lower lending rates and reduced perceived risks. For example, the costs of capital are lower, due to lower interest rates and longer repayment periods, when two companies are merged (Halpern, 1983; Hitt *et al.*, 1998; Kitching, 1967). Likewise, Kitching (1967) and Lewellen (1971) argued that debt capacity increases because additional funds are more easily obtained when the asset backing of the merged companies is larger. Halpern (1983) also posited that economic motivations could be encompassed by the term synergy when the acquisition results in an increase in expected cash flows over their sum as independent companies.

The synergies discussed above, are derived from economies of scale and scope in the event of engagement in horizontal M&A activities, where companies holding related resources for production and distribution and / or same products are combined. Benefits could also be derived in related businesses through the acquisition and integration of competitors' market share. For instance, the purchase of competitors' market share decreases market competition as well as enables acquiring company to enjoy economies of scale through enlarged capacity for production and distribution. According to Ingram *et al.* (1992, pp.197) the interaction between economies of scale and market power in the case of horizontal M&A activities has historically led to 'superior performance'.

(ii) Market power

The merged company achieves greater market power through increased market share, thus achieving value maximising motives for M&A activities (Gaughan, 2007; Hitt *et al.*, 1998; Ingram *et al.*, 1992; Singh and Montgomery, 1987 and Vermeulen and Barkema, 2001). This is attainable because the acquiring and the acquired company are operating in the same product market, or through product or market extension where a companies' effective size is increased relative to its competitors. Seth (1990b) relates the source of value creation to the ability of companies with dominant market share to manipulate the amount of input and output through their operating decisions. Correspondingly, Gaughan (2007) linked the source of market power to market share, in addition to product differentiation, barriers to entry and monopoly power deriving from the company's ability to set and maintain price above competitive levels. In a similar vein, Singh and Montgomery (1987) posited that market power effects when a market participant has the ability to influence price, quantity and the nature of the product in the market place. In other words, operational synergies are achieved in the enlarged companies when market share within the same product market increases to achieve market power and command prices.

On the other hand, Lubatkin and Lane (1996) pointed out that it is easy to identify related features via the physical commonalities between products and markets, such as the bricks, mortar, and channels that link the different businesses in a related M&A activity. These visible features of relatedness are easier to understand than realising the efficiencies between related businesses operationally. However, they emphasised managerial synergies as the source of value creation for the combined companies. According to them, managers' capabilities are essential to recombine resources and enhance competencies in the combined company in order to achieve managerial synergies and create value for the combined companies. In the same way, Chandler (1962) had posited that management capabilities play an important part in identifying opportunities and deriving economies of scale and scope for companies through the expansion and extension of the range of products manufactured and distributed. Likewise, Trautwein (1990), managerial synergies are realised when the bidder's managers possess superior planning and monitoring abilities that benefit the target's performance. Salter and Weinhold (1981) also identify the addition of skills or resources to the acquiring company's existing unique capabilities, while maintaining the same product market in the context of a related acquisition, as valuable for strengthening its competitive position. In other words, acquisition of skills or knowledge is also an important motive, which is able to translate into managerial synergies and create market power for the acquiring or combined companies.

(iii) Strategic fit

Strategic fit in terms of fitting into corporate strategy can be explained through synergies arise in terms of geographic and product line expansion (Smalter and Lancey, 1966). Advocating a similar view, Schoenberg (2003) suggested that strategic motives for M&A included penetrating an existing product market, entering a new product market, entering a new geographical territory, or diversifying away from a core business. Vermeulen and Barkema (2001) also argued that M&A allows companies to overcome barriers to entry, to enter new markets quickly and to acquire new knowledge and resources. From these views, it can be proposed that strategic fit in the context of M&A activities are viewed from two perspectives, related and unrelated acquisitions. For example, entering a new product could be a totally unrelated acquisitions compared to existing product market.

In the same way, entering a new geographical area can also be linked to buying existing or new product in different locations. At the core of these differences between related (existing) and unrelated (new), there are still synergies to be derived. According to Hitt *et al.* (1998), resource complementarities are more important than the product / market relatedness of a specific M&A. They pointed out that highly unrelated businesses are also able to undertake successful M&A, as long as there are related resources between acquiring and acquired companies. This coincides with the resource complementary and supplementary concepts proposed by Salter and Weinhold (1979).

On the other hand, with related businesses, in a situation such as a mature industry that comprises a number of established players, M&A activities can reduce the 'competitive reaction that can accompany attempts to grow by organic growth; rather than intensifying the rivalry by adding further productive capacity, the potential competition is purchased' (Schoenberg, 2003, pp.98). In the same vein, Powell and Yawson (2005) and Mitchell and Mulherin (1996) argued that M&A activity can derive strategic synergies by allowing a company to consolidate in an industry that was experiencing low growth. The consequence of this action would be a reduction in the number of competitors, leading to higher market share or greater market power. Moreover, strategic synergy is also achieved in view of M&A activities being a mechanism that enables a company to expand more quickly as compared to organic growth (Ingram *et al.*, 1992).

(iv) Speed

M&A activities enable a company to expand more quickly than organic growth (Ingram *et al.*, 1992). Speed embedded in M&A activities also enables a company to capture growth market quickly (Hart *et al.*, 1973; Ingram *et al.*, 1992). From a strategic point of view, M&A activities enable a company to retreat from declining markets by reallocating its resources in the same or similar market. According to Schoenberg (2003), speed in M&A activities could provide the company with an established market position if the latter is a late entrant relative to its competitors into a particular product or geographic market. Schoenberg (2003, pp. 98) also argued that the acquisition of a company that is already operating in the desired product area gives 'immediate access' to an established distribution channel and its valuable shelf space. Therefore, speed is an essential motive for achieving strategic synergy in M&A activities since it quickens the process of achieving operational and financial synergies, and in turn maximise value.

In summary, value maximising motives for M&A activities can be achieved from operative, financial, managerial and strategic synergies. For example, by acquiring the same or similar products from its competitors, a company can increase its market share and achieve strategic synergy through its increased market power and reduced competition in the market. Underlying this achievement is the ability to identify the strategic fit in complementary and supplementary resources in the combined assets, operations and managerial capabilities, as well as to close the deal quickly. In this situation, managers' skills are important for identifying resources, and, at the same time, these skills are also recognised to be part of the resources to create managerial synergy for the success of M&A activities. As the company size increases, operational synergy is gained via the elimination of excess capacities, to derive cost saving and value enhancement. In turn, the company is able to achieve financial synergy by expanding its company further because of its enlarged size, which provides it with greater credibility in terms of creditors and reduced cost due to economies of scale and / or scope.

Therefore, the core factors - economies of scale and scope, market power, elimination of excess capacity, speed and strategic fit – create synergies and maximise value in M&A activities. On the other hand, other researchers have provided alternative motives - non-value maximising motives – to explain the inverse relationship between the high volume of M&A activities and their financial performance. The following section will examine these alternative motives for M&A activities.

3.3. Non-value maximisation motives

The non-value maximising motive is attributed to managerial intent, which has also generated various propositions in attempts to provide explanations for the negative abnormal returns of M&A activities. In the study of non-value maximising motives for M&A activities, the managerial theory has been widely referred to managers looking to expand their companies in order to enjoy these benefits, at the expense of their shareholders (Berkovitch and Narayanan, 1993; Marris, 1964; Schoenberg, 2003; Weidenbaum and Vogt, 1987; Wright *et al.*, 2002; Yagil, 1996). Fundamental to this theory are assumptions of managers' concerns for (i) company's growth and sales over profit (Baumol, 1967; Jensen and Meckling, 1976; Marris, 1964) and (ii) enhancing management welfare (Berkovitch and Narayanan, 1993; Jensen and Meckling, 1976).

(i) Company growth

A commonly argued assumption regarding non-value maximising motives for M&A activities lies in the managerial preference for growth over profit (Baumol, 1967; Marris, 1964). Baumol (1967) propose the concept of managers' concerns for company growth and sales over profit for companies and shareholders in M&A activities. The author argued that management-controlled companies may put more emphasis on higher growth rate and reduced risk rate, rather than profit rate. The non-value maximising effect here is illuminated by Jensen and Meckling (1976) who proposed the agency theory. According to the authors, corporate managers serve as the agent of shareholders, and in the agency theory the relationship between shareholders and corporate managers is conflicting because of the choice between paying out excess cash to shareholders or re-investing in other projects. It is posited that paying out to shareholders reduces the resources under managers' control, thereby reducing managers' power. In a similar vein, Halpern (1983, pp. 229) argued that the intention of management in M&A activities is the desire to maximise growth in sales or assets, or to control a larger empire. Although Marris (1964) agrees that non-value maximising M&A activity exists, the author also pointed out that this kind of behaviour is not sustainable. For example, managers who pursued their own welfare at the expense of shareholders could only do so up to a certain point. Beyond that point, the company is considered underperforming in the market, and in turn, it will attract takeover bids to displace the management. The author refers this as a form of control for management and their non-profit maximising behaviour.

(ii) Management welfare

Jensen (1986) suggests that non-value maximising motives for M&A activities is related to managerial welfare, in terms of the change in managers' compensation is positively related to the growth of sales and size of the company. This is supported by Wright *et al.* (2002) who found that executive compensation is impacted by increases in company size, thus managerial motives for M&A are stronger when external monitoring is weak. In a similar vein, Weidenbaum and Vogt (1987) posited that manager power grows positively with the size of the company and this is possible because shareholders' ability to monitor management decreases with a larger and more complex corporation. Cosh and Hughes (2001) share a similar view as they propose that managers may deploy corporate assets to their benefit when holding little equity in the company, while shareholders are too dispersed to enforce value maximisation.

Therefore, non-value maximising motive can be ascribed to the intent of managers wanting to grow their companies' sizes – since this has the potential to increase their level of managerial control and power and have a direct impact on their monetary compensations. This kind of motive is considered detrimental to shareholder value. However, it can also be argued that non-value maximising motive are limited since companies' performance after M&A activities are monitored by the market and are prone to becoming takeover targets if they did not perform well as expected.

In summary, the motives for M&A activities are derived from two schools of thought – value and non-value maximisation. Under the value maximising motive, it is the expected ability to reduce costs and / or enhance value for the acquiring company that makes M&A activity a widely used mechanism for growth. The principal value-maximising explanations of M&A activity include economies of scale and scope, market power, elimination of excess capacity, speed and strategic fit. Managerial theories generally refer to managers seeking to increase the size and sales level of their companies via M&A activities in order to enjoy managerial welfare, such as a higher compensation and greater managerial power at the expense of their shareholders. Analysis of motives such as managerial welfare is valid since the top management are usually the M&A decision-makers, and they are the ones that obtain higher pay. Thus, it is important to clarify that this welfare is referring specifically to the top management, instead of the managers in a company as a whole.

The discussion so far has been based on the organisational level, which focuses on why a company engages in M&A activity. One point to note is that whether M&A activity concerns value maximising or managerial personal motive, management's aim to increase the size and growth of the company through M&A activities requires strategic decision-making in the presence of environmental opportunities and constraints. Since M&A activity is also an investment decision (Halpern, 1983; Hannah, 1983), the understanding of these macro environmental factors should provide some insight into the motives for M&A activities as a mechanism for expansion. Moreover, according to Andrade *et al.* (2001, pp.108), 'the industry shock explanation for mergers has added substantially to the understanding of mergers, not so much how mergers create value, but rather why and when they occur'. Therefore, the following section will study the industry shocks concept based on the context of the macro environment to complement the understanding of the occurrences of M&A activities.

3.4. Industry shocks concept

Industry shocks are industry level factors that cause huge concern to companies and provide a catalyst for them to change their strategy and structure and lead to a change in industry structure (Andrade *et al.*, 2001; Harford, 2005; Mitchell and Mulherin, 1996; Mulherin and Boone, 2001).

Mitchell and Mulherin (1996) investigated the sources of merger waves by linking M&A activity and industry shocks in the 1980s. According to the authors, a shock leads to a change in industry structure and their argument is that M&A and restructuring activity accommodates such change. They predicated their research on two features of M&A activity: M&A activity occurs in waves and these activities cluster by industry within a wave. Mitchell and Mulherins (1996) argue that the structure of an industry, including the number and size of companies, is a function of factors such as technology, government policy and demand and supply conditions. In other words, industry and companies are under the control of industry shocks, and these shocks could cause company to change strategy, and in turn to shift industry structure. They used proxies such as deregulation, oil price shocks, foreign competition, and financial innovations as the industry specific shocks and demographic or technological change as the general industry shocks, in order to test against data in the 1980s. They concluded that deregulation and low technological innovation accounted for a significant proportion of the M&A activities in the 1980s. Therefore, merger waves and industry clusters happened as a response to industry shocks and these shocks in turn transformed the industry structure (Mitchell and Mulherin, 1996).

Similarly, Mulherin and Boone (2001) studied the relationship between corporate restructuring and its response to economic shocks - technology, input prices and deregulation in the 1990s. They used the synergistic theory (acquisition and divestment) and non-synergistic theory (management entrenchment, empire building and managerial hubris) to find out if restructuring activities were efficient responses to economic shocks or managerial reactions to enhance personal benefits. Their results show that companies responded to economic change and industry shocks – deregulation - through restructuring activity, which on average benefited the shareholders, as opposed to the non-synergistic theory, namely management entrenchment, empire building and managerial hubris. The findings are consistent with the notion that economic change is a source of the observed restructuring activity. They found that M&A activity was greater in industries undergoing deregulation, and specific industries affected by deregulation differed between the 1980s and 1990s. Thus, this resulted in significant industry clustering.

In the same vein, Andrade *et al.* (2001) agreed that a significant portion of M&A activity was due to industry-level shocks because each wave occurred with differences in terms of industry cluster. In addition, they posited that the 1990s was the 'decade of deregulation' (Andrade *et al.*, 2001, pp.104). Their findings support the work of Mulherin and Boone (2000) in two ways. Firstly, they also found that deregulated industries adapted to the pressures of market and competition by M&A and divestment activities. Secondly, M&A activity clustered by industry in the 1990s. According to Andrade *et al.* (2001), deregulation had been a prominent industry shock in the period prior to the 1980s and it became a dominant factor in M&A activity and continued to account for nearly half of the M&A activity since then.

In contrast to Andrade *et al.* (2001), Powell and Yawson (2005) found no significant support for deregulation as an industry shock in M&A activity. Instead, they found three specific industry shocks, namely low growth, the threat of foreign competition and better industry stock market performance to be prevalent in M&A activity. Powell and Yawson (2005) built upon Mitchell and Mulherin's (1996) and Mulherin and Boone's (2000) studies, using UK company data over the period 1986-2000 to explain the clustering of industry by using proxies for broad and specific industry shocks, such as growth, free cash flow, concentration, deregulation, foreign competition, technology, and stock market performance. Powell and Yawson (2005) argued that M&A activity cannot be determined solely by misvaluation arising from periods of high stock prices because if that were the case, then there would have been a high volume of M&A activities across all industries. Thus, they argued that several factors led to significant industry clustering and the latter occurred in merger waves.

According to Powell and Yawson (2005), a low growth industry might encounter a high volume of M&A activities because of consolidation due to excess capacity. The findings about low growth in relation to M&A activities concur with Mitchell and Mulherin's (1996), who concluded that acquisitions in the 1980s were more concentrated in industries with low growth. On the other hand, the findings are in contrast to Mulherin and Boone's (2000, pp. 135) conclusion that 'acquisitions in the 1990s are not restricted to industries with low growth options'. This difference could be due to the period being researched, that is, 1980 – 2000 in Powell and Yawson's (2005) study, the 1980s for Mitchell and Mulherin's (1996) research and the 1990s for Mulherin and Boone's (2000) investigation. As evidenced by Mitchell and Mulherin (1996), the excess capacity in metals, mining and food processing industries in the US led to greater restructuring activities, which in turn led to industry consolidation in the 1980s. Similarly, Andrade *et al.* (2001) posited that technological innovations which created excess capacity led to the need for industry consolidation.

The absence of deregulation as an industry shock in Powell and Yawson's (2005) study could be explained through the sample used, as they excluded industries classified as property and investment institutions (for example, asset managers, insurance brokers) due to a lack of requisite data. Coincidentally, the property industry was highly affected by the deregulation of the UK financial sector in the 1980s (Scott, 1996). Moreover, deregulation of the financial sector during the 1980s also saw a high volume of M&A activities among the different types of financial institutions (Ennew *et al.*, 1990). The absence of deregulation as an industry shock can also be linked to the difference between regulations in different countries because Andrade *et al.* (2001) were researching in the US while Powell and Yawson (2005) were studying the UK. In addition, Powell and Yawson (2005) also admitted that other factors omitted from their models may play a role in explaining M&A and divestment activities. In view of their conclusion, if their study had focused on a specific industry or included more industries, some significance of deregulation might have been found, in terms either of a direct or an indirect relationship between deregulation and takeover activities.

Harford's (2005) findings also support the explanation of merger waves as a result of a response to specific industry shocks that required large scale reallocation of assets, and therefore created a cluster of M&A activities in a particular industry. His findings support Mitchell and Mulherin (1996) in terms of economic, regulatory and technological shocks which drove industry merger waves. However, he also argued that the above shocks are insufficient to drive merger waves because, as long as there is capital available for investment, merger waves will eventually take place even if the above industry shocks were absent. In other words, Harford (2005) argues for capital availability as a major industry shock in M&A activities. Gugler *et al.*'s (2005, pp. 33) study of the determinants of merger wave considered merger waves to be generated by one shock - market optimism. They argued that a few industry waves took place simultaneously, due to managerial optimism about the economic climate, which generated merger waves across industries at the same time. In this sense, their argument is similar to Harford's (2005) capital availability, in terms of managerial optimism about the economic climate has made fund available for M&A activities.

In a different approach, Blair and Schary (1993) investigated restructuring activity, and based their analysis on both company-level and industry-level data. They studied the relationship between corporate performance and financial market behaviour through transactions such as private buyouts, junk bond issues and leveraged restructurings used in restructuring activity. The authors characterised the companies according to their asset size and debt-to-assets ratios and linked these data to the restructuring activity and their industries. Their sample consisted of 357 events which involved 350 publicly traded companies from 1979 through 1989. They found that free cash flow and tax changes on the industry-level had some influence on restructuring activities, while debt capacity has no significantly influence on these activities between 1979 and 1985. In addition, they concluded that their model failed to explain the restructuring activities between 1986 and 1989. They attributed that to 'a great many firm-specific, highly idiosyncratic factors [being] at work in addition to the industry-level and macroeconomic pressures we have identified' (Blair and Schary 1993, pp. 184). Although their study contributed to the robustness of M&A research through two level of analysis - company and industry - the aggregate data and multi-industries studied also complicated the process of identifying and more specifically understanding the interactions between the two levels.

Toxvaerd (2004) utilises a similar approach, by integrating the organisational and industry level, to explain why mergers happen in waves. The author adopted a strategic management approach rather than a financial perspective as Blair and Schary's (1993) had done. He categorised merger wave theories into strategic and non-strategic theories. The former explicitly account for the strategic interaction through the relationship between product markets. The latter concern the responses of companies to the exogenous factors such as deregulation, globalisation or new technologies when making decisions. Toxvaerd (2004) concluded that merger waves occur because of strategic interaction between exogenous economic conditions and the company. More importantly, he pointed out that each company was influenced differently, thus supporting the findings of Blair and Schary (1993) that there are company specific factors involved.

In summary, the industry shocks concept discussed shows that companies responded to industry shocks through M&A activities, which led to restructuring, and in turn resulted in vast reorganisation of resources within the economy, both within and across industries, which changed the industry structure (Andrade, *et al.*, 2001; Mitchell and Mulherin, 1996; Mulherin and Boone, 2001). In Mitchell and Mulherin's (1996, pp. 196) study, the authors regard M&A activities as 'messengers of the underlying economic changes taking place in the industry' rather than the actual source of performance change. Although it may be considered legitimate for them to claim the above, it is also worth noting that their analysis focused on the industry shocks that caused organisational change, rather than the intent behind M&A activities which led to organisational change. Thus, their study is unable to provide a full understanding of the reasons behind M&A activity. In this view, the literature concerning the relationship between industry shocks in relation to aggregate M&A activities has provided only a partial understanding of M&A activity as an expansion mechanism, despite a wide range of industries and proxies being used, as well as longitudinal approaches being adopted.

Andrade *et al.* (2001) have pointed out that most of the motives proposed have been found to explain some of the M&A activity over the last century, and some of these reasons for M&A activities are more relevant to certain time period. Although some studies have been carried out to integrate the two levels – organisation and industry, it has also been acknowledged that there were company-specific factors involved in restructuring activities. Blair and Schary (1993, pp. 184) in their failure to explain restructuring activities with their proposed model, posited that 'this activity took on a life of its own, going forward indiscriminately in industry without regards to the underlying forces that may have made it rational in the early years'. Therefore, it is evident that the economic forces which drive restructuring activities are dynamic, and this also reinforces the complexities of interactions between events on an organisational- and industry-level.

3.5. Summary

The evaluation of M&A literature so far found the studies of M&A activities to concentrate either on an organisational level or industry level. Therefore, an integrated study of the motives for M&A activities on an organisational level and of the industry shocks concept should provide a more rounded understanding of M&A activities and their effect on strategy and structural changes in companies and industry. Moreover, the few integrated studies have also pointed out their limitation in providing an explanation to these surges of restructuring activity, attributed to the complication caused by investigation of an aggregated data and multi-industries. This, in turn, highlights the heterogeneous characters among companies and between companies within the same industry; and understanding of why and how companies expand is only facilitated if M&A activities are closely scrutinised on an in-depth case by case basis.

From the preceding review, a number of conclusions can also be drawn from this review.

On the one hand, the motives for M&A activities have been widely studied, but the explanations have remained partial. Researchers predicated their studies on one perspective, which is the organisations' point of view and derived their conclusions from there. This is considered inward-looking as events in the macro environment have been ignored.

On the other hand, those who have researched industry shocks have contributed some useful understanding to this area, from an outward-perspective. These studies have also provided partial insights because they have not given much attention to the impacts that these shocks would have had upon the internal motives, and their influence on the company's decision to adopt the M&A activity.

Some researchers attempt to study the interactions of factors from the organisational- and industry-levels to understand restructuring activities and their results. These studies no doubt contribute to M&A knowledge through attempts to integrate two influential factors in these activities. However, this area of study has mainly concentrated on aggregated data in a multi-industry setting.

This review illuminates the interdependent relationship between M&A activities and the macro environment. It also identified the gap in which there is a lack in the literature in which M&A activities are understood through the integration of two different perspectives, organisational- and industry and general-level. Given that M&A activities stand out as an important agent of change with respect to companies and their industries, ascertaining the motives for M&A activity should provide insights as to 'how' and 'why' companies expand whilst the understanding of industry shock could provide explanations for 'why' and 'how' M&A happens (Andrade *et al.*, 2001). Therefore, analysis of the connection between the motives for M&A activities on an organisational level and the industry shocks concept will enhance this understanding.

Table 3.1 is constructed to categorise the major motives and catalysts pertinent to facilitating the understanding of hotel companies' expansion through M&A activities in this thesis. The impetus for growth can be generally seen on two different levels, namely organisational and macro environmental levels.

Organisational motive is further discussed according to two schools of thought: value maximising and non-value maximising motives. Value maximising motives are underpinned by efficiency theory, whilst non-value maximising motives are linked to managerial theory. The underpinning assumptions are in turn further explored as they are found to be linked to several variables including economies of scale and scope, market power, speed, strategic fit, growth (in terms of company sales and size) and managerial welfare.

Macro environment motives are associated with the drivers of merger waves, and this is referred to as 'industry shocks' in the generic literature. Under the heading of industry shocks variables include growth (in terms of growth or decline), deregulation, technology change, and foreign competition.

The review of M&A literature has provided the framework for seeking answers to the research question. However, this framework will be further confirmed in the next chapter, by reviewing the general development of the UK hotel industry from the early 1970s.

Table 3.1: Summary of variables driving M&A activities (developed for this study)

Concepts	**Organisational motives**		**Macro environment**
	Value maximisation ↓	**Non-Value maximisation** ↓	**Merger Waves** ↓
Underpinning assumption	**Efficiency theory** ↓	**Managerial theory** ↓	**Industry shocks** ↓
Variables affecting the achievement of Value and Non-value maximising motives, and Merger waves	**-Economies of scale and scope** (Baldock, 2000; Gaughan, 2007; Ingram *et al.*, 1992; Jensen and Ruback, 1983; Lee and Alexander, 1998; Lubatkin, 1983; Salter and Weinhold, 1979; Singh and Montgomery, 1987; Teece, 1980; Willig, 1979) **-Market power** (Gaughan, 2007; Hitt *et al.*, 1998; Ingram *et al.*, 1992; Singh and Montgomery, 1987; Vermeulen and Barkema, 2001) **-Strategic Fit** (Kusewitt, 1985; Jemison and Sitkin, 1986; Dutz, 1989; Ingram *et al.*, 1992; Kim and Singal, 1993; Lubatkin, 1983; Lubatkin and Lane, 1996; Hitt *et al.*, 1998; Smalter and Lancey, 1966; Schoenberg, 2003; Ulenbruck and De Castro, 1998; Vermeulen and Barkema, 2001; Häkkinen *et al.*, 2004) **-Speed** (Ingram *et al.*, 1992; Schoenberg, 2003; Weston and Weaver, 2001)	**- Company growth** (Marris, 1964; Baumol, 1967; Halpern, 1983; Jensen, 1986) **-Managerial Welfare** (Jensen and Meckling, 1976; Halpern, 1983; Weidenbaum and Vogt, 1987; Yagil, 1996; Berkovitch and Narayanan, 1993; Cosh and Hughes, 2001; Wright *et al.*, 2002; Schoenberg, 2003)	**Deregulation** (Mitchell and Mulherin, 1996; Mulherin and Boone, 2001; Andrade *et al.*, 2001; Harford, 2005) **Technology** (Andrade *et al.*, 2001; Gort, 1969; Mitchell and Mulherin, 1996; Toxvaerd, 2004) **Foreign competition** (Powell and Yawson, 2001; Toxvaerd, 2004) **Growth (high / low growth industry)** (Mitchell and Mulherin, 1996; Mulherin and Boone, 2001; Powell and Yawson, 2001)

Chapter 4:
The UK hotel industry

The discussion in this thesis so far has identified M&A activity as the mechanism widely used for companies' expansion strategy, and posited that M&A activities are the result of interactions between organisational strategies and macro environmental influences. A theoretical framework was devised in the previous chapter for the facilitation of data collection and synthesis. This chapter is a follow up to this framework, to strengthen it in general, and to present the development of the UK hotel industry in particular. The first part of this chapter narrates the historical development of the UK hotel industry. The second part discusses development and changes in this industry and its macro environment. The final part summarises this chapter.

4.1. Evolution of the UK hotel industry

The development of hotel companies has been tied closely to the history of transport (Borer, 1972; Medlik and Airey, 1978; Pope, 2000; Simmons 1984; Taylor and Bush, 1974). Developments in transport enhanced convenience and thus stimulated travel and an increasing demand for accommodation. At the close of the Middle Ages, the boom in the English raw wool trade saw the emergence of new merchants, and their corresponding need to travel led to an increase in the number of inns (Medlik and Airey, 1978). By the middle of the 19th century, the development of the railways became the impetus for the growth of hotels and seaside resorts (Simmons and Biddle, 1997). The development of railways also influenced the size and character of resorts and the locations of hotels and other facilities (Medlik and Airey, 1978; Simmons, 1994). For instance, railways were built on the outskirts of city centres and there was initially no provision of accommodation and meals for passengers (Simmons, 1994). Thus, just as the inns had provided for stagecoach passengers, hotels began to appear close to stations.

According to Simmons and Biddle (1997), the first hotel for rail travellers was built alongside Crewe station and opened in 1837. The first large hotel was built by

London & Birmingham Railway, a railway company at Euston station. Subsequently, other rail companies also provided hotels at their terminals, namely the Great Northern Railway at King's Cross, the Great Western Railway at Paddington and the South Eastern Railway at Charing Cross and Cannon Street (Borer, 1972; Simmons, 1994; Simmons and Biddle, 1997). By the early 1860s, the functions of large hotels had evolved into other purposes. For example, the Westminster Palace Hotel was built for and catered mainly to Members of Parliament during the sessions, the Langham Hotel, located in the diplomatic quarter of London, provided mainly for diplomats, and the Grand Hotels in Brighton and in Scarborough were built by the sea coast, mainly for the purpose of leisure (Simmons, 1994). Simmons (1994) also noted that hotels built for leisure purposes were at a disadvantage as their businesses were more cyclical compared to the railway hotels, which commanded a regular demand for rooms. The development of hotels stalled for a few years after 1866 when the British economy encountered a financial crisis, with the collapse of the discount house of Overend and Gurney (Simmons, 1994). However, from the 1880s, large hotels began to establish in London, namely The Grand, The Savoy, The Cecil and The Carlton; their main customers were wealthy Americans.

In the early 1900s, the structure of the hotel industry changed, provoked by a demographic change which resulted in increased purchasing power among the middle-income group, and thus the emergence of less wealthy visitors asking for better accommodation (Simmons, 1994). J. Lyons & Co. which was originally a chain of teashop operators built and operated an expensive, but less luxurious, type of hotels to cater to market demand. In 1919, the fourth Earl Grey formed Trust House Ltd. and established trusts in different counties to purchase and refurbish old inns, mainly for the needs of people with limited incomes, particularly cyclists and walkers (Simmons, 1994). From the 1920s, as the proliferation of private cars became the major driver for the building of roadside accommodations, Trust House Ltd's hotels also became a major provider of decent facilities, particularly to middle-income motorists (Borer, 1972; Johnson and Harrison, 1984).

In 1948, the railways were nationalised to form the British Transport Commission under the Transport Act 1947 (Gourvish, 1986; Simmons, 1994). It was believed that resources would be directed more efficiently under a unified railway system (Bagwell and Lyth, 2002). The British Transport Hotels was formed as a result of the re-organisation of the railways. Five areas were formed: Railway, Docks and Inland Waterways, Road Transport, and London Transport and Hotels (Gourvish, 1986). By the 1960s, a new form of transportation – airplanes – drove demand for hotels, through the increasing number of foreign visitors arriving by air (Borer, 1972; Johnson and Harrison, 1984). In contrast to railways and motorways, hotels were not initially established close to UK airports, but rather in the cities (Taylor, 2003). Moreover, the UK's airport hotels were established by hotel companies and not linked to transportation companies, as opposed to cases in the US and France where airlines were building hotels to accommodate passengers who had nowhere to stay (Taylor, 2003). For example, Air France (France) produced Le Meridien Hotels and Aer Lingus (Ireland) formed Copthorne Hotels. With the growth of hotels via airline companies, there was an increasing presence of large international hotel companies, which established their hotels close to the major international airports (Litteljohn, 1997).

The development of UK hotels took off in the late 1960s for several reasons. First of all, there was a severe shortage of rooms in the hotel industry. The demand had exceeded supply because of rising standards of living, real incomes and longer paid holidays among the British (Borer, 1972; Medlik and Airey, 1978; Taylor and Bush, 1974). Secondly, the value of the US dollar rose vis-à-vis the sterling and this led to an increase in the number of American visitors to the UK (Hotel Companies in the UK, 1987). Thirdly, the convenience brought by the ease of travel, such as the extraordinary rise in the number of cars on the roads, also contributed to the rising demand for rooms (Borer, 1972). Finally, cheaper air travel and 'package' tours added to the pull of foreign tourists to the UK (Oliver, 1971). Although the shortage of hotels had been highlighted to the government by the press and travel agents, this was initially ignored (Stewart, 1991; Taylor and Bush, 1974). The shortage of accommodation had not been given attention until the problem became more severe in the late 1960s, in conjunction with the government's realisation that tourism is a valuable intangible export. This led to encouragement for building more hotel rooms through the HDIS (Stewart, 1991; Taylor and Bush, 1974).

According to the English Tourist Board Investment Report, hotel investment boomed due to the HDIS in the 1970s was evident by the record of 80 new hotels built, 75 major building extensions and 48 major refurbishments in England (Hotel Companies in the UK, 1989). Two major organisations in the hotel industry - Grand Metropolitan Hotels and Trust Houses Forte - expanded rapidly during this period by utilising the HDIS. Both organisations became conglomerates by absorbing industrial and popular catering and other leisure related services (Borer, 1972).

The development of the hotel industry stalled after 1973. In the 1970s, the UK encountered economic turbulence such as the first oil crisis (1973 -1975), the second oil crisis (1979-1981), the miners' strike, electricity shortages, the three-day week[1] and a large fall in the foreign exchange rate (Caterer and Hotelkeeper, 1979; Dow, 1998). These events had negative impact on the general economy, and in turn, on the hotel industry. They highlighted the vulnerable nature of the hotel industry, which is highly dependent on the general economic cycle, meaning that its growth and decline in demand are positively related to trade volumes in business and tourism.

In the period between 1973 and 1975, demand for UK hotels decreased and the profits of hotel companies were further decreased by high interest rates and excess capacity in the industry (Hardman, 1979). The declining demand for hotel rooms was caused by the combination of the government's interest rate increase to tackle high inflation rates and a high balance of deficit in the UK. The excess capacity emerged due to the high volume of hotel development between 1969 and 1973 (Caterer and Hotelkeeper, 1986a). Many hotel companies and developers went into receivership during this decade because they were over-leveraged during development through the HDIS (Borer, 1972; Hardman, 1979; Stewart, 1991; Taylor and Bush, 1974). The second oil crisis started in 1979, and, in

[1] Three-day week: 'The coal strike reduced coal supplies to the power stations, and industry had to be restricted to a three-day working week' (Dow, 1998, pp. 247).

conjunction with exceptionally bad weather conditions and industrial disputes in the UK, continued to affect travel (Financial Times, 1980). This again adversely affected the demand for hotel rooms and caused a slump in the hotel industry. The demand did not pick up until 1983, when there was an improvement in occupancy demand generated by increasing numbers of visitors to the UK (Caterer and Hotelkeeper, 1984a).

4.2. UK hotel industry changes, early 1980s – early 2000s

The 1980s

In 1983, the UK hotel industry encountered a boom and some major changes in industry structure. This boom was mainly driven by the rise in American visitors to the UK, and the growth in multi-site national or international companies in the UK. Demand for hotel rooms was particularly high in London, among both business and leisure visitors (Caterer and Hotelkeeper, 1984a). However, hotel companies were faced with a shortage of suitable land and locations to build hotels, in addition to difficulties in obtaining planning permission (Caterer and Hotelkeeper, 1986b; Hotel Companies in the UK, 1987). The combination of a high demand and low supply situation faced by hotel companies in the UK attracted both domestic and foreign hotel companies to expand their hotel interest there (Hotel Companies in the UK, 1987). Therefore, M&A activities became the chief vehicle of growth. As a result of the high demand for hotels in the UK, the price of hotels increased drastically by nearly 11% in 1985 (Caterer and Hotelkeeper, 1986b). Christie & Co., a property agents recorded the price increase in 1985 was twice as much as in 1984 and doubled the inflation rate that year (see Appendix E). This cause was attributed to there being more buyers than sellers – higher demand than supply (Caterer and Hotelkeeper, 1986b).

According to Slattery and Johnson (1990, pp. 18), 'the eighties was the decade of hotel acquisition' for the UK hotel industry because 90% of its expansion had been achieved via M&A activities'. The price per bedroom paid by UK Hotels plc continued to rise from £19,000 to £126,000 between 1985 and the end of 1989 (Slattery and Johnson, 1990). This recorded rise of 560% was attributed to a continuous rise in demand for rooms at this time, to intensifying competition by domestic and overseas investors (Slattery and Johnson, 1990). This high volume of M&A activities in the UK hotel industry coincided with the fourth merger wave during the period between 1983 and 1989. In the 1980s, deregulation in the UK financial sector resulted in a structural change in this financial sector from 1983 and created a bigger pool of funds available for M&A activities.

Like other industries, the hotel industry made use of bank loans as a means of financing its M&A activities (Clive, 1997). Bigger companies took the opportunity to acquire hotel assets in prime locations from independent operators and hotels that had been inefficiently and expensively managed (Slattery and Johnson, 1990). In addition to domestic companies competing among themselves to acquire in the UK, there was also an increasing competition from foreign investors, such as the Japanese who were experiencing a period of major economic growth that resulted in a stronger yen and bigger purchasing power (Clive, 1997; Pring, 1986c). In addition, the Japanese government was aware of its balance of payment surplus and in order to address and re-balance this trade surplus, it communicated to the British Tourist Authority (BTA) its intention to double the number of tourists travelling to the UK (Caterer and Hotelkeeper, 1986e).

In 1986, the UK hotel industry experienced a period of adverse economic circumstances, between the boom period of 1983 and 1989. That year, the growth of the UK tourism and hotel industry slowed down, mainly due to world events such as the Chernobyl disaster, terrorist bombing, and the Libyan crisis (Slattery and Johnson, 1990; Ward, 1997). This led to a major reduction of hotel demand for leisure and business travellers. During this period, companies began costs cutting, leading to demand for cheaper hotels. This in turn brought about a new demand for budget hotels.

This demand for budget hotels, in conjunction with the shortage of supply provided new opportunities for hoteliers. The roadside caterers became pioneers in the building of budget hotels, due to the land they owned next to their roadside restaurants (Harmer, 1995). For these roadside caterers, accommodation was added to existing food and beverage outlets. According to Roper and Carmouche (1989), this enables the caterer to derive economies of scale through bulk purchase, by integrating existing food and beverage outlets and the provision of accommodation. Forte Group plc was one of the first to build budget accommodation next to their roadside diners - Little Chef and their motorway service areas (Caterer and Hotelkeeper, 1985d; 1986d). Subsequently, Granada Group plc, Welcome Break and Rank Organisation followed suit by building their budget hotels next to their motorway service areas (Caterer and Hotelkeeper, 1985d).

However, the demand for cheaper hotels also presented new obstacles to hotel companies. During the same period, London in particular was facing a lack of low cost hotel room supply (Caterer and Hotelkeeper, 1986f). One of the reasons was the lack of low cost buildings, as a number of two-star hotels had been upgraded to three- or four-stars by hotel investors (Caterer and Hotelkeeper, 1986f). Hotel investors had previously identified the business potential in London, and had found it more economical to upgrade a two-star hotel to a higher graded hotel. For instance, a two-star hotel bought at £1.7 million in 1985 worth approximately £3.5 million a year later, after a few thousand pounds had been spent on refurbishment. It was noted that a 15% increase in investment could bring a 50% increase in return (Caterer and Hotelkeeper, 1986f).

The other reason was the competition created by home providers for the homeless, as more and more homeless were placed in central London hotels due to an insufficient stock of council homes (Sherrell, 1987a). There were an estimated 18,000 homeless families whose business was considered to be more profitable than tourists' because there was no Value Added Tax (VAT) and no meal provision to lodgers; in addition, there was a guarantee of 100% occupancy. Thus, hoteliers and tourists had to compete for rooms in central London with the homeless home providers (Trollope, 1986a). The issue was subsequently brought to the attention of the government after hoteliers and residents living close to these hotels filed complaints regarding possible breaches of planning regulations in their area. The residents were particularly concerned with the tarnished reputation and overcrowding of their local areas due to the high number of homeless families being located there (Sherrell, 1987a). The problem was resolved following a government investigation, and within Westminster borough itself, 40 out of 137 hotels were ordered to evict their homeless families, having been found to be in breach of regulations by housing long-term homeless people (Sherrell, 1987a).

In the 1980s, the conference business was the other driver of the hotel industry growth. The number of business delegates recorded attending conferences rose by 44% between 1982 and 1984, and there was a 12% increase in the conference market and a 23% increase in the exhibition market between 1983 and 1984 (Caterer and Hotelkeeper, 1986b). During this period, there was a growing emphasis on training in many industries and hotel rooms became more economical to hire for training purposes, compared to holding them in the company premises (Taylor, 2003). Hotel rooms also replaced regional offices as venues for area meetings, as part of companies' strategy and structural changes as they expanded (Caterer and Hotelkeeper, 1986b; Slattery and Johnson, 1990). Moreover, executives needed to stay away from home as part of their jobs, hence the increase in demand. Therefore, the rise in demand for conference and meeting rooms led to hotel companies refurbishing their hotels to create more conference rooms. According to Slattery and Johnson (1990), UK business traveller demand increased by 146% to 14 million room nights in the 1980s. Overall business traveller demand grew by 10.2 million room nights to account for 65% of total room nights used.

The lucrative conference business of the hotel industry had attracted competition from universities. The conferencing business in the UK hotel industry was challenged by universities who competed with three-star hotels for customers by offering their residences and meeting rooms to customers (Caterer and Hotelkeeper, 1985e). However, the adverse situation for hotels specialising in conference business was salvaged when they were exempted from VAT when only meeting rooms and not bedrooms had been hired, which made hotel conference rates more competitive (Caterer and Hotelkeeper, 1985e).

One major change, which was adverse to the UK hotel industry in the 1980s was the habit of British travellers. As a result of the strong sterling, overseas trips cost less and British people travelled out of the country to places such as the Mediterranean for summer holidays, rather than staying in UK seaside resorts

(Slattery and Johnson, 1990). The demand for UK hotels declined further when a price war broke out among tour operators and further reduced the cost of overseas travel. The number of domestic travellers who went abroad increased by 20% and this exacerbated the decline in demand for the UK beach resorts (Caterer and Hotelkeeper, 1985c). This shift of travelling habits from domestic to international travel in turn created new strategies amongst hotel companies.

According to Slattery and Johnson (1990), hotel rooms created for conferences during week-days became vacant during the weekends and this led to the development of a short-break market. By the end of 1989, short-break holidays in the UK made up 90% of the domestic travel market (Slattery and Johnson, 1990). The latter was first created as a discounted market to attract weekend users, but had since developed into a market providing breaks and a variety of programmes and packages. Moreover, the development of sophisticated reservation systems also improved the operation and management of hotels in response to the cyclical demand in this industry (Slattery and Johnson, 1990).

However, the boom ended as the hotel industry experienced a crash in the late 1980s. The hotel industry is closely linked to the property market (see section 2.2.8), and like the latter, it was affected adversely by the economic slump. Many hotel companies went into receivership, due to severe financial difficulties caused by rising unemployment, inflation and interest rates (Walsh and Goymour, 1989). It was noted that hotel properties were undervalued then, because it was difficult to put a value to a hotel company due to the size of hotel properties (Walsh and Goymour, 1989). Moreover, hotel units were generally spread across several countries and this led to structural problem in the hotel industry because companies usually owned multiple brands and both the hotel companies and the hotel units they ran were considered small (Hotel Report, 1999c).

The 1990s

The early 1990s in the UK hotel industry started with a recession brought forward from the late 1980s. In addition to the high inflation and interest rate crises, the UK hotel industry also experienced a low demand for hotel rooms due to the outbreak of the first Gulf War in the spring of 1991 and an unfavourable exchange rate between sterling and the US dollar (London Chamber of Commerce and Industry, 1992; Slattery and Johnson, 1993). The decreasing demand for hotel rooms and increasing costs in the building industry, in conjunction with a consistent severe lack of space (Ward, 1997), further increased costs for hotel companies, particularly those which held large numbers of properties.

Leisure industries which had no hotel related business or had no ownership of hotel assets were not as badly affected, as the value of real estate was also experiencing a drastic fall in the UK (Slattery and Johnson, 1993). During the period of financial deregulation in the 1980s, banks which had engaged in a large amount of lending experienced great loss of money in property market crash and the economic recession between 1989 and 1992/3 (Hotel Report, 1999c). According to John Wilson, chief executive of Millennium & Copthorne Hotels, the adverse situation that developed when banks lent more than 100% of the value of hotels and then interest rates started to increase at the time of the first Gulf War, led to new financial discipline (Sangster, 2003, pp. 26). Thus drove a tightening of banks' lending requirements and led to a lack of bank loans for company investment in the early 1990s.

The availability of funds for hotel development from the mid 1990s is a consequence of financial deregulation that had brought more financial institutions, both local and foreign, into the UK. At the same time, there was also another group of investors from foreign hotel companies, in such countries as America, South-East Asia and Japan, who started to invest in London (BDO Stoy Hayward LLP, 1996; Borner, 1996). This increasing international presence was also attributed to the stability of the UK economy as compared to other high-cost and less productive economies in other Western European countries. Moreover, the weakness of sterling relative to some currencies in the main demand-generating economies made the UK hotel market in London more attractive to overseas investors (BDO Stoy Hayward LLP, 1996).

This increasing availability of funds and willingness of financial institutions, evident among some insurance groups, to invest in properties and hotels also led a shift in the UK hotel ownership structure (Cohen, 1999; Hotel Report, 1999a). During the late 1990s, financial institutions such as insurance groups became major investors in the hotel industry. For example, Norwich Union, the UK's largest insurance company, engaged in sale-and-leaseback deals with Choice Hotel Europe (formerly Friendly Hotels Group) in 1997, the Jarvis Hotel Group in 1999, and Ladbroke Group plc (Hilton International) in 2001 (Sangster, 2001; Whittaker, 2006). According to Evans and Vickery (1998), institutional investment in the hotel sector was driven by the availability of stock in hotel companies and not by interest in acquiring hotel assets. This was evident from over £700 million of capital raised by private hotel companies in the London Stock Exchange in 1996. The investment in quoted equity was more desirable because it provided liquidity and risk management through geographic, management and market-level spread (Evans and Vickery, 1998).

In addition to the ownership structural change, from owner management to separation between ownership and management in the 1990s, budget hotels also continued to change and developed into a new market segment that attracted families on leisure trips (Automobile Association, 1999). Budget hotels that emerged during the recession years of the mid 1980s, due to corporate clients looking for value for money accommodation also became more prevalent in London by the late 1990s. In 1998, the supply of hotels, particularly in the budget and three-star market sectors, continued to increase to a total of 2,688 rooms in London (Automobile Association, 1999). According to Deloitte & Touche, an international professional service company, which also specialises in Tourism, Hospitality and Leisure, the expansion of the budget sector in the period between 1992 and 1997 took advantage of the collapse of commercial sites in city centres to develop quickly (Hotel Report, 1999a). Similarly, the Automobile Association (1999) also claimed that the 130% increase in budget hotels between 1992 and 1996 was largely attributable to the recession.

To this extent, there are similarities with the creation of the conference market in the 1980s. Both provisions were initiated by purpose-built rooms for business travellers, but evolved into a wider market appeal. The conference market created the short-break market in the 1980s while the budget hotels had created a family market in the 1990s.

The late 1990s to the early 2000s

The boom enjoyed by the UK hotel industry from the mid 1990s ended from the late 1990s, as the overall economy and demand for tourism and hotel industry was affected by the slow down of the world economy. The demand in the UK was worsened by the foot-and-mouth outbreak in 2001, particularly affecting smaller establishments based in the British countryside (Euromonitor, 2005). This economic slowdown was compounded by the terrorist attack in New York in 2001, the Afghanistan war in 2002, the spreading of SARS in Asia and Canada in 2003, and the Iraq war which started in 2003 (Deloitte & Touche LLP, 2003; Lanzkron and Kett, 2003). These threats lowered the number of travellers and demand for hotels in the UK, particularly in terms of US visitors to the UK during the early period of 2001 - 2002. This economic slowdown led to more portfolio rationalisation activity among corporate hotel companies: disposing of or closing down loss-making assets, in order to focus on cost reduction (Sangster, 2001).

The rationalisation activities were partly a strategic move among hotel companies to reduce cost, and partly to enhance their share value. During this period, the City downgraded share prices of most publicly quoted hotel companies, to one lower than the book values of the business (Parkinson, 2006). As a result, some companies reverted to private ownership and others considered sale-and-leaseback to reduce asset holding. As a consequent to this, hotel operators gain a considerable sum of capital to be used towards refurbishment and to fund more M&A and development activities (Bock and Forster, 2002). Similarly, Whittaker (2006) suggest that this method removes debt and assets from the balance sheet and enables hotel operators to produce a clearer view of returns from operation and property investments. Moreover, increasing operator fees also added an incentive to several hotel operators for exiting their real estate interests to pursue management opportunities (Sangster, 2001).

This rationalisation of assets also has its implications for the UK hotel industry from the early 2000s. First, there appeared to be an increasing split between ownership and management control. This rationalisation of assets and adoption of franchising and management contracting which started in the 1990s, had accelerated in the early 2000s. This could mean the industry is getting more confident in using this kind of expansion mode, which was almost non-existent in the 1970s (Medlik and Airey, 1978). It also shows the change in UK hotel industry, moving from an owner management convention to a separate ownership and management mode in recognition of returns from operation and property investments. Moreover, it reflects that the industry is maturing, in terms of the need to expand quickly through the acquisition of hotel, management contracts and franchising rights. The second implication is the increasing interest and confidence among financial investors with the hotel industry. This rationalisation activity would be difficult to realise if there were no willing buyers.

The willingness of banks and financial institutions to invest in the hotel industry was partly due to their realisation of the value of hotel buildings (Sangster, 2001). According to Bozec (2001), the bursting of the late 1990s dotcom bubble also brought back many investors to the hotel business upon realising its more tangible quality. Similarly, David Gammage, Managing Director of Insignia Hotel Partners posited that investors were attracted by the structure of hotel buildings as opposed to office blocks because of the nature of the hotel business being dependent on its room sales. Thus, the hotel buildings are constantly maintained in good condition in order to attract customers and increase its sales (Sangster, 2000a). Parkinson (2006) also points out the commercial property markets in the UK and many other areas in Europe at that time, offered lesser financial returns, as compared to hotel investment. These new investors, particularly financial institutions, saw the potential benefits of hotel ownership enhanced by strong annual returns. However, they had little or no experience in hotel business management, leading to the need for hotel asset management companies. Nilsson *et al.* (2001) also posit that hotels have a unique characteristic in terms of having a structure that has little or no alternative use, and thus requires specific management expertise to maximise its value and generate future net income, although there are similarities between hotels and other commercial properties in terms of land and buildings. Therefore, it could be said that the changing ownership structure was made possible by the pull from more profitable hotel investment and the push from hotel operators looking to decrease asset holdings led to growth in using sale-and-leaseback as an expansion avenue in the early 2000s.

Moreover, the hotel sector looked favourable during that same period because of low interest rates, a low inflation environment and moderate supply growth (Bock and Forster, 2003). During the period between 2001 and 2004, although the majority of the big UK hotel companies were engaging in rationalising and selling hotel properties, there were still a number of M&A activities in the market. However, these activities involved single asset transactions more than portfolio acquisition (see Table 4.1). This could be an indication of maturity in the consolidation of hotels amongst these big hotel companies. It could also be a sign of a more strategic approach towards expansion for these hotel companies. The continuous acquisitions of single assets on the premise of criteria such as strategic fit in the asset's location is evident by the continuous high demand for hotels located in London (see Table 4.1). Although portfolio rationalisation activity resulted in a decline in the number of units affiliated to corporate hotel companies, the percentage of sales generated by these companies continued to grow. For example, corporate hotel companies accounted for less than one-fifth of all hotel units in 2004, but generated £7,155 million of sales (80% of total sales) compared to £1,789 million by Independent hotel companies (Euromonitor, 2005).

Table 4.1: Single asset transactions in the UK, 2001 - 2004

Year	London: '000 Euro (No. of assets)	London Ave price per room '000 Euro	Province '000 Euro (No. of assets)	Province Ave price per room '000 Euro	Total '000 Euro	% of European Transactions of Single asset
2001	496,056 (9 assets)	211,444	431,484 (21 assets)	131,667	927,540	n.a.
2002	325,174 (5 assets)	368,600	52,220 (5 assets)	60,000	377,394	40%
2003	448,000 (12 assets)	353,000	335, 000 (15 assets)	193,000	783,000	25%
2004	618,000 (16 assets)	237,000	360,000 (17 assets)	123,000	978,000	24%

Source: Adapted from Bock and Forster (2002; 2004) and Forster and Bock (2005)

The downturn of the worldwide economy has had a positive impact on the UK hotel industry, particularly on the increasingly efficient use of IT. Room occupancy in the hotel industry in particular benefited from internet bookings via the websites of intermediaries (hereafter known as online travel agents) (Weier and Kontzer, 2004). The business of the online travel industry evolved and boomed during the three-year downturn, leading to a new kind of business where online travel agents make use of technology to sell rooms for hotel companies. Some hotel companies signed deals with online travel agents such as Expedia.com, Travelocity.com and Hotel.com in order to boost their room sales (Henderson, 2004).

As the economy recovered, branded hotel operators such as Hilton Hotels, InterContinental Hotels and Marriott Hotels realised that it was cheaper to sell their own rooms on their own websites directly. They estimated online travel agents to have gained between 25% and 40% per transaction of room sales compared to the estimated 10% paid to travel agents, which was a very high cost (Foss, 2004). This discrepancy has been identified as being led by hotel franchisees who sold their rooms via popular online travel agents at a very low rate. During the economic slow down in 1999, the franchisees who were mostly independent hotel owners encountered more difficulties in filling up their rooms. During that period, branded hotel companies such as Hilton Hotels, InterContinental Hotels and Marriott Hotels had not developed their own sophisticated marketing and sales websites on the Internet. This led them to depend heavily on online travel agents who had the capabilities to promote and help them to maximise value for their hotel businesses (Foss, 2004).

Figure 4.1: Travel accommodation: per cent change in year on year growth in value of internet sales by direct suppliers and intermediaries, 2000 – 2005

Source: Euromonitor (2006)

When the economy recovered, branded hotel companies realised their financial loss and also worried that their brand name would lose credibility as rooms offered in the online travel agents' websites were cheaper than those offered on their corporate sites (Tedeschi, 2004). Therefore, they started to concentrate more on designing and establishing online and off-line marketing and advertising through their own Web sites, rather than depending too much on online travel agents as they had done during the economic downturn (Henderson, 2004; Tedeschi, 2004). This shift in channels of sales is reflected in the faster growth rate in direct sales of 77%, compared with 4% for online travel agents, between 2003 and 2005 (see Figure 4.1). However, it was also recognised by many hotel companies that online travel agents, which are considered to be popular websites, can perform the sales of rooms efficiently (Euromonitor, 2006). Thus, several hotel companies continued to use online travel agents as one of their distribution channels.

Thus, the major change in the hotel industry in the early 2000s was its becoming more technology related in response to more sophisticated customer demand brought about by technological advancements in communications. Hotel companies have not only needed to change their marketing and selling strategies via information technology – Internet -, but have also been involved in a wave of electronic installations such as high speed internet in guest rooms, and later shifted to wireless connections on the hotel premises. In addition, striving to provide speed for hotel checking-in and out has led to the installation of self-service check-in kiosks in hotel lobbies (Woodyard, 2004).

In summary, this discussion provides a general, but dynamic, view of the hotel industry, and in turn reflects the changes in companies' strategy and structure in response to the external environment. Particularly dynamic was the use of M&A activities as a vehicle for growth in a business that needs high capital investment and is vulnerable to the unpredictable macro environment. The consolidations have also increasingly confined the number of hotel groups into a few big major international players, originating from the United States, France and latterly the UK (see Appendix F). Since each individual company is different it is logical to consider that not all companies will have the same reasons for using M&A activities for expansion. The interactions between these two environments – micro and macro –and their interdependencies would shed light on why and how these organisations expanded by using M&A activities.

4.3. Summary

This chapter provides an overview of the development of the UK hotel industry, in the context of macro environment changes in particular. The first part of this chapter highlights the relationship between the UK transportation and hotel evolution. Although the historical context might be different in terms of time and space, this part of the review shows some interesting repetition of business strategies. For business strategy in relation to the kind of products and services provided in the hotel industry, the provisions have not deviated far from the coach inn period. For instance, the provision of basic needs (bed and meals) in a luxurious or basic setting is still the same at present as it was in the coaching inn period. Moreover, several roadside catering companies, from the mid-1980s, transformed their roadside eateries into budget hotels by adding accommodation extensions to meet the rise in demand for this type of accommodation. This strategy to a certain extent is a return to the coaching inn period and the motor car boom of the early 1900s. In addition, the upgrading of rooms and hotel facilities in the past, such as the provision of electricity and lifts in the 19th century, is mirrored in technology development and the improvements carried out in rooms and hotels in terms of telecommunications from the late 20th century.

The fact that location is an important success factor in the hotel business is reinforced by the review of the relationship between transportation and the hotel industry. For instance, coaching inns were first established to meet the needs of coach travellers on the road, and the arrival of railways diverted travellers to stay close to train stations and led to the demise of coaching inns. However, the latter were revived upon the arrival of bicycles and motor cars in the early 1900s, which in turn slowed down the railway hotel business. The increasing use of air transportation since the 1960s brought about an increasing demand for hotels in the cities. The above has not only highlighted the importance of location, which remains a major driver for economic growth in the hotel businesses, but has also emphasised the vulnerability of this industry due to its dependence on a constantly changing world, and its need to respond to ever changing market demand.

The expansion of hotel units in the UK was slowed down by the chronic lack of land for building and construction, particularly in London. Adding to this limitation, it is also time consuming to build a hotel from scratch. Moreover, the huge amount of capital required to build a hotel unit complicates the development. From the 1980s, new problems arose - foreign competitors started investing in the UK hotel industry increasing costs and pressure on UK hotel companies. Thus, this industry had to race against time to bridge the difference between market demand and supply under a constantly changing macro environment. It also needed to ensure that its market share was not eroded with the entry of foreign players. Therefore, the use of M&A activities as a quick method of growth was pertinent in the case of the UK.

On the other hand, the need for more capital to expand hotel companies, in conjunction with the willingness of the financial sector to invest in the hotel industry, has seen more and more non-hotel operators owning hotel shares since the late 1990s. The deregulation in the UK financial sector had a spill-over effect on the hotel industry, particularly benefiting this industry, through the increased amount of funds made available for investment by local and international financial institutions.

It is apparent that political instability, such as terror threats and wars, threatened hotel demand. Moreover, fluctuating economic indicators, such as interest rate, inflation rate and exchange rate, have critical effects on hotel demand, companies' decisions to expand, and the way the company chooses to expand. For example, companies might choose to finance hotel operation through debts and / or internal funding, or adopt other financing methods, such as sale-and-leaseback, which lead to lesser management control due to a separation of ownership and management. A growth market attracts investment, as is evident from the competition that arose between conference hotels and universities. Changes in market demand also drive company strategy changes, as displayed by the development of budget hotel from the 1980s.

In the early 1990s, higher interest rates led to higher costs for property companies and hotel companies, which also held a high volume of assets and debts. The hotel business was worst off when there was also a low demand for hotel rooms, attributable to the First Gulf War and the world recession. A structural change in hotel companies took place in terms of ownership, as more hotel companies sold their hotel assets to willing buyers - financial institutions - to reduce debt, leading to a shift from ownership to becoming management companies.

The examination of the development of the UK hotel industry, in association with various macro environmental factors, provides an overview of the hotel industry in general. At the same time, this chapter provides the context which supports the theoretical framework devised in the previous chapter. For example it explores the pertinence of industry related shocks such as the property market, and general shocks such as the financial sector, IT, foreign competition and world events. The next chapter explains and discusses the research design used to carry out this study.

Chapter 5:
Research design and methods

The aim of exploring the development of big business in the UK hotel industry in the years 1979 – 2004 is connected to the use of M&A activity as an expansion tool. The understanding of this development is facilitated through the analysis of the motives for M&A activity of four hotel companies on an organisational and the external environmental levels. This study is carried out based on a critical realist perspective. By taking this perspective, this study recognises the 'interplay between structure and agency at various levels of analytical abstraction as it shapes the organisational forms through which social reproduction and transformation are realised' (Reed, 1997, pp. 37). In other words, there is a concern for the relationship between human agency and social structure, and critical realism considers both social science's interpretive and natural science's objectivist views. The former recognises social phenomena as products of social actors, and the latter posits social phenomena as emerging without intervention from social actors. This perspective also takes the view that there are different levels of reality in which social phenomena occur due to structure and agency interaction (see 5.1). In the same vein, Dobson (2002) argues that critical realism is an approach that concentrates on multiple levels of investigation. He proposes the examination of each level in turn, and of the interactions between each structure identified at the different levels, as a process in the investigation of a social situation. In this sense, this approach supports this research in terms of the study of four companies' development at different levels (organisational, industry and general level), and integrating the different levels to understand the development of big business in the UK hotel industry.

This chapter explains the research philosophy underpinning the research design, such as research strategy, methods used and time horizons, including the limitations of the method. The first section accounts for the research design and the second section clarifies the multiple-case studies adopted for this thesis. The third section justifies sample selection while the fourth section gives details of data collection (secondary data and semi-structured interviews) and the data analysis process. The fifth section considers validity, reliability and generalisability issues.

The sixth section discusses research limitations and the final section provides a summary of this chapter.

5.1. Research design

This research design is based on the examination of the motives of four UK hotel companies for M&A activities on an organisational level, in the context of macro environmental changes. The objectives are to find out 'how' and 'why' these companies expanded and the hotel industry became big business between the years 1979 – 2004. Therefore, this study of the growth of hotel companies over a period of 26 years requires a holistic approach to understand circumstances both within and outside the companies. According to Patton (2002, pp. 59), 'a holistic approach assumes that the whole is understood as a complex system that is greater than the sum of its parts'. This approach emphasises the analysis of the interactions of variables in a non-linear way to understand the cause-effect relationship of a phenomenon, which is similar to historical explanation as posited by Leff (1969, pp. 98):

> "[Historical explanation] explains the whole through explaining the parts. It is a feature of history that the historian already knows what he has to explain before he knows why and how it is what it is".

This also coincides with Munslow's definition (2000, pp.131):

> "[H]istorical explanation tends to ask three questions about the events, processes and people of the past ... These are what happened, how did it happen and why did it happen in the way the evidence suggests it did" .

Therefore, historical explanation is able to provide a foothold for investigating 'how' and 'why' M&A took place in the hotel industry, and the industry's emergence as a big business in the context of the knowledge that there were a number of variables interacting. These variables involved the interplay of management decision, company strategy changes and past changes in macro environmental factors to provide this result.

In this sense, critical realism is applicable to the research question in three ways: firstly, organisational motives for M&A activities (such as economies of scale) concern management decision-making and consequent action, leading to hotel company expansion. This is a form of 'social science' comprising 'perception and consequent actions of social actors' (Saunders *et al.*, 2007, pp. 108). Secondly, the 'natural science' in this study constitutes the external environment, namely industry and general shocks (such as deregulation of financial sector and world events) which 'exist in reality, external to social actors' (Saunders *et al.*, 2007, pp. 108). In other words, this is not within the control of managers who make decisions. Thirdly, the combination of both sciences enables understanding of the social phenomenon of the hotel industry becoming big business via M&A activity.

The theoretical framework of M&A activities is also linked to critical realism in terms of different levels – organisational and macro environmental – being used for interpreting and explaining this phenomenon. This is synonymous with the different levels in the nature of reality: the empirical, the actual and the real (Bhasker, 1978). These different levels comprise knowledge as seen with the naked eye (expansion of hotel companies), the actual events that took place (M&A activities used as an expansion tool) and a reality where a complex causal relationship (between management decisions to use M&A activities based on macro environmental conditions) took place, requiring in-depth interpretation to explain the social phenomenon. Therefore, the strength of critical realism as an underpinning epistemology in this thesis, in terms of its proposition of multi-level study in the business context and recognition of the co-existence of natural and social science provides the foundation for this research design.

From the organisational context, Harvey (1999) and Kieser (1994) posit that events and people of the past played a vital role in shaping the present conditions of an organisation. Kieser (1994) argues that existing organisational structures are a result of decisions made by individuals and groups over many years, in response to problems and / or opportunities at the time, and have been conditioned by historical context. Similarly, Munslow (2000) agrees that the past is presumed to be contingent and while the intention of rational agents is of central importance in historical explanation, actions and events are not primarily determined by human logic or any other single cause. This no doubt points to the importance of knowing the macro environment in context, and linking organisational responses to complex external conditions.

This discussion of historical explanation and critical realism thus points to comparative historical analysis as a suitable method to answer the aim and objectives of this thesis. Comparative historical analysis is defined by a concern with causal analysis, an emphasis on processes over time, and the use of systematic and contextualised comparison (Mahoney and Rueschemeyer, 2003), and its relevance to this thesis can be explained in four ways.

Firstly, the main feature of a comparative historical inquiry is predicated on the concern to identify causal configurations, and is useful for this study since it aims to seek historical explanations in this research for the development of hotel companies. In this thesis, the understanding of the development of hotel companies is achieved through the use of M&A activities, particularly through the interaction between organisational- and macro environmental-levels, which is similar to historical comparative research that integrates the micro (small-scale, face-to-face interaction) and macro (large-scale social structures) levels (Neuman, 2004, p. 301).

Secondly, comparative historical analysis stresses processes over time. The understanding of how and why companies grow is better understood via the longitudinal approach as it is useful for studying changes and the causes of changes over a period of time (Remenyi *et al.*, 1998; Saunders *et al.*, 2007). This longitudinal aspect enables a longer history of context to be established and provides an uninterrupted picture of what happened over the period 1979 – 2004, and in turn is able to facilitate a more accurate synthesis. This was also a period when the UK economy encountered some booms and slumps in the context of world events as well as seeing a high volume of M&A activities took place in the hotel industry (see 1.1 and Chapter 2).

Thirdly, comparative historical inquiry emphasises a systematic and contextualised comparison between a small number of cases within delimited historical contexts

(Mahoney and Rueschemeyer, 2003). This emphasis is highly relevant to this research because a small number of four cases will be used to achieve the aim of this study. Moreover, the same period of study has been set to provide the historical context for facilitating a systematic and comparative study of the development of the four case companies. Although quantitative data, such as studying all UK hotel companies, may be valid to provide certain general insights, in this case it is not about quantity but the nature of the data. The large quantity of data might not be so relevant because it is unable to facilitate in-depth understanding of the complexity of interactions between company-specific and general environmental factors and the changes that emerge from the interactions. Moreover, there is a time constraint for this particular piece of research. In addition, the examination of a few cases in this research is not intended to achieve some kind of replicable controlled comparison, in the ways that are usually applicable to quantitative studies, but to extract meanings in relation to M&A motives and the growth of companies. Therefore, qualitative study via four case studies is suitable as an interpretative method of collecting and analysing data to explore and explain a phenomenon (Walsh, 2003).

Fourthly, a comparative historical analysis is closely linked to explanatory approach which posits that an explanatory study enables the study to uncover 'reasons for things, showing why and how they are what they are' (Punch, 2000, pp. 38). This concurs with the comparative historical analysis's study of causal relationship between events. Moreover, the author suggests that an explanatory approach is more related to studies where much has been researched and concepts may be further developed. This approach is thus applicable to this thesis because M&A activity and its theory have been widely studied, but have not been considered in the specific context of the historical development of UK hotel companies. Thus, this study endeavours to further develop this theory, based on the strength of the explanatory approach and the adoption of qualitative and longitudinal techniques to answer the 'how' and 'why' questions and enhance this study.

In summary, the philosophical underpinnings of critical realism and comparative historical analysis have been identified as similar in terms of their beliefs in the co-existence of natural and social science approaches. They also believe in the existence of different levels of reality, leading to multi-level examination and analysis, and agree on the importance of knowing the process of change, as well as embrace qualitative methods and longitudinal technique. This thesis therefore utilises a few case studies and a theoretical framework (M&A theory) to conduct a longitudinal study (covering a period of 26 years) and elicit answers to 'how' and 'why' hotel companies expanded, leading to the emergence of big business in this industry.

5.2. Multiple-case study

According to Yin (2003a), both case studies and histories are generally used to answer questions which deal with operational links needing to be traced over time. The case study approach is used particularly due to the need to cover contextual conditions, because these conditions are considered to be highly pertinent to the subject of study. In addition, case study strategy 'has a distinctive advantage for certain research questions and arises out of complex social phenomena' (Yin, 2003a, pp. 9). Therefore, the same 'distinctive advantage' is applicable to the study of a complex social phenomenon - 'how' and 'why' companies expanded by using the M&A mechanism. It would also lead to a comprehensive picture of the development of the hotel industry in the context of its environmental changes. In the same way, Numagami (1998, pp.12) posits that the case study method enables a researcher to reveal the 'temporal interdependence among diverse actions' in the tracking of historical process. This concurs with Hutchinson and Nicolas (1987, pp.46), who pointed out that 'part of the underlying motivation for writing and reading business history of individual firms has been the promise to gain understanding of general factors in the growth of the industry or the whole economy'.

According to Stake (2000), an instrumental case study is about examining a particular case to provide insight and to support and facilitate the understandings of other phenomena, and the multiple-case study makes use of several single cases to learn more about that phenomenon. Moreover, Hakim (2000) argues that multiple-case study involves conducting the same study two or more times simultaneously, based on the same contexts or in a selected context with a relevant set of interrelated factors. This is highly relevant to this thesis in terms of understanding the growth of four hotel companies within the same historical timeline and against a similar contextual background. From a different angle, Saunders *et al.* (2007) support the strength of multiple case studies as being instrumental in exploring existing theory and / or providing a source of new research questions via a series of findings generated from well-constructed multiple case studies. In this respect, the exploration of existing theory is similar to Yin's (2003b) advocacy of a rich theoretical framework as a starting point for collecting and analysing qualitative data. According to Yin (2003b), a theoretical framework is devised by identifying the main variables in the study and the presumed relationships between them.

Therefore, the theoretical framework of this study is constructed from variables developed from M&A literature review, based on the knowledge that the interaction between organisational motives and macro environmental factors will elicit answer(s) to the research question. These variables function as parts to explain the whole - hotel companies' expansion and the hotel industry developing into big business. Moreover, Yin (2003a) regards multiple cases as more robust because analysis from each case study will provide insights into the phenomenon studied, while a comparison of results across different cases increases the accuracy and reliability of the study. The samples for this multiple-case study are introduced in the next section and their relevance to the research questions is also explained.

5.3. Sample Selection

These hotel companies were selected in view of the aim to understand the development of the hotel industry into big business, and these cases are particularly relevant to this study because they had developed over the years to become the largest hotel companies in the UK, by the number of rooms operated, as well as ascending in rank worldwide (see Appendices B and F). The four companies are Forte Group plc (hereafter known as THF), InterContinental Hotels Group (hereafter known as Bass), Hilton International (hereafter known as Ladbroke) and Whitbread Group plc (hereafter known as Whitbread).

THF's original business was operating milk bars, and it became the largest hotel company in the UK between the period 1970 and 1996. The Group used M&A activities widely for expansion, and these activities attracted attention from the MMC in the UK and foreign government, as well as intervention from the EU (see Chapter 6). It was the only UK hotel company also to have been ranked in the top ten worldwide since the 1980s (see Appendix F). Its position was lost only after 1995, when the Group had to sell its budget hotel companies in the US in order to raise funds for its defence against the Granada Group plc's hostile bid. Subsequently, THF was acquired by the latter in 1996, and its hotels were broken up and sold off between 1996 and 2003.

Ladbroke had developed its original business in the gaming industry in 1886. In 1987, Ladbroke acquired the international hotel company, Hilton International which changed the UK hotel industry structure, in terms of adding an internationally well-known hotel name to UK ownership. This major purchase also changed Ladbroke's ranking in the UK, in terms of the number of hotel rooms it operated, as well as international exposure for business (see Appendix F). Although Ladbroke's size in terms of the ranking of number of rooms did not reach the top ten worldwide, after the Hilton International purchase, Ladbroke also rose through the ranks over the next few years through the use of several M&A activities (see Chapter 7).

The biggest leap in ranking achieved by a UK hotel company was that of Bass. Bass was originally a brewing company (since 1777) that ventured into the hotel industry in the mid-1960s, and exited its brewing business in 2000, in order to focus on its hotel business (see Chapter 8). The Group held ranks in the 40s and 50s worldwide before 1989 (see Appendix F). After its purchase of the international hotel company - Holiday Inn hotels - and other subsequent acquisitions, it ranked as the second largest hotel company worldwide and emerged as the largest in 2003.

In contrast, unlike the other three companies, Whitbread has never reached the top ten ranking worldwide in the hotel business, due to its concentration in the UK hotel market. Whitbread was also originally a brewing company, since 1742; it expanded into the hotel industry in the early 1970s, and sold the brewing business it had held for more than 200 years in 2000 in view of the decline in the brewing business (see Chapter 9). However, Whitbread's hotel ranking worldwide ascended from 199 in 1984, and then experienced a gradual rise from 1993, because of its restructuring and concentration on building up its hotel division via M&A activities (see Appendix F). Its major increase in number of rooms was ascribed to the budget hotel sector, which made it the largest UK budget hotel company in 2000.

These four companies are thus considered as purposeful samples because the study of their development is able to draw out rich information and in-depth understanding and insight to illuminate the questions under study (Patton, 2002). As pointed out by Yin (2003b), selection of cases should presuppose prior knowledge of the result: in this study, the four case companies are the main units of data collection because each had expanded by the use of M&A activities, and each would have substantive implications in terms of answering the research question about the growth of hotel companies and their impact on the industry. These are also four companies which are different in the nature of their original businesses, which concurs with Yin's (2003b) proposition that each case in multiple-case study research should provide a specific function within the overall scope of inquiry. A holistic design in a single unit of analysis is suitable for examining the global nature of an organisation (Yin, 2003b). Each company in this study is a unit of analysis, enabling literal (or direct) replications of their expansion through the same theoretical framework within the same historical context, which concurs with Yin's (2003b) category of multiple holistic cases. Moreover, the strategy of using these cases and concentrating on one location – the UK – permits in-depth comparative analysis and increases the rigour of this research. The following section explains the process for data collection and analysis

5.4. Data collection and analysis

According to Saunders *et al.*, (2007), data collected and subsequent methods of analysis have a close relationship. In this thesis, the theoretical framework is predicated on two concepts (organisation and macro environment) and their underpinning assumptions are efficiency theory, managerial theory and industry shocks, found in the general M&A literature (see Chapter 3). Data collection is based on two sets of variables under each concept. Variables developed under the heading of organisational motives include economies of scale and scope, market power, speed, strategic fit, growth (in terms of company sales and size) and managerial welfare. Under the heading of industry shocks, variables include growth (in terms of industry growth or decline), deregulation, technology change, and foreign competition (see Table 3.1). Data analysis is built on studying the interactions between variables categorised under these two concepts. The next two sub-sections explain in detail these two processes: data collection and data analysis.

5.4.1. Secondary data collection

The methods for data collection are considered in conjunction with other approaches in the research design discussed previously, for instance, the multiple-case approach and longitudinal studies. According to Yin (2003b), case studies and historical study can overlap, due to their ability to make use of a variety of evidence, such as documents, artefacts, interviews and observations, for their investigations. Saunders *et al.* (2007) argue that historical research and longitudinal studies generally depend on archival research: documents recording the organisations' day-to-day activities are generally the principal source of data

The operationalisation of this study started with attempts to retrieve archival documents by contacting companies. Letters were sent out to three Corporate Services departments, of Bass, Ladbroke and Whitbread, and followed up by telephone communications to enquire about company documents, such as company reports and meeting minutes. However, upon calling up and speaking with the secretaries to the heads of Corporate Services, the common comments were that they did not have specific storage of their previous documents, or that they did not know where they were, or that they did not think these were accessible for outsiders.

The next attempt was to try and contact executives of hotel companies through the recommendations of visiting fellows in Oxford Brookes University's Department of Hospitality, Leisure and Tourism Management. However, the communications went through their secretaries and the same kind of response was received during the telephone communications. The initial plan to contact the owner of the fourth company, THF (THF was taken over in 1996, but the owner is currently operating a new private hotel company), regarding previous documents was stalled because it was not possible to gain any access to the other three companies. Thus, in order to obtain more compatible data, the research method shifted to concentrate on alternative secondary data collection and analysis. Although the data in the companies' archive would have been useful for this study with regard to M&A activities, the main difficulty in accessing these documents was also attributed to these companies having gone through several M&A and restructuring activities. This change in research design has not compromised the quality of this study; rather, it has reinforced the dynamic nature of these companies and their relevance as samples for this study on the development and changes of companies and industry through M&A activity itself.

Table 5.1: Types of secondary data

Documentary	Multiple Source	Survey
• Written Materials **(DW: Documentary Written materials)** • Non-Written materials **(DNW: Documentary Non-Written materials)**	• Area based **(MAB: Multiple Source area based)** • Times Series based **(MTS: Multiple source Time Series)**	• Censuses **(SC: Survey Censuses)** • Continuous and regular surveys **(SCS: Survey Continuous and regular Survey)** • Ad hoc Surveys **(SAH: Survey Ad Hoc surveys)**

Source: Adapted from Saunders *et al.*, 2007, pp. 249

Litteljohn and Roper (1999) suggested researching organisations from the outside through annual reports, corporate brochures, Web sites, press releases and any other published documents, in order to eliminate access restrictions and to save time. According to Saunders *et al.* (2007), the use of secondary data in a multiple-source data set makes it possible to undertake longitudinal studies under time constraints and these data are particularly useful in the case of historical research, whether used on their own or in conjunction with other secondary data such as multiple sources and surveys (see Table 5.1).

Saunders *et al.* (2007) categorised secondary data into documentary, multiple source and survey. Documentary secondary data include written documents such as organisations' records (communications and websites), journals, magazines, articles and newspapers. The authors considered these as a 'storage medium for compiled data' (pp.248). Documentary secondary data also include non-written documents such as video recordings, film and television programmes. Under the multiple source type, area based may include newspapers such as those in the financial area (The Financial Times) or a location (country specific reports, such as the UK). In the category of time series based data, data might be retrieved from industry statistics or government publications (Office of National Statistics and Bank of England). Data from surveys, for example, numbers of people employed in various sectors of the service industry is useful for comparing research findings and / or setting a context for research findings.

In this study, the secondary data used consists of the following:

1. Documentary (annual reports, company news, company announcements, television programme, oral history, newspaper, trade journals)
2. Multiple source (newspapers, industry statistics, academic books and journals)
3. Survey (number of employees in each industry sector, hotel and property prices in the UK).

A wide range of publications about hotel companies in particular and the hotel industry and macro environmental issues in general was reviewed through a number of databases such as Business Source Premier, Emerald, Euromonitor, Hospitality and Tourism Database, Key Notes and Mintel. Secondary data were retrieved from the Internet and through hardcopies. Data and relevant articles were also retrieved from the Bodleian Library, City Business Library, Colindale Newspaper (The British Library), Companies House, New York Public Library, Oxford Brookes' Library and The British Library. Several websites such as Bank of England, British Hospitality Association, Compass Group plc, Competition Commission, Department of Trade and Industry, European Union, Gambling Commission, Hilton Group plc, InterContinental Hotels Group, National Statistics, VisitBritain.com, Whitbread Group plc and so on were used.

The terms in Table 5.1 are used in Table 5.2 to provide a comprehensive record of the data sources as part of the transparency and reliability element of the research design. Table 5.2 shows the types of secondary data collected and used in this thesis and where they were retrieved from. Some of these data – British newspapers, trade journals and academic journals - are available in both hard copies and electronic format in Oxford Brookes University Library. The US news was retrieved from New York Public Library directly and from The British Library (Colindale Newspapers) through Interlibrary Loan.

In this study, the multiple sources available made it possible to collect data from a variety of sources regarding the same phenomenon – development of four hotel companies - at the same time validating one source of information against another. For example, data retrieved from company annual reports, newspapers and trade journals can help in scrutinising explanations of motives for a particular deal from the company's perspective. Simultaneously, the comments made regarding the same deal by industry-specific analysts in newspapers and trade journals can confirm, refute or provide more insight into comments the company made regarding that deal. More importantly, comments retrieved from different sources pertaining to that particular period are able to put that particular deal into context.

Table 5.2: Types of secondary data collection and sources

Secondary data	Detail	Type of secondary data	Source of data
Company Annual Reports	Trust House Forte/ Forte Group plc, Ladbroke plc, Bass plc, Six Continents, Intercontinental Group plc, Whitbread plc	DW: Company and Financial Reports	Company House (1978 – 1997) and individual company website (1998 – present)
Newspapers	The Financial Times; Wall Street Journal	MAB: Financial Newspapers	British Library; Oxford Brookes University Library; New York Public Library
Newspapers	The Times, The Guardian; The Independent, The Washington Post; New York Times, Los Angeles Times	DW: General Newspapers	British Library; Oxford Brookes University library; New York Public Library
Trade journals	Hotel Reports; Catering and HotelKeepers	DW: Hospitality Trade journals	Hotel and Catering International Management Association; Oxford Brookes University library
Academic Journals	Business History, Business History Review; Cornell Hotel and Restaurant Administration Quarterly; International Journal of contemporary Hospitality Management; Journal of Hospitality & Tourism Research	DW: Academic special area journals	Oxford Brookes University library; Bodleian Library; The British Library
Video	BBC's Money Programme 'Blood on the carpet'	DNW: TV programme	Oxford Brookes University Resource Centre
Oral history	Interview with Rocco Forte	DW: Interview Transcript	Hospitality Archive, Houston, USA
Hospitality Statistics	Sales prices: Hotel, Properties.	SAH / MTS: Industry survey	Christie & Co.; Euromonitor International; HVS International
Economic Statistics	Census: Employment	SC / MTS: Economic Census	Office of National Statistics (Internet)
Economic Statistics	Gross Domestic Product indices; Inflation rate; Interest Rate	MAB / MTS: Statistics	Bank of England (Internet)
Reports	Monopoly Mergers and Commission	MAB: MMC/ OFT	Competition Commissions (Internet)
Books	General and specific theories	DW: Academic books	British Library; Oxford Brookes University Library

For Abbreviations, please see Table 5.1 or Abbreviations

The actual data location and collection was an on-going process, from December 2003 to July 2007. Data for four hotel companies were mainly retrieved from companies' annual reports, news from companies' websites, newspapers, and trade journals. Information on macro environmental factors during the 1970s and the early 2000s, were collected mainly from academic and trade journals, government websites and newspapers.

(i) Data collection process

Information was first sourced from the national UK Newspapers: The Financial Times, The Guardian, The Independent and The Times from Oxford Brookes University Library. These newspapers are creditable because they were chosen in accordance with the criteria of continuity as well as similarity. Each newspaper has been published continuously over the period of time analysed. They provide news coverage and have a more mature readership as compared to the popular market such as the Daily Mirror, The Sun and The Sunday Mail which attract younger readers (under 25 years old). Moreover, the newspapers used in this research are mainly from the 'Quality' range as classified by ABC, an independent company that regulates printed publications in the UK (Mintel, 2005c). In addition, the Financial Times is a specialised financial paper and is circulated on an international basis (Mintel, 2005c).

The first stage of collection from newspaper data started with going through the indexes of each UK major newspaper from 1978 to 2004 (extended to 2006 subsequently) searching for the four companies: Bass, THF, Ladbroke and Whitbread. However, these four companies had changed over the years, in terms of corporate names. Therefore, the key word search was extended to company names relating to these four companies, namely, Compass, Forte, Granada, Hilton, InterContinental, Six Continents and Trust House Forte. Pages containing these key words in the indexes were photocopied and each copy was scrutinised to identify news that covered any M&A activities, either directly or indirectly related to these companies. The relevant news items on the indexes were highlighted and copies of these news articles were made from microfilms in the Oxford Brookes University Library. Some news articles were retrieved from electronic sources such as Proquest. However, information presented in electronic form is only available from the early 1990s. For instance, the earliest available electronic archived news is The Guardian, which starts from 1992 and for The Financial Times, news is available from May 1996.

Copies from microfilms and printouts from Proquest were made for each piece of news and were next sorted and categorised under each company name. Under each company, copies were arranged by year and each company was assigned its own coloured post-it (Green: THF; Pink: Ladbroke; Orange: Bass and Blue: Whitbread; Purple: Industry and general information). The purpose of this coloured post-it was to facilitate a faster and easier way to identify companies' data in paper form throughout the research process. Moreover, some articles contain information about more than one of these case companies; thus the different colours attached to each article provide an indicator and reminder of its information for the researcher.

Table 5.3: Search terms used in relation to M&A deals

Specific words	Alternative terms
Merger; Acquisition; Take over	Acquire; amalgamation; buy; get; merge; obtain; procure; purchase; secure
Economies of scale and scope	Boost; cost cutting; cost saving; cross sell; cut back; decline; decrease; drop; enhance; enlarge; fall; improve; increase size; lessen; raise; reduce head counts.
Speed	Fast; immediate; instant; quick; rapid; speedy; sudden.
Market power	Biggest; control; dominant; influence; largest; leader; maintain; market power; market share.
Strategic fit	Complement; match; suit; supplement; increase geographical presence.
Growth	Advancing; declining; developing; expanding; growing; progressing.
Technology	Computer; computer system; distribution system; Global Distribution System; Internet; marketing tool; room reservation system; telecommunication; Wi-Fi.
Deregulation	Legislation changes: brewing; financial; gaming; transportations.
Foreign competition	Foreign investors; globalisation; internationalisation.

Information extraction started with one company, THF, by reading the news on a year by year basis to extract general information pertaining to each M&A deal. Terms such as 'buy' and 'purchase' are sought, in conjunction with words such as 'merger', 'acquisition' and 'takeover'. Alternative words sought including 'cost saving' and 'cost cutting', indicating motives to achieve economies of scale (See Table 5.3 for more search terms used in relation to M&A deals). Other information such as why the company was buying and why the seller was selling; who the competitors were, what were the reasons for them competing to buy and how much was the deal was also identified. Each piece of news was identified, highlighted and typed into the computer word file. The information was arranged in chronological order for each company according to each major deal closed by the company. Folders in the computer word file were created under the name of each company and / or industry. This same process was repeated for the other three companies.

The second stage of data collection from newspaper data involved going through the indexes of each UK major newspaper from 1978 to 2004, searching for key words relating to the hotels and / or hotel companies bought by the four case companies: Anchor Hotels, Bristol Hotels & Resorts, Candlewood Suites, Centre Hotels, Clingendael Group, Comfort Hotels, Hanson Trust, Holiday Inn World, Holiday Corporation, Grand Metropolitan, Kennedy Brookes, Marriott, Myddleton Hotels, Premier Lodge, Rodeway Inns, Saison Seibu, Scandic, Scott's Hospitality, Southern Pacific Hotels Corporation, Stakis, Swallow, United Airlines, The Savoy. Copies were made from pages of indexes containing these key words. Each copy was searched to identify news that covered specific M&A deals, for example, THF buying Hanson Trust, and so on. The specific news in each index was highlighted and the next step was to retrieve these particular pieces of news articles from microfilms and electronic source (Proquest) in the Oxford Brookes University Library. The same analysis and recording process used for the first stage of newspaper data collection was applied to this second stage.

In the third stage of data collection, key words under category and / or industry - Hotel, Hospitality, Gaming, Beer, Brewing, Catering and Restaurants - between the period 1978 and 2004 were searched for in the indexes of each UK major newspaper. Similarly to the previous two stages, pages of indexes containing these key words were copied and their contents were inspected. Specific news referring, for example, to M&A activities in the industry and / or pertaining to one of those M&A deals under study, change of legislation, and so on were highlighted. This was followed by the retrieval of news articles from microfilms and Proquest in the Oxford Brookes University Library, and an identical analysis and recording process to that described in the previous two stages of data collection and recording.

The other main source for this thesis was trade journals. Major journals such as *Caterer and Hotelkeeper* (formerly the *Caterer and Refreshment Contractor's Gazette*), and Hotels (formerly known as the *Service World International and Hotels & Restaurants International*) are useful for this study because of their comprehensive reports, particularly for the UK hospitality industry and the international hotel scenes. The former is a weekly trade journal established in 1878 and the latter a monthly trade magazine published since 1967. These journals have been published continuously – weekly and monthly respectively - over the period of time analysed. The process of identifying and locating information in trade journals was more challenging, as there was no index available to provide guidance; thus, the initial stage was to browse through each journal page by page from 1978 to 2001 (electronic copies of Caterer and Hotelkeeper are available from the year 2002) whilst electronic copies of Hotels are available from 1993. The same categorising process used in previous newspaper data collection was applied in the case of searching for data in trade journals. For example, any page found to contain news linking to any of these companies and / or the hotel industry was copied and categorised under each company and / or industry. These copies were arranged in chronological order and pages containing news of two or more different companies and / or relevant industry were allocated more than one coloured post-it for identification purposes. This was followed by utilising the same analysis and recording process as that used for newspapers, to extract, categorise and input information into the computer word file and folders.

The other important source used in this thesis was company annual reports. Company annual reports for each case study company between the period of 1978 and 1997 (1978 - 1996 for THF) were purchased from Companies House, which is the official UK government register of UK companies. As mentioned previously, there was no access available to the companies, and annual reports were also unavailable as the contacts claimed that these could be obtained from Companies House. Annual reports from 1998 were available from each company's website and these were retrieved and printed. Company annual reports were used because it is found that individual investors and financial institutions alike considered company annual reports as a main medium through which to receive company information and make investment decisions, as external users (Firth, 1978; Epstein and Pava, 1993; Lee and Tweedie, 1975). These studies span countries such as Australia (Anderson, 1981; Anderson and Epstein, 1995), USA (Epstein and Pava, 1993) and the UK (Lee and Tweedie, 1975). Most of these studies also revealed that profit and loss accounts in the annual reports were ranked as the most important information provider. Lee and Tweedie's (1975) study found that individual investors in the UK considered chairmen's reports and profit and loss accounts to be the most widely read because the former provides a future prospect of the company while the latter is an important basis for investment decision.

Reports made by Chairmen and Chief Executive Officers in company annual reports were reviewed to gain a general understanding of companies' development: corporate strategy changes; major M&A activities in the hotel division and other business divisions; future planning, and so on. Sales and profits for each business sector in each company's financial reports were tabulated to understand changes in corporate strategy, by comparing differences between business sectors within each company and between company and macro environmental factors (see Appendices L; M; N; O). This information also provided insights into the motives behind each hotel deal closed, as well as shedding light on the external environment which might have affected the company's financial performance and strategic decisions.

Other sources such as time-series statistics or specific area-based (UK) data were contextual information retrieved from Office for National Statistics and Bank of England. These data sources provide statistics such as Gross Domestic Product, inflation rate, interest rate, exchange rate and international visitors' spending and so forth, which are important for building up the picture of the economic environment in the UK during this period of study. For instance, the Bank of England website provides historical data of interest rates which function as a support for the argument regarding changes in market demand and UK economic situation.

Academic books and monographs provided introductory sources to general or specific theories, subjects and topics. Academic journals, particularly peer reviewed articles published in refereed academic journals, such as *Business History and Business* History Review (formerly the *Bulletin of the Business Historical Society*), provide a starting point to find out what has been written and what might be topical areas for further research. Other quality journals such as *Journal of Management Studies, Academy of Management Review* and *Strategic Management Journal* are used predominantly for researching M&A theories. For the hotel industry, journals such as *Cornell Hotel & Restaurant Administration Quarterly and International Journal of Contemporary Hospitality Management* provide up-to-date business management research on the hospitality industry. Other sources such as non-written materials were sought in Oxford Brookes University Resource Centre and a recorded TV programme recounting the hostile take over of THF by Granada Group plc in 1996 (created and telecast by the British Broadcasting Corporation) was found useful as part of the examination of the THF case. Similarly, the visit to Hospitality Industry Archives, USA found an interview transcript with Rocco Forte (Chief Executive of THF) to be relevant to this thesis.

After collecting and categorising data according to company and industry in a chronological order, the next step was to categorise these data, based on the theoretical framework, and to write an historical account of four cases. The next section explains these processes and how analysis was carried out.

(ii) Presenting the historical account of four cases

The theoretical framework established for data collection was used as a point of reference for writing up the four cases. The chronologically recorded information for each deal by each company (see the three stages in (i) data collection process) was re-read to discuss the motives, based on the variables (economies of scale and scope, speed, market power, strategic fit, managerial motive, industry growth, technology, deregulation and foreign competition) within the theoretical framework (see Table 3.1).

Analysis of data was carried out by identifying words that are identical or closely related to the expression, such as economies of scale and scope. Terms including 'cost cutting', 'cross-selling', 'increase size', and so forth, used in sentences were sought, as a means of informing readers about the motives for the particular M&A deal. The following provides an example taken from Ladbroke to represent how the analysis was carried out.

> 'Economies of scale could be attained by combining the marketing skills of both companies and utilising Hilton International's sophisticated central reservation system, based in the USA, to boost bookings in Europe'.

Source: Feltham (1987a, p. 1)

Within this sentence, several inferences were made in terms of the variables in the framework. Firstly, the words which link directly with one of the variables in the framework are 'economies of scale'. Secondly, although strategic fit, another variable, might not has been spelled out in this example, it can be inferred through the complementary characters of the assets (central reservation system) and operations (marketing skills) of the combined companies. For example, 'combining the marketing skills of both companies' suggests strategic fit for marketing resources. Similarly, the 'sophisticated central reservation system' indicates the use of technology, something highlighted by the literature as a general industry shock factor, and consequently categorised as "general industry shock". Thus, the analysis was carried out by identifying direct and indirect inferences to the variables in the framework. This particular example cited reveals the interaction between organisational motives (economies of scale and strategic fit) and the environmental factor (technology) in this M&A activity.

The task described above, of identifying the motives through variables developed in the theoretical framework and writing up the four cases, has already explained the first step in the analysis process. According to Saunders, *et al.* (2007), generating and categorising data is a process of analysis in itself. In the writing up of the findings about the motives for the four cases, each M&A deal for each case company is presented as a sub-section of its own, and all the deals are in turn presented in a chronological and narrative manner (see 6.3; 7.2; 8.2; 9.2). Yin

(2003b) also points out that explanatory case studies presume causal sequences to occur in a linear manner over time. In this study, the examination of the growth of four hotel companies is presented in a chronological order. Dealing with each M&A activity individually serves the purpose of tracing causal events, not only about the deal involved, but also in terms of a link between M&A deals, as well as between deals and the general and industry-specific events occurring concurrently in the macro environment, over a period of time (see 6.5; 7.4; 8.4; 9.4).

Upon completing the initial analysis of the four cases, it was realised that most of these deals had strong links with US hotel companies. Therefore, it was considered that newspapers from the US might provide either views that support the existing data, or information that provides different insights into these deals. Major newspapers from the US - Wall Street Journal, The New York Times and The Washington Post, which have been ranked as that nation's top tier newspapers (Journalism Organization, 2006) - were sought in The British Library (Colindale Newspapers). A trip to New York Public Library was made to find out what kind of information exists in the US that could complement the constructed four cases and illuminate the development of the UK hotel industry. In view of the time limitation in New York, only indexes were searched, identified and copied. These copies were scrutinised and news from Proquest in the New York Public Library was also retrieved (Newspapers from Proquest for Wall Street Journals are available from 1980). Articles that were not available from Proquest were requested through Inter-Library Loan from Oxford Brookes University Library. The same process of categorising, analysing and writing up was carried out with the news extracted from the US newspapers, and information was added into the four written up cases (see 5.4.1. (i)). After gaining insights into the development of four hotel companies and the UK hotel industry, the next step was to carry out the semi-structured interviews, for data triangulation purpose.

5.4.2. Semi-structured Interviews

The semi-structured interview technique was selected as a complementary method to the secondary data collection approach for this study. As pointed out by Saunders *et al.* (2007), the combination of data collection techniques employed to triangulate multiple sources of data ensures that the data collected are relevant to producing the answer to the research question. Semi-structured interviews are instrumental in this explanatory study, in terms of their ability to draw out causal relationships between variables through the opportunities of prompting and inducing answers from interviewees to enhance understanding of the subject (Saunders *et al.*, 2007). Moreover, the scope of the information provided in these interviews was expected to be substantial, broad, considerably different and complex. Therefore, this semi-structured technique also facilitated a more systematic way to analyse information provided across informants.

Two general areas were approached, which were:

1. General views on the motives for M&A activities in the UK hotel industry, 1979 – 2004.
2. Specific insight into the deals closed amongst the four hotel companies between 1979 and 2004.

These areas provide additional insights about the development of the four companies, constructed from secondary data. Alternatively, these data might refute the constructed development of the four hotel companies, and further enhance the stories in terms of eliciting information that has not been mentioned in public sources (see Appendix G for interview questions which provide supporting reasons to using these two general areas).

The criteria for selecting interviewees were predicated on the basis of their ability to contribute to understanding of the motives for M&A activities in four UK hotel companies between 1979 and 2004. Respondents needed to have general knowledge of the UK hotel industry and its macro environment, as well as specific knowledge of M&A activities in the hotel industry during this period in study. They also needed to have direct and / or indirect working experience in the hotel industry, at the executive level and have contributed to investment decisions for their companies. Consequently, the non-probability sample selected was purposive, and these are critical cases being selected on their ability to provide clear insights into the M&A activities. The criteria ensures the robustness of this study by adding insights to the understanding of how and why hotel companies expanded by using M&A as a growth mechanism. In the situation of considering compatible data, industry analysts were selected as interviewees because they were seen as complementary sources to add insights and enrich the secondary data collected.

Six respondents were approached on their relevance as a critical sample for this study. According to Patton (2002, pp. 244), 'there is no rule for sample size in qualitative inquiry'. In the case of a critical sample, the number of samples is not as important as the selection of credible samples that provide rich information that fits in with the purpose of research within the available time frame and financial resources (Patton, 2002). Moreover, all six respondents had backgrounds in hotel operations, worked as analysts in the hotel industry, had been directly or indirectly involved in some of the M&A deals examined in this research, and all had market research background and affiliation in an academy setting (see Table 5.4). Therefore, they are considered credible respondents who can provide 'a great deal [of information] about matters of importance and therefore worthy of in-depth study' (Patton, 2002, pp. 242).

Table 5.4: Background of respondents

Respon-dents	Respondent's current position	Previous and current industry experience
Respondent 1	Academic	Financial Controller in international hotel companies, Academic in the UK university.
Respondent 2	Managing Director / Consultant	Managing Director of consultancy company, Hotel Analysts, Investment Banker, Academic in UK university.
Respondent 3	Managing Director / Consultant	Managing Director of an international hotel company, top executives of two international hotel companies, Visiting fellow in UK university, Consultant for hotel technology.
Respondent 4	Investment Banker	Middle management in international hotel companies, Investment Banker in Corporate Finance (Leisure), Research position in UK university.
Respondent 5	Managing Director / Consultant	Managing Director of a consultant company, Visiting fellow in UK university, Financial management positions in international hotel companies.
Respondent 6	Managing Director / Consultant	Managing Director of a consultancy company, Hotel Analyst, Visiting fellow of UK university, hotel executives of international hotel companies.

Access to the interviewees was obtained through four different channels. One was through introduction from a member of staff in Oxford Brookes University, the second was through electronic communications, the third was through snowballing, and the final means of access was direct contact, as access to one of the respondents was obtained during a book launch by a Professor at Oxford Brookes University's Department of Hospitality, Leisure and Tourism Management.

In view of ethical issues, all the respondents were sent a copy of a letter to request for an appointment and a participant information sheet via electronic mail (see Appendices H and I for a sample of the letter and participant information sheet respectively). Fortunately for the researcher, all the respondents were very prompt in their response and were flexible with their dates for interviews. Subsequent confirmation of meeting dates, time and venues were carried out by emails. On the day of the interview, the respondents were asked to confirm their consent to the interview including voice recording by signing a form before the interview started (see Appendix J).

According to Remenyi *et al.* (1998), it is important to test out any interview schedules before the fieldwork, so as to ensure reliability. This was carried out in three phases for this study. The first phase involved the supervising team who are familiar with the researcher's research question, and were thus able to help to navigate the interview questions towards achieving the aim and objectives of this study. The second phase involved the University Research Ethics Committee, who scrutinised these questions to ensure their relevance and quality pertaining to this study. The final phase was a practical session, where a pilot interview was conducted. The aim of the pilot interview was to test the interview content, structure and to evaluate if the questions were phased in a concise and understandable way.

During the actual interview process, two questions were asked (see Appendix G). Conversations were also recorded, in addition to note taking and subsequently transcribed. The transcripts are useful 'to analyse the results of interviews in a more methodological and complete manner than is possible with notes' (Veal, 1997, pp. 135). At the same time, note taking also plays the role as a backup for any loss of data in the case of technical malfunction in the recording process.

Table 5.5 reports the dates, time, venues and duration of interviews conducted. More importantly, it displays relevant incidents that took place during the interview process. These incidents might have affected the interview process, and have thus been highlighted. For example, although the interview with Respondent 3 was conducted at his office, the recording was not as clear because of the noise generated by the heater in the background. However, the problem with the background noise was rectified with assistance from the audio-visual team in the university who were able to make use of their editing equipment to eliminate the background noise in the recording, and to increase the volume of the respondents' voices.

Table 5.5: Interview and incidence

Respondent	Date and Time	Duration (minutes)	Venue	Incident
Respondent 1 Pilot	February 6th, 2006 (1000 – 1100)	45	Respondent's office	Nil.
Respondent 2	February 8th, 2006 (1030 – 1200)	90	Respondent's office	Interrupted by a phone call once.
Respondent 3	February 10th, 2006 (1030 – 1130)	60	Respondent's office	Room change: meeting room (double bookings) to respondent's office.
Respondent 4	March 3rd, 2006 (1100 - 1200)	60	Respondent's office	Nil.
Respondent 5	March 28th, 2006 (830 – 1000)	90	Coffee Lounge, Hotel Lobby	Background was noisy.
Respondent 6	April 6th, 2006 (845 – 1000)	75	Meeting Room	Nil.

There were also some interruptions during the interviews, such as telephone calls and room changes. The respondents were very professional and it was observed that their tone and manner were unchanged, and they were still very engaged with the topic before the interruptions. As for Respondent 5, despite the surrounding noise and the clanking of cups and saucers, as the venue was a hotel coffee lounge, he was able to engage in the conversation and provide a wealth of knowledge to this study.

After the interviews, a note of appreciation was sent by electronic mail to each respondent on the same day. The voice recordings were also transcribed and organised with the notes taken during the interviews immediately. Each recording was digitally recorded and it took approximately 8 to 12 hours to transcribe each interview; the transcriptions were later sent to respondents for verification. However, there was no change requested by the respondents.

The next stage was to analyse these transcripts which made use of the same variables from the theoretical framework. The same identification process utilised in the secondary data analysis is repeated. The findings were then compared and contrasted with secondary data (see Tables 6.3; 7.2; 8.2 and 9.2) to consolidate the findings (see Tables 6.5; 7.4; 8.4; 9.4). The next section explains how analysis was conducted for each case and for cross-case study.

5.4.3. Data analysis

The analysis of this thesis was predicated on four steps (Saunders *et al.*, 2007, pp. 479):

- Categorising;
- 'Unitising' data;
- Recognising relationships and developing the categories to facilitate this;
- Developing and testing theories to reach conclusions

The first step of categorising was completed before the data collection stage, namely, building the theoretical framework from M&A literature. The framework is categorised into two different concepts – organisational and macro environmental, and further classified into three underpinning assumptions of value maximising and non-value maximising motives on an organisational level, and industry shocks concepts on the macro environmental level. This categorising stage also included grouping of variables under each assumption. In this study, the word motives or variables are used, interchangeably, synonymous with the word 'categories' used in Saunders *et al.*'s (2007) third step of analysis.

The second step of unitising data involved the identifying of variables in secondary data and this was carried out during the write up to present four cases, which involved classifying relevant data according to the motives stated in the framework (see 5.4.1 (ii)). Data units are sentences and variables are attached to data units (see Table 5.6).

Table 5.6: Newspapers article extract with variables attached (Example: Bass bought Holiday Inns)

Variables	Newspapers article extract
Strategic fit: corporate strategy.	Bass, Britain's biggest brewer is paying £297 million for a chain of 178 Holiday Inns as part of a big expansion of its hotel interest.
Strategic fit: similar product, re-branding. Increase in size and market share	The deal gives Bass control of the Holiday Inns operation worldwide outside the United States, Canada and Mexico. Bass already owns 117 hotels in Britain and Europe – some of which will be changed over to Holiday Inns – and now becomes a large force in the business.
Non-managerial motive.	But Mr Ian Prosser, the managing direct of Bass insisted the acquisition was not intended to compensate for the failure to buy the Hilton hotel chain which was sold to Ladbroke for £645 million two weeks ago. "This deal is quite different and is a continuation of an arrangement we reached earlier this year with Holiday Corporation – the master company – when we acquired a group of eight Holiday Inns in Europe" he said.
Speed; increase in size.	The latest agreement, which will be completed in the first quarter of next year, involves the purchase of 13 hotels in the southern states of the US and the right to run 165 hotels around the world.

Source: Article adapted from Feltham (1987b)

The third step of recognising relationships and developing categories is conducted via the analysis of the four cases on a case-by-case basis. According to Yin (2003a), the better case studies are the ones that repeat the same analysing process and built up the explanations by looking for consistent and inconsistent theoretical propositions. In this study, the relationship between theory and data is first recognised by comparing motive(s) retrieved from secondary and interview data, and analysing them against the motives for M&A activities of one hotel company. For example, Whitbread bought Swallow hotels in 1999, which sped up its growth in terms of increasing its number of rooms and geographical locations (see 9.3). This purchase of Swallow by Whitbread was highlighted by Respondent 4 as 'quicker to buy [compared to building]'. This purchase was also linked to strategic fit which revealed a supplementary character between hotel locations for Whitbread and Swallow, as well as complementary features in physical products which enabled Whitbread to re-brand Swallow hotels into Marriott hotels quickly. This way of analysing each deal against theory was repeated for every single deal closed in the other three case companies (see 6.4; 7.3 and 8.3).

The next step was to integrate the context, in the form of industry and general shocks such as changes in the political and economic environment, takeover policies, industry specific legislations and technology, as well as deregulation of the financial sector and increased foreign competition (see 6.5; 7.4; 8.4 and 9.4). By using the same example (Whitbread – Swallow), it is observed that Whitbread bought Swallow based on environmental factors, external to the company, such as a lack of land for hotel development at good locations. Moreover, the hotel industry was a growing industry during the period of the purchase. Therefore, by repeating the same analysis process with the other M&A deals in each company, it was possible to scrutinise and identify the relationship between current literature and its variables or to identify and develop new variable(s). This constant comparison between theory and data, and the iterating process, also helped to improve accuracy and reliability in analysis and conclusions.

The final step of developing and testing theories to reach conclusions in this analysis is conducted by seeking patterns of similarities or differences across the four cases, in terms of current variables in the theoretical framework, as well as variable(s) newly discovered during the previous step of identifying the relationships between existing theory and data. In this thesis, a cross-case comparison dissects the four cases through the discussion of variable(s) that supported or did not support the literature. Variable(s) that disconfirm parts of the framework will be evaluated to provide alternative explanations. This step enhances the probability that the 'investigators will capture the novel findings which may exist in the data' (Eisenhardt, 1989, pp.541).

5.5. Validity, Reliability and Generalisability

According to Remenyi *et al.* (1998), the issues of validity, reliability and generalisability are the most important criteria used to evaluate research.
To reinforce the validity of this research, the researcher compared information drawn from secondary data to the interview transcripts, which had been sent back to respondents for verification to ensure accuracy. In addition, to avoid any invalid information, and to increase the reliability of this research, the same historical period had been delimited as the context for each case, to create a systematic comparative history inquiry. Moreover, macro environmental factors that were influential on companies' growth or decline are addressed.

The need for reliability means transparency is needed for this study, so as to withstand any scrutiny 'should doubts regarding the research ever be raised' (Remenyi *et al*, 1998, pp.116). Therefore, the research design, methods and implementation have been set out clearly in steps in this chapter, to provide the justification for this design, and enable others to investigate it.

The debate about generalisability in the case study approach lies in the limited scope of its design to provide for scientific generalisation (Yin, 2003a). In this thesis, the fact that scientific generalisation is not possible does not reduce the credibility of this research; rather it illuminates the relevance of the historical study of the development of these companies and the hotel industry. As mentioned previously, 'historical propositions are always contextual' (Leff, 1969, pp.78) and 'the transferred application to situations that are less comparable, either in place or time' (Thomson, 1969, pp. 75) could actually discredit the reliability and validity of this research.

By the same token, Yin (2003a, pp. 32) proposes that multiple-case studies are able to generalise theory or 'analytical generalisation'. The author also argued that a strong theory is imperative to interpret and differentiate the differences in the development between companies. In the same way, Remenyi *et al.* (1998) argued that generalisation can occur when the context of the research phenomenon in different cases is similar, such as the mix of social, political, cultural or economic circumstances. They also posited that similar studies may be undertaken and if these studies produce consistent findings which support an emerging theory, it may be granted some degree of general validity. In this study, the possibility of analytical generalisation will be enabled by identifying the theoretical framework, then comparing the variables in this framework across four companies, predicated on a similar historical context within the same period of investigation.

5.6. Research limitations

This section evaluates the limitations of the research and explains how these limitations are minimised in view of bias found in these sources.

(i) One of the limitations lies in a lack of archival documents. The initial plan was to use archival documents as the main data source, since this method has been rarely used in the study of the historical development of the UK hotel companies. The researcher visited the hospitality archives - Conrad N. Hilton Library & Archives - in Houston, USA in December 2004 to find out what kind of information is available for this particular study. The archive was established by a grant from the Hilton Foundation; thus the largest archival collection was documents of Hilton Hotels Corporation (HHC), the original owner of Hilton International. The hospitality archive holds a comprehensive collection of documents for the HHC and some information for other international hotel companies. However, there are not many archival documents to be found regarding Hilton International (HI) because the latter was spun off and operated as an independent public company in 1964, and was sold off to Trans World Airlines in 1967. Later, it was found that the four companies under study have no available archive material for analysis as a result of the active M&A activities within each company in the period of study. However, there is a huge amount of secondary data from public sources, such as company annual reports, newspapers and trade journals, which were available for use as alternative sources.

(ii) The other limitations were the availability of and access to companies' pioneers and executives, and timing. It was decided that the collection of oral histories from pioneers and executives who were directly involved with the M&A deals would add insight and enrich the findings and analysis of this research. However, the relevant pioneers were either not traceable, or they had left these companies on bad terms, which made it impossible to contact them through current executives. The other impediment was timing because three of the companies studied were going through a massive restructuring, and the executives were unavailable for interviews within the time frame set for this study. To avoid the collection of incompatible data, such as interviews with some relevant executives from one company and not the other, the decision was made to concentrate on the large amount of secondary data that are available and have hardly been used for extensive study. Moreover, criteria were set to identify respondents who would be able to provide insights into the general UK hotel industry and its macro environment, as well as specific knowledge of M&A activities in the hotel industry during the period under study, which serves as a strong support to validate the data collected. In addition, the discussion is supported by the analysis of companies' growth whilst subject to the same macro environmental influences.

(iii) The other data limitation linked to published reports is the belief that information produced in company annual reports does not reflect the actual situation of the company. For instance, the limitations of the balance sheets and profit and loss statements were designed only for shareholders and not for historians, but have been refined to inform shareholders and the public of what the management want to disseminate (Marriner, 1980; Mason, 1982; Parker, 1991). Although Singh (1971) suggested that accounting data retrieved from companies' annual reports are derived from different methods used by different companies to valuate assets, he also argued that accounting data are commonly used and discussed in the financial press and in the financial community in general, and thus provide a good indication of a company's current and past performance.

In the context of this study, it is argued that these limitations are of much less significance because the comparative studies were conducted between groups of companies in the same industry. Therefore, accounting conventions within the same industry for publicly quoted companies on the stock market are similar to some extent, and this should reduce differences when using their accounting data. Moreover, with more legislation imposed on the way companies reveal their financial status, data are becoming more reliable and comparable. For instance, the possibility of concealing profits and losses by manipulating the statements of subsidiary companies was eliminated by the Companies Act of 1948 (Parker, 1991). The first definitive standards for financial reporting were also developed in the UK by the Institute of Chartered Accountants in England and Wales' Accounting Standards Steering Committee in 1970 (Institute of Chartered Accountants in England and Wales, 2007). Moreover, creative accounting, which had been common in the UK in the 1980s, has also been largely restricted by the Companies Act of 1989 (Parker, 1991). Since, this study is based in the period 1979 to 2004, financial statements have been more controlled and standardised; thus the accuracy and comparability of these data is increased. Therefore, it makes sense to use these reports as an investigation tool with regards to a company's development.

(iv) One other data limitation rests in the use of published financial reports. It is acknowledged that there are limitations in these figures (Appendices L; M; N and O) as they are affected by restatement of financial data each year, attributable to adjustment for exchange rates, financial accounting presentation, change of business mix in a company, change in financial accounting period, and changes in the accounting legal system worldwide. For example, THF and Bass changed their financial reporting year end from September to December to align with most European and international companies' financial reporting period. Moreover, companies involving international businesses also adjusted their figures in subsequent years to reflect exchange rate changes. Thus, figures such as sales and profits generated from each division might not match the absolute total sales and profits. Despite these limitations, it is imperative to note that these tables (Appendices L; M; N and O) set out to provide a support to discussion of development of the case companies' hotel enterprises in general, and this limitation poses no threat to the understanding of this purpose.

For example, in the case of Whitbread, there were no breakdowns of sales and profit figures for the different business divisions available before 1983. Subsequently, hotels were categorised under the same business division as Retailing in 1983, Managed Retail Estate in 1990, and Restaurants and Leisure in

1992. However, the cases in question are Marriott, Swallow and Premier Lodge, which were acquired from 1996 onwards. The hotel division was established as an individual division in 1997, after the purchase of Marriott's brand rights.

Similarly, the establishment of an individual hotel division for Ladbroke from 1983 and Bass from 1990 reflected shifts in corporate strategy, to emphasise on developing hotel divisions. It might be argued that these shifts appear late compared to the period of their hotel development, which had started from the 1970s and 1960s respectively. However, it should also be noted that this delay has in fact illuminated the dynamics of the business environment as well as organisational capabilities in these companies in adjusting their business portfolio in response to opportunities and threats. For example, Ladbroke had started to balance four business portfolios from 1984, including its hotel division, thus the establishment of hotels as an individual division in 1984 still captures the basic purpose of providing a general view of hotel development in the company. In a similar vein, Bass shifted the hotel sector from its leisure division in 1987 and set up a Hotel and Restaurant division. Finally, Bass established hotel as a division of its own in 1990, which illuminated the intent of Bass' strategy in expanding its hotel division.

(v) The limitation of using newspaper data lies mainly in the selection bias arising from newspaper editors' biases as to what to report, and description bias because of errors in information reported (Earl *et al.*, 2004). Although these are bias problems for social studies, they could be argued as relevant to the general use of newspapers as a data source for research. However, in this thesis, these biases are minimised because of the nature of the study. For example, companies under study are publicly quoted and their M&A activities are generally reported extensively for major cases, or mentioned briefly, in quality newspapers. These reports target general readers, and particularly, shareholders and other interested parties. Thus, selective bias is minimised. Similarly, descriptive bias became insignificant in this study, because information extracted is straightforward, consisting of amount paid, names of buyers and sellers, and reasons for the transactions. Although reasons for the transactions could be considered to be differently cited in different newspapers, these differences and data were validated via triangulation of data against industry analysts' interviews and macro environmental factors. Complications in these deals might arise because of hostility in bidding processes, when several companies competed for the same bid, and / or monitoring bodies such as MMC, EU and the Takeover Panel were involved. However, these competitions generally increase the validity of information retrieved, as more information regarding such deals has to be revealed to the public. In addition, newspaper reports regarding companies' M&A activities are limited in their bias because facts such as company financial performance and share prices cannot be made up, but are being monitored constantly by shareholders, financial institutions and the City analysts.

5.7. Summary

In this study, the research question requires the investigation of the causal relations between companies' growth strategies and macro environmental factors to understand how the hotel industry emerged as big business in the UK via the study of M&A activity. The research philosophy for this thesis, which is based on critical realism, acknowledges the co-existence of natural and social science in social phenomena. The strength of the explanatory approach lies in its ability to develop M&A theory as an area that has been widely studied, but not in the specific context of the historical development of UK hotel companies. Comparative historical analysis which emphasises the importance of multi-level study in a business context, in conjunction with the qualitative and longitudinal approaches, is considered useful in understanding the development of four hotel companies, through looking at a few samples in depth and adding breath via a longer time frame being set for the study. The multiple-case study is used as it is able to cover complex social phenomena and contextual conditions; thus this research design is appropriate for achieving the aim of this study.

Data collection and analysis were predicated on a theoretical framework established by two concepts – Organisational motives and macro environmental factors. . Under the former, the underpinning assumptions included value maximising motives (economies of scale and scope, market power, speed, strategic fit) and non-value maximising motives (growth of sales and profits and managerial welfare). The latter is linked to industry shocks concept, relating to economic and political issues, deregulations, the UK takeover policies, foreign competition and technological advancement. The four companies - THF, Bass, Ladbroke and Whitbread - selected are regarded as purposeful sample and are pertinent to this study in terms of their historical growth which will provide insights and answers to the research question. Secondary data, which has not been used extensively in previous research related to the historical development of hotel companies, were adopted to construct the development of the four hotel companies. In addition, semi-structured interviews were used to complement the research method. The triangulation of different sources is used for checking the validity and reliability of these data, and the generalisability of data is discussed. Finally, research limitations in terms of research method and secondary data were addressed.

The next four chapters are made up of four individual case studies: THF, Ladbroke, Bass and Whitbread. The findings of each case are presented and analysed to identify and build up explanations for the development of each company, prior to explaining the emergence of big business in the UK hotel companies.

Chapter 6:
Forte Group plc (THF)

This chapter explores the development of Forte Group plc. The first part provides a brief overview of how this company was conceived. The term 'THF' is used throughout this discussion, including the period after its name change from Trust House Forte plc to Forte Group plc in 1991. The second part narrates the major M&A activities that THF undertook between the 1980s and 1996. Table 6.1 presents the major deals that THF closed between 1981 and 1994.

Table 6.1: Major merger and acquisition activities, 1981-1994

	THF/ Forte
1981	Savoy
1986	Anchor Hotels
1988	Kennedy Brookes
1990	Crest Hotels
1994	Le Meridien

Source: THF annual reports, various newspapers and trade journals

The third part reviews the hostile takeover of THF by Granada Group plc. The fourth part compares and contrasts the motives for each deal by using data collected from both secondary and primary sources. The final part discusses the general development of THF's hotel division in the context of corporate strategy changes and the macro environment.

6.1. The beginning of Forte Group plc

Trust House Forte was formed in 1970 by the merger of Trust Houses Group and Forte Holdings Ltd. Trust Houses Group was founded in 1903 by the Hertfordshire Public House Trust Company Ltd and became Trust House Ltd. in 1919, formed by the fourth Earl Grey (Ashworth, 1991; Monopolies and Mergers Commission, 1987). The new company grew through the merger of Hertfordshire, Essex and Middlesex Trusts and continued to develop its accommodation in the one- and three-star market levels (Simmons, 1994). By 1970 it owned and operated almost

200 hotels throughout the UK and overseas (Monopolies and Mergers Commission 1987).

Forte Holdings Ltd was founded by Lord Charles Forte (Forte Sr.) in 1935. The business started as a milk bar in London's West End, through Strand Milk Bar Ltd; the concept developed into a range of popular and high quality restaurants and banqueting facilities (Monopolies and Mergers Commission, 1987). Forte Sr. acquired the Cafe Royal in 1954 and in the next year, he won catering contracts at several UK airports, including Heathrow, Gatwick, Manchester, Glasgow and Birmingham (Monopolies and Mergers Commission, 1987; The Times, 1996). In 1960, Forte Sr. opened Britain's first motorway service station on the newly built M1 at Newport Pagnell, and floated the company on the London Stock Exchange (The Times, 1996). The City of London catering company, Ring and Brymer, was acquired in 1962 and in 1969 Forte Sr. bought the Criterion site in Piccadilly Circus. The latter acquisition saw Forte Sr. diversifying into retail (Lillywhites) and theatre (Criterion) (Monopolies and Mergers Commission, 1987).

In the hotel business sector, Forte Sr. purchased his first hotel, London's Waldorf, in 1958. In 1969, the Post House hotel group was established at a three-star market level targeting travelling salesmen (Clark, 2001b). Subsequently, the company began a string of international hotel acquisitions. These purchases included the three five-star hotels in Paris, namely the George V, the Plaza Atthenee and the Tremoille (Stewart, 1996). By 1970, THF owned and ran 28 hotels in the United Kingdom and Ireland plus another 15 overseas (Monopolies and Mergers Commission, 1987).

After the merger with Trust Houses Group Ltd in 1970, THF expanded its hotel division mainly through the acquisition of existing hotels and remained the leading hotel group in the UK. Major M&A activities included Travelodge International Inc. which operated an estimated 450 motels and hotels throughout America in 1973 (Caterer and Hotelkeeper, 1978b; Monopolies and Mergers Commission, 1987), and 35 hotels from J. Lyons & Co Ltd in 1977 (Caterer and Hotelkeeper, 1978b). The latter deal cost THF £27 million in cash, but included several major London hotels such as the Cumberland and Strand Palace. In 1978, within a period of seven years since the merger with Trust Houses, THF owned 885 hotels worldwide (Caterer and Hotelkeeper, 1978b; The Times, 1996).

6.2. Hotel expansion – major M&A activities

THF expanded its hotel business between 1979 and 1996 via several methods. The most notable was the use of M&A, which helped the Group to increase its size. The hostile bid to gain control of the most prestigious hotel group in the UK - The Savoy (6.2.1) - spanned more than a decade. The Hanson Trust (6.2.2) deal strengthened THF's three-star market hotel business, as well as its motorway and catering services. This deal also brought THF into the limelight because of an investigation into potential monopoly by the OFT and the MMC. The subsequent acquisition of Kennedy Brookes (6.2.3) continued to increase THF's hotel stock and allowed it to acquire a new product - Heritage Hotels. The purchase of Crest Hotels (6.2.4) increased THF's market share in the three-star market segment and extended its geographical presence. The bid for the Le Meridien Hotel group (6.2.5) increased its range of five-star products, but also attracted the attention of the French government and the European Commission. The last major M&A deal was a reversal of this role, whereby THF was taken over by the Granada Group. It was considered the deal of the decade in the hospitality industry, in terms of size (number of hotel units acquired) and the value of the deal (the amount offered in the bid). Each of these major deals will be discussed in the following sub-sections.

6.2.1. The Savoy

The Savoy Group (The Savoy) comprised The Savoy, Claridges, The Connaught and The Berkeley hotels (Skapinker, 1994b; Stewart, 1991). The Group had a reputation and tradition in "preserving intact a great British institution of international fame, a bastion of style and excellence" (Hyam, 1989, pp. 36). Thus, there was a significant degree of prestige in possessing and operating the hotels in The Savoy. In the past, well-known entrepreneurs such as Harold Samuel, Nigel Broackes, Jacob Rothschild, Conrad Hilton and Max Joseph had also attempted to buy The Savoy but failed (Fallon, 1992; Hyam, 1989).

The Savoy was able to maintain its independence through its two-tier share structure created in 1953. With the help of stockbrokers Cazenove & Co, the two-tier share consisted of "B" shares, which had 10 votes per share, while holders of the equity, "A" shares, had only one vote each (Faith, 1994). The other reason for The Savoy to remain independent was the staunch support for independence from the chairman, Sir Hugh Wontner (Wontner) and the managing director, Sir Giles Shepard (Shepard). Wontner created the two-tier share structure in defence against an attempt by two property tycoons, Harold Samuel and Charles Clore, to take over The Savoy (Faith, 1994). Shepard was known for fighting off THF's hostile bid between 1980 and 1994.

In March 1981, Forte Sr. launched the bid for The Savoy after the profitability of the latter was severely diminished due to the recession of 1979 – 1981 (Vaughan, 1981a). The Savoy rejected THF's £54 million bid and deemed the offer as 'wholly unwelcome and totally unacceptable' (Vaughan, 1981a, pp. 1c). The directors of The Savoy sent letters to its shareholders to state their stand and indicated that THF was trying to buy up the "A" shares as a way to transfer the control of The Savoy to THF at a low price (Caterer and Hotelkeeper, 1981b; Financial Times, 1981b). During that period, the directors and associates of The Savoy were controlling up to 45% of the votes through a large holding of the "B" shares (Financial Times, 1981b).

Despite the initial rejection of its offer, THF continued to work with its City merchant bankers S.G. Warburg & Co Ltd to try and buy as many "A" shares as possible in order to increase its voting rights (Caterer and Hotelkeeper, 1981b; Fisher, 1981). THF was hoping to gain control of The Savoy through its "A" shares, which had lower voting power, but still controlled 51.5% of the votes of the whole group. THF's attempt included an application to the court to obtain approval for an arrangement under the Companies Act, Section 206, to call for separate meetings of the "A" and "B" shareholders of The Savoy to vote on the bid (Caterer and Hotelkeeper, 1981c; 1981d; Fisher, 1981). However, after four days of legal argument in private, the court ruled in favour of The Savoy, stating that 'the court has no legal power to sanction an arrangement without the consent of the company [The Savoy Group]' (Vaughan, 1981a, pp. 1c).

THF's threat of takeover became a wake-up call for The Savoy management. The Savoy re-organised its financial position by selling parts of the buildings – consisting of the apartments – connected to The Savoy hotel for approximately £8 million to reduce its debt (Caterer and Hotelkeeper, 1981e; Financial Times, 1981a). However this plan in turn drove THF to launch a second bid of £67.2 million (Caterer and Hotelkeeper, 1981e; Vaughan, 1981b).

THF took the opportunity created by the building sale to highlight the incompetence of The Savoy's management. Lord G. H. Thorneycroft (Thorneycroft), THF's chairman, urged The Savoy's shareholders to accept THF's offer, as he claimed that this sale indicated the incompetence of The Savoy's management and stood as a threat to its long-term business opportunities (Caterer and Hotelkeeper, 1981f). However, THF faced strong resistance from The Savoy management and shareholders again, and, in anticipation of a second defeat, THF applied for a week's extension under the Takeover Code at the beginning of June 1981 (Caterer and Hotelkeeper, 1981g). Under the Takeover Code rules, THF was not allowed to bid for The Savoy for the next 12 months if the offer was rejected. In addition to that regulation, THF was also permitted to buy only two more percent of The Savoy shares during the next 12 months (Caterer and Hotelkeeper, 1981h; Moir, 1981). During that one-week extension, THF took the opportunity to acquire as many shares as possible, intending to build up its base before the next bid (Moir, 1981). These shares included a 34% stake from Kuwait Investment Office (KIO) for £19 million (Caterer and Hotelkeeper, 1981a; 1981h; Wilson-Smith, 1981) and a further 420,000 "A" shares in the market (Moir, 1981). According to The Savoy, THF bought 38.92% of "A" shares and 8.85% of "B" shares during that week and accumulated a total of 63.11% of the "A" votes and 12.55% of the "B" votes (Financial Times, 1981c). At the end of the bid in 1981, THF owned 65% of The Savoy equity, which represented 42% of the total votes (AR / THF, 1981). In the year 1981, THF spent an aggregate of £37.7 million in acquiring The Savoy shares.

Forte Sr. did not give up his quest for The Savoy's shares despite the second defeat. He continued to pursue control of The Savoy through two resolutions proposed to The Savoy's shareholders. The first was to increase the number of directors on The Savoy's board, from 11 to 12 and the second was for Eric Hartwell, THF's chief executive, to be elected to The Savoy board as a non-executive director (Moore, 1982; Leonard, 1989). However, both the resolutions were rejected after the majority of The Savoy's shareholders voted against the motions during the annual meeting (Moore, 1982). In 1983, THF spent a further £3 million to purchase 1,137,500 more shares and increased its holding of non-voting "A" shares in The Savoy from 65% to 69% and the voting rights to 42.3% (AR / THF, 1983; Caterer and Hotelkeeper, 1983c; Fleet, 1983). In June 1987, with the support of KIO, a number of private individuals and institutions, THF managed to buy over more shares and to increase its control to 72% of The Savoy equity, but still only 42.3% of the votes (AR / THF, 1988; David, 1989).

THF's struggles to acquire The Savoy were deemed to be 'more about vanity and establishment acceptance' (Brummer, 1994, p. NOPGCIT). In 1989, the fees paid for the legal battle proved too much for both companies, and a peace agreement was signed (Stewart, 1991). The agreement specified that THF would not increase its stake for the next five years and would give one year's notice before launching any takeover bid (Leonard, 1989; Skapinker, 1994b). In exchange for an agreement, Forte Sr.'s son, Sir Rocco Forte (Forte Jr.) and THF's Finance Director, Donald Main, were given seats on The Savoy board (Faith, 1994). That was considered to be another step for THF towards gaining some control of The Savoy.

In 1992, THF missed an opportunity to purchase more of The Savoy shares when Wontner, the staunchest defender of The Savoy's independence, passed away (Fallon, 1992). He had been the longest serving president of The Savoy and was well known for defending its independence over the years. The Savoy shares leapt as the market predicted some intense competition for the acquisitions by companies including THF. However, THF could not move in on the shares because of the five-year abstinence agreement. Moreover, the economy and industry were hit by recession at that time, which curtailed THF's ambitions and plans to expand further as a branded international hotel group (Fallon, 1992).

In early 1993, THF missed out on another opportunity to purchase some of The Savoy's shares. A 4.3% stake in The Savoy's share went on sale when the property company St Anselm Development went into receivership under the control of Cork Gully management (Springett, 1993; The Times, 1993). Forte Jr., who had taken over Forte Sr.'s chief executive position in 1993, commented that THF would not buy it as they were still in a standstill agreement with The Savoy (Springett, 1993). However, THF's major opportunity to gain control of The Savoy group arrived in 1994 because of the combination of The Savoy's deteriorating profits and a law change in Switzerland.

Firstly, The Savoy's declining share prices threatened the job stability of Shepard because the group's financial result in 1992 showed a loss of £1.4 million and only gained £725,000 from sales of £83.3 million in 1993. Moreover, the dividend was halved in the same year (Faith, 1994; Stevenson, 1994). In addition, Shepard was involved in an argument with the rest of The Savoy board after he produced an anti-Forte dossier and then accused Sir Michael Richardson (Richardson), a non-executive director, of leaking confidential corporate information to the press. He also authorised a press release condemning the leak but had to retract the statement after the board rallied round Richardson. Following the dispute, he was asked to resign from The Savoy (Shepherd, 1994a; Stevenson, 1994).

Secondly, a new Swiss law required corporate trustees to maximise income and financial returns of assets for beneficiaries (Cusick, 1994). Forte Jr. argued that The Savoy's poor financial performance, including a 50% cut in the dividend in 1993, should force the trustees to look at ways of improving its profitability (Bennett, 1994). The bad financial performance provided John Sinclair, who presided over three Savoy trusts and controlled more than 30% of the votes, the opportunity to argue for steps to be taken to maximise income (Faith, 1994; Shepherd, 1994a). Although the departure of Shepard opened up the opportunity to acquire The Savoy, THF could not afford to pay for the acquisition because their businesses were badly affected by the recession during that period. On the other hand, following the law change, THF was able to gain some control of The Savoy without having to pay for more shares (Cusick, 1994; Skapinker, 1994b). During the re-structuring of The Savoy board of directors in 1994, Forte Jr. was selected as one of the three important people in the Chairman's Committee, newly formed to work closely with The Savoy's new managing director (Shepherd, 1994a). After more than a decade of battle for the control of The Savoy, THF finally achieved another step closer to more control, this time without any financial commitment.

6.2.2. Hanson Trust

One of the major deals for THF in 1986 was the acquisition of Hanson Hotel and Catering from the Hanson Trust, which cost THF £190 million. The deal comprised five Welcome Break motor service areas, 30 Anchor hotels, 64 Happy Eater roadside restaurants and 69 restaurants known as Imperial Inns (Pring, 1986b). It was considered by the City as Forte Jr.'s first triumph after taking over the chief executive position in March 1983 (Pring, 1986b). The Anchor Hotels were relatively small and were mainly located in the centre of towns or villages rather than on the outskirts (Voss, 1979). They were fairly well distributed between the north and south of England (Slattery and Roper, 1986/87), therefore the Anchor group of hotels provided THF with strategic geographical extension in the UK.

The deal also increased the size of THF's market share in the motorway service and roadside catering businesses. In October 1985, THF had opened its first roadside catering business - Little Chef Lodge – which was a new concept in overnight accommodation that offered low-cost accommodation, and was categorised between the budget and two-star range (AR / THF, 1985; McDermid, 1985). The new market that THF was targeting was people who had never used hotels before and those who were trading up from rooms situated above pubs (McDermid, 1985). The concept was initiated by customers requesting accommodation at roadside restaurants. THF took up the opportunity and capitalised on its Group's existing resources - existing car parking space and hotel management capabilities - to construct low-cost accommodation (Trollope, 1985a). In addition, THF had started establishing its budget brand – Travelodge - mainly on major 'A' road and trunk roads all around the UK, and Happy Eater restaurant chain, owned by Hanson Trust, were located beside these roads (Trollope, 1986e).

Before settling into THF's hands, the Hanson Trust deal had changed hands three times within a short span of six months. In April 1986, Hanson Trust won the bid to purchase Imperial Inns (Caterer and Hotelkeeper, 1986c). After the acquisition, Hanson Trust decided to re-organise its assets and formed Hanson Hotel and Catering, which comprised Happy Eater, Welcome Break, Anchor Hotels and Imperial Inns (Caterer and Hotelkeeper, 1986g). The news of the sale of Hanson Hotel and Catering attracted a number of speculative bidders such as THF, Scottish & Newcastle (S&N), Ladbroke and Elders IXL (Pring, 1986b). It was commented by industry analysts that THF emerged as the winner because it was already a big client of Imperial products (food and catering) and the Imperial subsidiaries within Hanson Trust might suffer if the deal were to go to a rival brewing or foods group (Jay, 1986).

It was anticipated that the Hanson Hotels and Catering deal might be referred to the MMC for approval because the former was already the largest motorway service operator (Harris, 1986), but the roadside catering businesses were referred instead (AR / THF, 1986; Bell, 1986; Tait, 1986). During that period, the combination of THF's 10 motorway service stations and Hanson Trust's five would have made up more than 37% of the market share in the UK, because there was a total of 40 in the UK (Caterer and Hotelkeeper, 1986k; Jay, 1986). However, the roadside catering business was referred instead, because the 220 Little Chef outlets that THF owned were already dominating the market (Trollope, 1986e), and the addition of 76 Happy Eaters, included in the deal, caused concern to Paul Channon, the Trade Minister (AR / THF, 1986; Bell, 1986; Trollope, 1986c). The OFT was also worried about fair competition, and wanted an investigation to study the effects of competition in the roadside-restaurant market – especially on trunk roads between towns (Trollope, 1986e). Fortunately for THF, it received the go-ahead as the MMC did not believe that the merger of Little Chef and Happy Eater would pose a threat to the public interest (Caterer and Hotelkeeper, 1987b). Moreover, they believed that THF would still face competition since the catering market was one of the cheapest and easiest to enter (Caterer and Hotelkeeper, 1987b; Fallon, 1986).

6.2.3. Kennedy Brookes

In 1988, Kennedy Brookes (KB) became the next major target of acquisition for THF. It cost THF £174 million, including a £1 million debt (Feltham, 1988; Waller, 1989). The KB deal included 27 hotels (1,800 rooms) and 80 restaurants (Feltham, 1988; Hotel Companies in the UK, 1991; Trollope, 1988). Similar to The Savoy acquisition, this deal also met some resistance from the target company, although this was not as strong as that experienced in the case of The Savoy. The founder and chairman of KB, Michael Golder, initially refused THF's offer because he wanted the company to remain independent (Feltham, 1988). However, THF managed to rally around KB's major shareholders and won the bid through the support of the Barclay brothers, who owned a 12% stake, and the rest of the KB board (Feltham, 1988).

KB's hotels (Heritage Hotels) were originally established in 1985 by the Goldsmiths Group (Goldsmith) - a Leicester-based company, which operated a chain of 97 retail jewellers and 44 insurance offices. Goldsmith started its hotel business by acquiring six Heritage Hotels from Saga Holidays - an international tour operator - in August 1985 for £3.9 million (Caterer and Hotelkeeper, 1987d). A year later, Goldsmith was attracted to the locations of seven Prince of Wales Hotels and paid £12.75 million to expand its Heritage Hotels group (Caterer and Hotelkeeper, 1986h; 1987d). However, in early 1987, Goldsmith was taken over by Oriflame - an international jewellery and cosmetic group - and was instructed to sell the 11-strong Heritage Hotels group (Caterer and Hotelkeeper, 1987a). The Heritage Hotels were sold to KB for £35 million and were upgraded and re-branded under the KB brand (Cambell, 1987).

KB's Heritage Hotels was a collection of three- and four-star standard, including unique properties set in historic cities, and they were absorbed into THF's hotel division to increase its geographical presence in the UK and diversify its hotel portfolio (Caterer and Hotelkeeper, 1987a; Compass, 2001a; Trollope, 1988). In this deal, THF also strengthened its catering business via the gain of a brand name for its catering business, since the Brookes brand was deemed to possess a strong name in the catering sector. In addition, KB's Privilege Charge card and

KB's central restaurant reservations system were integrated into THF's business to enhance its operation system (Trollope, 1988).

6.2.4. Crest Hotels

In May 1990, THF acquired 43 Crest Hotels from Bass Hotels and Resorts (Bass) for £300 million funded through a sale and leaseback arrangement (AR / THF, 1991; Churchchill, 1990; Harris, 1990). Crest Hotels in the UK were located in key towns from the South-West to the North-East and there was little overlap with the Post House group whilst the Continental Crest Hotels were located in major cities (Harris, 1990).

These hotels targeted business travellers who were using three-star hotels and they therefore complemented THF's existing 39-strong Post House group, which operated in the same target market (Churchill, 1990; Harris, 1990; Slattery and Johnson, 1990). According to Forte Jr., the properties under Crest Hotels were in good condition and were well-managed (Harris, 1990). With the acquisition of Crest Hotels, THF added another 4,753 rooms to its portfolio. This was an increase of approximately 6% in its share of the three-star market segment and further consolidated its position as the largest operator in the UK market (Harris, 1990; Hotel Companies in the UK, 1991). This deal also helped THF to increase its number of roadside restaurants and budget hotels (Seargeant, 1990). The sites of 17 Kelly's Kitchen and several greenfield sites included in the purchase had enough space for THF to expand its budget hotel group - Travelodge (Seargeant, 1990).

6.2.5. Le Meridien Hotels

The Meridien Hotels Group (Le Meridien) was established in 1972 by Air France, the national carrier of France and had expanded to run and operate 45 hotels worldwide by 1982 (Caterer and Hotelkeeper, 1983b; Christie, 1994b). In 1992, Air France faced a financial crisis whereby the Group was incurring a loss of FFr 3.27 billion and, in 1993, a further loss of FFr 8.48 billion (£1 billion), because of steep competition and a strike that cost FFr1.3 billion in lost revenue (Milner, 1994). Air France tried to secure a FFr 20 billion (£2.4 billion) recapitalisation package from the French government in 1994. However, this would only be approved by the EC on the condition that Air France sell off its 57.3% stake in Le Meridien to the highest bidder (Christie, 1994b).

In 1994, Le Meridien had already established 58 hotel units worldwide, which was attractive to many potential buyers (Caterer and Hotelkeeper, 1987g). According to analysts, Le Meridien Hotels would give any American hotel company a foothold in Europe. For hotel groups from Asia, for example Mandarin Oriental, Le Meridien would increase the Group's exposure in major cities – such as London, Paris and New York (Caterer and Hotelkeeper, 1987g). THF, Accor S A (French hotel group; hereafter known as Accor) and Kempinkski (German hotel group) bid for a 40% controlling stake in Le Meridian while Air France would retain a percentage to promote client crossover (Christie, 1994a). At the end of the first bid, Kempinski AG was eliminated by the board on the basis of bidding price (Ridding and Skapinker, 1994a).

The decision as to which group – THF or Accor - would emerge as the buyer of Le Meridien was first expected on April 28 1994. However, the decision was delayed after Accor lobbied the French Prime Minister Edouard Balladur to intervene (Ridding and Skapinker, 1994c). The rival bids between Accor of France and THF were referred to France's Privatisation Commission, which advised the French government on privatisation issues (Ridding, 1994a; Ridding and Skapinker, 1994b). Although the political pressure on Air France from the French government posed a challenge to THF's take-over bid of Le Meridien, THF also had an unexpected ally, the EC. Since the EC was in favour of Air France granting the sale of Le Meridien to the highest bidder, it kept a close watch to ensure that Air France did not close the deal with Accor for political reasons (Bruce, 1994). The EC had also stepped in to warn the French government against any political influences on the sale (Skapinker, 1994a).

In late July 1994, Accor and THF were given new financial information about Le Meridien in order to re-submit their bids by August 23rd because of the delay mentioned above (Brasier, 1994; Christie and Milner, 1994). In addition to the expiration of the first bidding deadline, there was news of a net loss of FFr29.7 million (£3.502 million) in Le Meridien for 1993, compared with a profit of FFr112 million for 1992 (Ridding, 1994b). Despite the disappointing financial performance, the bidders were not discouraged as evidenced by an increase of FFr100 million in both their new offer prices (Ridding and Skapinker, 1994c). The initial bid was FFr 1.8 billion from THF and FFr 1.6 billion from Accor. The final bids were FFr1.9 billion from the former and FFr1.7 billion from the latter (Ridding and Skapinker, 1994c).

The final result saw THF emerging as the winner and it acquired Le Meridien for a cash payment of FFr 1.9 billion (£230 million) (Christie, 1994c). According to Christian Blanc, chairman of Air France, THF's offer was accepted because of financial considerations. THF had also committed itself to maintaining the standard of the hotels in Le Meridien, to assuring its development and to keeping its headquarters in Paris (Ridding and Skapinker, 1994d). Forte Jr. commented that the deal was a crucial step for the company to embark upon being a major player in the international luxury hotel market. According to him, Le Meridien hotel group comprised mainly management contracts; thus the deal also allowed THF to move upmarket without investing heavily in bricks and mortar and reduced THF's exposure to the volatile property climate (Ridding and Skapinker, 1994d). The addition of the 54-strong Le Meridien increased THF's number of international five-star hotels to more than 100 establishments (Skapinker, 1994c; Tate, 1994). Moreover, Le Meridien took THF into the Far East and South America for the first time, and strengthened THF's presence in the US and the Middle East (Marckus, 1994; Shepherd, 1994b; Tate, 1994).

6.3. The end of Forte Empire - the reverse takeover

Granada Group plc (Granada), the TV and leisure group, bid for THF in November 1995 and took over the Group in January 1996. According to Granada's chairman, Gerry Robinson (Robinson), he first mentally targeted THF in 1987 because he doubted possibilities of success for the group, with the transition from the founding generation of THF's empire to the next (From Forte Sr. to Forte Jr.) (Daneshkhu and Snoddy, 1995). However, in their interviews with the British

Broadcasting Corporation in 1999, Robinson and Charles Allen (Allen), Granada's chief executive commented that they first spoke about acquiring THF "casually" in 1992 (British Broadcasting Corporation, 1999). The conversation about acquiring THF happened after they received no reply from THF regarding the Gardner Merchant sale, which they had expressed interest in. According to Robinson 'We, the most likely buyer had been excluded'. This casual conversation led to a secret operation, which involved investigating the performance and management of THF. In addition to despatching their 'men' to THF's establishments, Robinson also visited at least two-dozen Little Chef outlets personally (British Broadcasting Corporation, 1999). On 22 November 1995, they announced their intention to take over THF (British Broadcasting Corporation, 1999; Daneshkhu, 1995b).

As part of its defence, THF raised funds through its sale of assets, which included the catering supplier Puritan Maid for £7.5 million; Lillywhites for £28.5 million and the US Travelodge chain for £114 million (Daneshkhu, 1995c; 1995d; King, 1996a). THF also raised its full year profits forecast by another £5 million and published the revaluation of the hotels portfolio at £3.35 billion, an extra £355 million (King, 1996a; The Guardian, 1995), although they had reduced its property value by almost £500 million in the last valuation, in January 1994 (Daneshkhu, 1995a). At the same time, THF also switched its revaluing policy from three years to a five-year rolling basis, with one-fifth of the properties re-valued each year (Daneshkhu, 1995a). THF decided to commission the revaluation because this was the crucial part of its defence argument to back up its claim that Granada's bid had undervalued its assets and prospects (Daneshkhu, 1995a).

In its defence, THF also appealed to the Takeover Panel for Granada to provide a detailed breakdown of the cost savings of £100 million, a figure that Granada claimed was achievable for the first full year after acquisition (Daneshkhu, 1995d; Financial Times, 1995a). However, this appeal was turned down by the Takeover Panel who commented that Granada had acted within its rules in stating it could improve THF's profits by £100 million (Daneshkhu, 1995d).

In its other defensive attempt, THF claimed to be able to deliver 'greater shareholder value' and urged its shareholders to reject the bid because 'Granada was trying to buy the company on the cheap' (Daneshkhu, 1995b, pp. 5). THF argued that its company had concentrated on re-structuring and focusing on its hotel and restaurant businesses, and had raised £950 million from disposing of non-core assets in the past two years (Daneshkhu, 1995b). They also pointed out that the hotel industry had entered a strong profit growth period and the industry was expected to continue to grow for the next few years, according to a report made by the hotel consultant Pannell Kerr Forster (PKF). On the other hand, Granada also claimed to be able to improve shareholder value by highlighting THF's poor returns, which the former could improve by cost-cutting, exploiting brand potential and implementing more skilful purchasing. Both groups also had different views in terms of THF's future development. Granada wanted to keep THF's motorway hotels and mid-market hotel group whilst THF wanted to sell off its budget hotels and restaurants to concentrate on its upmarket (five-star and above) hotels (Donovan, 1996).

Meanwhile, THF continued to attack Granada by claiming that the Granada group was an unfocused collection of unrelated businesses and that Granada's bid would leave the company with £3.6 billion in debt (The Guardian, 1995). In addition, the deal would expose its 'unrelated' businesses to unacceptable risk at a time of declining market share and increasing competition. Granada retaliated with the claim that its strong cash flow would be sufficient to cover interest repayments four times better than THF had managed in recent years despite the high debts associated with this takeover (The Guardian, 1995, pp. 2). Simultaneously, Granada cleared a further obstacle by securing an agreement to buy the trust shares of the Council of Forte for £150 million. This Council was a group of trustees charged with safeguarding the company, owning less than 1% of THF's shares but controlling 50% of the voting rights, which was enough to block a hostile bid (New York Times, 1996a).

In the final defence document, THF confirmed its proposal to sell its restaurants business and the Travelodge group of budget hotels to Whitbread for more than £1 billion if the hostile bid failed (Financial Times, 1995b). The proceeds was meant to reduce the high gearing and constraints on expenditure for refurbishment and expansion. In addition, THF announced a new estimated valuation of its hotels at about £3.1 billion, excluding THF's 68% stake in the Savoy group and an increase in its dividend, which was cut from 9.91p to 7.5p for the year to January 31st 1993; it was last raised in 1989 (Daneshkhu and Price, 1995). Forte Jr. promised shareholders a 20% rise in dividend per year over the next three years and an unexpected £800 million share buy-back plan (Donovan, 1996; Forte, 1996; King, 1996a). He pledged to distribute its 68% Savoy Hotel stake to shareholders, and committed the company to 'aggressive' expansion of its Le Meridien and Post House group of hotels (Forte, 1996, pp. 38; King, 1996a). However, Robinson was sceptical about Forte Jr.'s defence argument (King, 1996a). He commented that THF's aim to make dividends grow while achieving a practical level of dividend cover required profits to double in three years. Forte Jr. finally announced that he could split his job of chairman and chief executive. He commented that the decision was 'appropriate and timely' given his company's plans to focus on its hotel business in the wake of Granada's £3.8 billion hostile bid (King, 1996b).

After the final defence were presented, it appeared that Granada had more supporters. According to one dealer: 'hundreds' of private shareholdings had sold in the market, typically in parcels of between 1,000 and 3,000 shares at a time (King, 1996c, pp. 15). Several institutions had also traded in large volumes. Among those selling THF's shares was Capital Corporation - which at the outset of the bid was THF's second biggest institutional shareholder. Capital Corporation sold almost all its stake, constituting a substantial parcel, to Granada's merchant bank advisers (Buckingham and King 1996). The proposal was also considered a 'tall order' because THF management had not been able to deliver profits, earnings and dividends in the past (King, 1996a, pp.14).

After a bitter battle, Granada won the bid and took over THF for £3.9 billion (King, 1996d). Granada claimed that its bid had been accepted by THF's shareholders, representing 60.89% or about 591 million shares (New York Times, 1996b). These shares included one of THF's biggest shareholders, Mercury Asset Management (MAM), which had decided to support Granada by committing its 14.4% stake in THF to Granada (King, 1996c). Some fund managers who had witnessed Forte Jr.'s final presentation commented that they were unconvinced by

THF although the Group had done a lot to improve its image in the City during the defensive battle (Buckingham and King, 1996). They accepted Granada's offer because they were sceptical of THF management's ability to generate sufficient profits even after weighing the proposals laid out by THF (New York Times, 1996b). 'We supported Granada', said Graham Wood, a fund manager at the British insurer Standard Life. 'I found that Granada's management could produce better returns on the assets than Forte's could' (New York Times, 1996b, pp. D18). Other analysts argued that Forte Jr. and family were late in seeking to release shareholder value, leading to Granada's management gaining more credibility from the City than Forte Jr. (Buckingham and King, 1996). The separation of Forte Jr.'s dual roles as chairman and chief executive was also considered a late move to gain shareholders' confident (Brummer, 1996).

Aftermath: Break up of THF assets

In the first meeting with Granada after THF lost to the former, Forte Jr. offered Granada £970 million to buy back most of Le Meridien and part of the Exclusive hotel chains (Marckus and Murray, 1996; Murray, 1996). However, Allen insisted that Granada was not pressured to sell any of the former THF's assets. He claimed that these assets had been under-exploited and they had decided to keep Le Meridien for the time being, in consideration of the value the chain could generate for their shareholders (The Times, 1996). Granada also thought that THF was offering a price that was 50% below the total value of those assets on sale (King, 1996e; Murray, 1996). After Granada had announced to sell London's Grosvenor House and other luxury hotels, Forte Jr. decided to withdraw his bid because his major interest was in Le Meridien and not this package (King, 1996e; Price, 1996). Not long after, Forte Jr. decided to build up his own luxury hotel company – RF Hotels (Doran, 2000). Appendix K provides a summary of the disposal of THF's various assets between 1996 and 2003.

6.4. Comparison of motives for M&A deals

The main purpose of this section is to discuss each deal by comparing the motives for major M&A activities as documented in secondary (Table 6.3) and primary sources (Table 6.4), as well as in relation to the M&A literature discussed in Chapter 3 (see Table 3.1). Table 6.5 consolidates the motives retrieved from both sources to provide an overview of THF's motives for M&A activity in 1981 to 1994.

The Savoy

The motives for The Savoy deal reflected a strong personal managerial motive and to a lesser extent one of economies of scale. This is evident from comments made by Wontner who discounted any business sense in Forte Sr.'s hostile bid for The Savoy, as it was then incurring a loss of £1.6 million. Several other actions also suggested that motives for the 14-year battle to control the Savoy were predicated on personal reasons. One of them was the fact that Savoy was where Charles had proposed to his wife and where they had spent part of their honeymoon (Skapinker, 1994b; Stewart, 1991). The personal reason aspect may also be supported by two other incidents in which Forte Sr. seemed to have a 'soft spot' for the past. One of them was the purchase of his first milk bar – Meadow Milk Bar - in 1984 (Caterer and Hotelkeeper, 1984b). Forte Sr.'s sentiments for his past were revealed again in his joint venture with AGIP Petroli, part of Italy's state-owned oil company, to operate its hotels in Italy. The joint venture, called AGIP Forte International (AFI), operated 18 hotels in Italy, which were located near highway junctions and were three- and four-star properties (Hotel, 1992). Charles saw the deal as 'a return to his roots in Italy' (Sullivan, 1998, pp. 22). Therefore, there appeared to be a fair amount of personal satisfaction in gaining The Savoy; Respondent 6 commented that there was 'no financial motive' for the takeover and this is further confirmed by most of the respondents, particularly Respondent 2 who pointed out that:

> '[s]trategy was whatever Charles was thinking about in any day and he got it into his mind that he wants to own, so he started to buy the share of the Savoy... this was a Charles Forte decision [to buy Savoy]. This wasn't done as a result of any detailed systematic analysis... it was idiosyncratic.'

Although five of the respondents agreed that there was an 'ego' issue involved, some of them were of the opinion that The Savoy bid possessed some efficiency in terms of economies of scale. This is because THF also had a group of luxury products, and the integration of THF's and The Savoy group of hotels could reduce cost and enhance value through procurement, particularly for The Savoy. According to Respondent 1 and Respondent 3 this deal was not a totally non-strategic one since The Savoy was in reality, 'badly run', which means there was potential to derive operative synergies – such as marketing and procurement – from the deal and to cut costs. This opinion was supported by Respondent 2 who found it to be a 'buy investment'. Moreover, The Savoy had been recognised as a brand of its own and an institution of quality and service in the industry. It had also been sought after previously by a few established businessmen in the UK and the US. Thus, it can be argued that there is some amount of value maximising motive in this case, in view of The Savoy's prestigious brand name and its inefficient operations which could have added value to THF's hotel business overall.

Hanson Trust (Anchor Hotels)

The strategic fit motive for buying Anchor Hotels was dominant in terms of the presence of supplementary and complementary resources. This deal supplemented THF by providing the latter with hotels that were located in areas where THF did not have a prevailing presence and thus facilitated its geographical expansion in the UK. Anchor Hotels also complemented THF's existing hotels because both hotel groups operated in the three-star market sector, and thus increased THF's size in this sector. On the other hand, Respondent 6 argued that Anchor Hotels was not the main attraction in this deal as it was part of the Hanson sales package, which also included catering divisions: 64 Happy Eater roadside restaurants and Imperial Inns (69 restaurants).

Respondent 2 held a similar opinion regarding The Savoy case, in that he considered this deal to be a display of the 'idiosyncratic entrepreneurialism of Forte Sr. and not the result of systematic analysis'. In this sense, Respondent 2's comments can be linked to the managerial motive for growth - that is, to increase the size of the company without much consideration for shareholder value or the strategic growth of the group. Despite the non-value maximising motive of Forte Sr. suggested by Respondent 2, there is no doubt that value maximisation was achieved through economies of scale, as the size of the hotel division increased in terms of the number of rooms and locations within the UK. Moreover, there was an existing operational relationship between THF and Hanson Trust. Since THF was already a big client of Imperial products (a subsidiary of Hanson Trust), THF's management was no doubt already familiar with the latter's products and operations. Therefore, operational and managerial synergies could be attained, and this is considered a value enhancing deal.

Kennedy Brookes (Heritage Hotels)

In the case of Kennedy Brookes (KB), strategic fit is dominant because THF gained a supplementary product in terms of a collection of Heritage hotels which expanded its hotel portfolio. Its value was enhanced by being able to cross-sell its extended range of products to existing and new customers. Moreover, THF increased its geographical presence in the UK with the addition of new locations in historic cities. KB was also considered to be part of a bigger sales package, as commented by Respondent 6, who posits that KB's catering business, and not its hotels, was the main attraction for THF. THF's catering business was complemented by the addition of KB's brand name, which was strong in the catering business. Moreover, the catering deal also included KB's Privilege Charge card and KB's central restaurant reservations system, which enabled THF to derive economies of scale when they were integrated into THF's business.

In a different view, Respondent 2 considered this deal as an unsystematic way of analysing and buying businesses and also attributed it to Forte Sr.'s 'idiosyncratic entrepreneurialism'. According to him, the position of a Director of Strategy was created in THF in 1986, but the Director had not provided sound advice for its M&A activities, such as this deal, because he possessed insufficient knowledge of the hotel business. However, his comment can also be read as an issue of family's or Forte Sr.'s dominating position in the company, which reduced the power of salaried management in making decisions. On the other hand, this deal should not be considered as totally non-value maximising because the products did fit in with THF's business divisions and increased its market share in both hotel and catering divisions. Value maximisation was achieved through economies of scale and scope as THF obtained a new hotel product (Heritage Hotels) and extended its geographical presence in the UK. In addition, it also increased its size in its other business division, catering.

Crest Hotels

Strategic fit and speed were the major motives for acquiring Crest Hotels, to increase THF's number of rooms and overall industry presence. The strategic fit appeared in the form of a complementary product of Crest Hotels and THF's existing hotels. Both Crest and Post Houses shared the same three-star market business traveller and both products were similar, which sped up the integration of the two hotel companies. The purchase of the same kind of product thus enabled THF to gain a critical mass, which concurs with Respondent 1's, Respondent 4's and Respondent 6's comments that Crest Hotels were bought to increase the size of Post House.

There was also a supplementary fit in terms of locations between THF's Post House and Crest. The former was located in key towns in the UK, while the latter was sited in secondary locations. In this way, Crest increased THF's geographical presence in the UK, as well as its international exposure since the Continental Crest Hotels were located in major European cities. Similarly, Respondent 1's and Respondent 6's comments regarding attaining coverage for Post House were also referring to strategic fit in terms of expansion via increasing the geographical distributions of hotel units.

Speed was a dominant motive in this deal as it secured THF's position as the largest three-star market operator in the UK rapidly. Speed was also present in the form of the addition of 17 Kelly's Kitchen to THF's roadside restaurants and budget hotels. These sites obtained enabled THF to build their budget hotels beside the restaurants and expedited THF's budget hotel expansion. On the other hand, Respondent 6 also argued that this was an opportunistic deal because Bass happened to be rationalising its portfolio. The opportunistic reason was also valid as many hotel companies were rationalising their assets during the early 1990s.

The ability of Bass to seize the opportunity to expand quickly made this deal extremely value enhancing for the company.

Le Meridien Hotels

The Le Meriden deal displayed strong support for the internationalisation motive. From Table 6.3, it is observed that the Le Meridien purchase displayed THF's ambition to expand overseas, in comparison to all the other deals closed. According to Respondent 2 and Respondent 3, globalisation and international competition had driven THF to increase its international exposure. In a sense this is similar to Respondent 6's suggestion that it was an opportunistic purchase, which is not totally incorrect since there was a need to compete internationally. Moreover, Le Meridien Hotels happened to be put up for sale by its owner - Air France, which was facing a financial crisis.

Strategic fit was also present in this purchase in terms of complementary and supplementary roles. THF gained a four-star product which complemented its exclusive range of products. At the same time, these products supplemented THF in terms of international presence because Le Meridien hotels had a worldwide distribution, with hotels in each major city. Thus, this deal provided THF with a presence in the Far East, South America and a stronger presence in the US and the Middle East.

This deal also created a critical mass for THF as its total number of hotels increased and economies of scale was attained with the integration of Le Meridien hotels into THF's hotel portfolio. Economies of scope were also gained as members of Le Meridien's loyalty programme were integrated into THF's system and cross-selling of a range of different products was made possible.

The other motive to acquire Le Meriden was for its brand name. This was supported by Respondent 1 and Respondent 4 who posit that 'people want to buy the Le Meridien brand' and 'to get an international brand' respectively. Moreover, the increasingly competitive hotel business environment at that time led hotel operators to operate their businesses through alternative means, and franchising and management contracts which required lower capital investment became important. Expansion via franchising and management contracting rely a lot on a strong brand name; thus the Le Meridien Hotels comprised mainly management contracts and an international brand name was a strategic fit for THF. This highlighted the increasing importance of a brand name as an acquisitive motive, and also revealed the cost reducing and value enhancing potential of this purchase.

In summary, the consolidation of motives for M&A in THF's case shows a mixture of motives for M&A in each deal, rather than one single reason, which concurs with the general M&A literature. The dominant motive was to increase size and this was achieved through all the acquisitions (Anchor, KB, Crest and Le Meridien). Other reasons such as strategic fit in terms of geography as well as product fit are evidenced by all these deals. THF's strategy to internationalise its hotel division started in the 1970s when it bought Travelodge in the US, and continued with subsequent purchases such as Crest Hotels and Le Meridien. The managerial motive is also present, particularly displayed by the hostile bid for The Savoy, deemed to be a deal motivated by Forte Sr.'s personal sentimental reasons and personal aspiration to acquire prestige.

The deals discussed also support the efficiency argument made in the M&A literature for cost reduction and value enhancement in light of complementary or supplementary resources. The motives for the Anchor hotel and KB deals were linked to strategic fit as both deals added value to THF, not only in its hotel sector, but also in other related business operations, because these deals comprised of accommodation and food businesses. The former complemented its hotel division while the latter complemented its catering division. Simultaneously, these gains supplemented its business mix and fit in with its corporate strategy of growth. Motives concurring with the M&A literature also include operational relatedness as seen in the THF-Hanson deal, as they had a previous business relationship which prompted the M&A activity, as it was deemed value enhancing for THF.

Table 6.2: THF's motives for M&A activity, 1981- 1994

	Savoy	Anchor	KB	Crest	Le Meridien
	1981	1986	1988	1990	1994
Economies of scale and scope					
Economies of scale and scope: Cut cost	✓				
Economies of scale: Re-branded product	✓			✓	
Economies of scope: Loyalty programme				✓	
To increase the number of hotels in the UK				✓	
Market Power					
To increase market share: in other businesses		✓	✓		
Increase size/ market share: No. of hotels and rooms, critical mass		✓	✓	✓	✓
Market power: brand rights					✓
Speed					
Increase size quickly				✓	
Strategic fit					
Strategic fit: Complementary product		✓		✓	
Strategic fit: Supplementary product			✓		✓
Geographical fit and value enhancement through location		✓	✓	✓	✓
Product portfolio: own, franchise, manage, etc.					✓
New product & new platform			✓		✓
New market, new customers			✓		✓
Value enhancement: quality of product				✓	
To acquire new portfolio/ products			✓		
Market penetration: same product/ customers		✓		✓	
Increase presence in the UK		✓	✓	✓	
Managerial motive					
Managerial motives: Personal	✓				
Foreign competition					
Internationalisation: new locations					✓
Internationalisation: product					✓
Others					
To acquire with minimum assets (pertinent to the nature of hotel, high investment cost and location)					✓
Brand name, prestigious	✓				

Source: THF annual reports 1979 - 1996, various newspapers and trade journals

Table 6.3: Comparing analysts' comments on THF's motives for M&A activity, 1981- 1994 (R = Respondent)

	R1	R2	R3	R4	R5	R6
THF – Savoy (1981 -)						
Founder wanted to own shares in the Savoy		o				
Savoy was badly managed, therefore a 'buy investment'		o				
Badly managed, thus, for cost and revenue enhancement	o	o	o			
Managerial motive: Ego		o	o	o	o	o
THF - Anchor (1986)						
Managerial motive: idiosyncratic entrepreneurial of Charles Forte, not systematic		o				
Stronger motive to acquire Hanson's restaurant chain, as Anchor hotels made up a smaller deal in the whole package						o
THF - Kennedy Brookes (1988)						
Managerial motive: idiosyncratic entrepreneurialism in Charles Forte, not systematic		o				
Stronger motive to acquire KB's catering, as KB hotels made up a smaller deal in the whole package						o
THF - Crest (1990)						
To become big and increase number of hotels and profits of hotel etc, because market level and location (Market penetration)		o				
To increase the number of hotels in the UK		o		o		
Coverage for Post House	o					o
Quick way to expand						o
Opportunity						o
THF – Le Meridien (1994)						
To boost non-UK presence in the up market sector and as a platform for international market (enter new territory, geographical expansion, market development)		o				
Internationalisation and Globalisation		o	o			
To acquire brand	o			o		
Opportunity						o
Management Contracts						
Coverage for portfolio: up-market		o				

Source: Semi-structured interviews

Table 6.4: Comparing THF's motives for M&A activity, 1981- 1994

	Savoy	Anchor	KB	Crest	Le Meridien
	1981	1986	1988	1990	1994
Economies of scale and scope					
Economies of scale and scope: Cut cost	✓				
Economies of scale: Re-branded product	✓				
Economies of scope: Loyalty programme		✓			
Savoy was badly managed, therefore a 'buy investment'	✓				
Badly managed, thus, for cost and revenue enhancement	✓				
Market Power					
To increase market share: in other businesses		✓	✓		
Increase size/ market share: No. of hotels and rooms, critical mass		✓	✓	✓	✓
Market power: brand rights					✓
Speed					
Increase size quickly				✓	
Quick way to expand				✓	
Strategic fit					
Complementary product		✓			
Supplementary product			✓		
Geographical fit and value enhancement through location		✓	✓	✓	✓
Product portfolio: own, franchise, manage, etc.					✓
New product			✓		✓
New market, new customers			✓		✓
Value enhancement: quality of product				✓	
To acquire new portfolio/ products			✓		
Market penetration: same product/ customers		✓		✓	
Increase presence in the UK		✓	✓	✓	
Motive to acquire Hanson's restaurant chain; Anchor hotels made up a smaller deal in the whole package		✓			
Stronger motive to acquire KB's catering division; KB hotels made up a smaller deal in the whole package			✓		
To become big and increase number of hotels and profits of hotel etc, because market level and location				✓	
Coverage for Post House				✓	
Coverage for portfolio: up-market product					✓
Managerial motive					
Managerial motives: Personal	✓				
Founder wanted to own shares in the Savoy	✓				

	Savoy	Anchor	KB	Crest	Le Meridien
	1981	1986	1988	1990	1994
Managerial motive: Ego	✓				
Managerial motive: idiosyncratic entrepreneurial of Charles Forte		✓	✓		
Foreign competition					
Internationalisation: new locations					✓
Internationalisation: product					✓
To boost non-UK presence in the up market sector and as a platform for international market (enter new territory, geographical expansion, market development)					✓
Internationalisation and globalisation					✓
Others					
To acquire with minimum assets (pertinent to the nature of hotel, high investment cost and location)					✓
Brand name, prestigious	✓				
Opportunity				✓	✓
Management Contracts					✓

Source: THF annual reports 1979 - 1996, various newspapers, trade journals and interviews

* Words in *italics* are motives mentioned by analysts during interviews

6.5. General development of THF

This section provides an overview of the development of THF's hotel division between 1979 and 1996, and particular attention is paid to its M&A activities and the macro environment. M&A activities accelerated the pace of THF's growth and helped the group to further consolidate its market leadership in terms of size – number of rooms - in the UK hotel industry during that period.

THF evolved from a business focused on the hospitality industry in 1970 to become a conglomerate in the 1980s. After the merger with Trust Houses Group Ltd. in 1970, THF continued to expand its hotel sector through M&A activities in the UK and overseas and by 1978, it owned 885 hotels worldwide. In addition to expansion in its hotel business, THF also acquired unrelated business – such as an oil business, a publishing company and a theatre, and related businesses such as catering and roadside restaurants.

The expansion of THF in the hotel sector in the first half of the 1980s was dominated by the hostile bid for The Savoy. The recession in the late 1970s had affected The Savoy's financial performance badly and it was not operating efficiently then. Thus, it was considered that there was huge opportunity for value maximisation in this deal. However, that was part of the reason that prompted Forte Sr. to bid for the Group. The other major motive was Forte Sr.'s personal and sentimental reasons for wanting to own and control The Savoy (see 6.4 – The Savoy). The battle to take over The Savoy lasted between 1981 and 1989, and in 1989, an agreement was made between The Savoy and THF to admit Forte. Jr. and THF's Finance Director into The Savoy board as directors. This decision was taken because both companies had incurred high legal fees over the past eight years. Moreover, THF had become a major shareholder, holding 72% of The Savoy equity, although it only held 42.3% of the voting rights. In between the bids for The Savoy, THF also closed two deals: Hanson Trust (including Anchor Hotels) and KB group (including Heritage Hotels) in 1986 and 1988 respectively. These purchases included a hotel group, catering and restaurant businesses which fitted into THF's 1985 strategic plan to focus on three areas for future growth: hotels, airline catering and industrial or commercial catering (Feiler, 1985).

In the late 1980s, THF's strategy for hotel development changed to add an emphasis on developing and maintaining a brand-led portfolio. According to Paddy Mitchell, the Managing Director of THF, the hotels would be grouped under 'three brands and two collections' in 1989 (Goymour, 1989b, pp.29). The three brands were Forte Hotels, Post House and Travelodge, which referred to all the modern, custom - built hotels in the four-star, three-star and lodge category respectively. However, the re-branding exercise in 1989 was delayed due to the acquisition of Crest from Bass in 1990. During the early 1990s, the UK and the world were facing a recession and as economic slow down, coupled with lower demand for hotel rooms due to fewer business and leisure travellers, the increased interest and inflation rates had reduced earnings and increased costs for many hotel companies. As a result, many hotel companies rationalised and sold their hotel properties to reduce interest rate costs. THF took the opportunity to buy Crest Hotels, which was considered a strategic fit for its hotel expansion because of the complementary products and supplementary locations.

The initial intention of absorbing Crest into the existing Post House brand was discarded after market research revealed that the Crest brand was much stronger than first perceived by THF. Therefore, THF changed its strategy to re-shuffle its portfolio and rename its higher grade Post Houses as Crest and re-brand some Crest Hotels into Forte Post House (Goymour, 1991b). The result was the determination of five brands: Exclusive Hotels, Heritage Hotels, Crest Hotels, Post House Hotels and Travelodge (Slattery and Johnson, 1991). The purchase of Crest in 1990 was mainly financed through sale-and-leaseback because it was considered cheaper than bank loans during that period, as interest rates were raised to more than 14% (see Appendix C).

THF's financial performance was also badly affected by the fall in the number of international travellers because of the First Gulf War, the persistent recession in the UK and developing recessionary conditions in Europe. According to Slattery and Johnson (1992), THF's hotels were concentrated in London, UK primary provincial cities and continental European gateway cities worsened its performance. Moreover, its hotel business in North America was also affected by recession, oversupply of rooms, low room rates and slow growth in its US Travelodge chain (Slattery and Johnson, 1992). In 1993, THF's strategy changed due to Forte Jr.'s concerns over the effectiveness of delivering the company's business when he took over the chairmanship from his retiring father. According to him, (Forte, 1997, pp. 7), each of THF's businesses - industrial catering, in-flight catering, restaurant business and hotel business - had evolved into 'a big business in its own right with the capability of expanding quite aggressively in good markets, but demanding huge capital to do so'. THF's hotel division derived a consistent high profit margin, as a percentage of total profit, compared to other business sectors such as its catering business from the 1980s onwards (see Appendix L). However, improved results for catering were present, particularly after 1986 (purchase of Hanson deal, including Anchor Hotels). Thus, THF's strategy returned to focusing on the hotel business and maximising the profits of existing profitable assets. At the same time, it aimed to reduce debt and, in 1993, dispose of its catering arm, Merchant Gardner, which was once considered as a core business in the Group (AR / THF, 1993). THF also tackled its cost base by reducing the number of corporate employees in the head office from 3,000 to 1,000 (Rawstone, 1993).

In 1994, the Le Meridien hotels were acquired and gave THF a worldwide exposure in the hotel industry. In addition, Le Meridien increased the number of THF's four-star products, as well as providing the Group with the entrance to and platform for management contracting. Le Meridien was an asset-light hotel chain which fitted in with THF's plan to reduce its gearing and improved its financial performance. However, THF was taken over by Granada in a hostile bid in 1996, before it was able to restructure its company, as the hotel industry was still recovering from the early 1990s recession. Although Forte Jr. gave a good defence and made proposals for improving the company's financial performance, many analysts and investors had already lost confidence in THF's management capabilities and thus lost to Granada, which had a stronger management team with proven track record.

The mechanism of M&A activities as a method of growth, as discussed, has shown that motives in the case of THF's hotel division supported M&A literature in general. These M&A activities and development of the THF hotel division provide a general view of how THF responded to market conditions and changed its strategy over time. This in turn reflected the interdependence between organisational strategy and the macro environment. The next chapter reviews the second case, Ladbroke Group plc, and the cross examinations of four cases and the development of the hotel industry will be conducted in Chapter 10.

Chapter 7:
Ladbroke Group plc (Ladbroke)

This chapter explores the development of Ladbroke Group plc (Ladbroke). The first part provides a brief history of how Ladbroke started its businesses. This is followed by a discussion of several major merger and acquisition activities (M&A) that Ladbroke undertook between 1979 and 2001. Table 7.1 presents the major deals that Ladbroke closed between 1979 and 2001.

Table 7.1: Major merger and acquisition activities, 1979-2001

	Ladbroke/ Hilton
1979	Myddleton Hotels
1984	Comfort Hotels
1985	Rodeway (USA)
1987	Hilton Hotels
1999	Stakis Hotels
2001	Scandic (North Europe)

Source: Ladbroke annual reports, various newspapers and trade journals

The third part compares and contrasts the motives for each deal by using both secondary and interview data. The final part discusses the general development of Ladbroke hotel division in the light of corporate strategy changes and the macro environment. The term 'Ladbroke' is used throughout the discussion, including the period after its name had been changed to the Hilton Group in 1999.

7.1. The beginning of Ladbroke Group plc

Ladbroke was founded in 1886 in a Warwickshire village named Ladbroke and its business then was in horse race betting (AR / Ladbroke, 1989). The effective start of the bookmaking operations was in 1902 when Arthur Bendir joined the company (Munting, 1989). According to Munting (1989), Ladbroke started with a focus on securing rich and well-known clients, and providing betting services both on and off course; the stakes were mostly based on large amounts and on credit terms. The company also employed well-educated staff, often recruited from public schools and / or ex-army officers. However, Ladbroke's revenue declined in the 1950s, as horse betting developed into a mass-market business and its focus on exclusive clients could not keep up with the changing needs of the market. During that time, Ladbroke remained a small private company operating from one office in the West End of London and served a few, mainly aristocratic, clients in credit betting (AR / Ladbroke, 1993).

In 1956, Max Parker bought the company and his nephew Cyril Stein (Stein) became the manager (Munting, 1989). In 1961, legislation changed and off-track betting became a legalised leisure activity for the first time since 1853, under the Betting and Gaming Act 1960 (Dixey, 1987; Saunders and Turner, 1987). According to Channon (1978), Stein took the opportunity created by legislation change and developed a nationwide chain of licensed bookmakers. From a small base as a cash betting operation, Ladbroke became a listed company on the London Stock Exchange (LSE) in 1967 (Channon, 1978; Stock Exchange Official Yearbook, 1970). Between the period 1968 - 1974, Ladbroke's turnover rose from £39 million in 1968 to £255 million in 1974, and the Group also diversified into other industries, which included casinos, property development, hotels and holiday centres (Channon, 1978). According to May and Tomkinson (1979), Ladbroke's casino business started with the opening of the first London casino - Ladbroke Club - in 1971. The casino business grew quickly as more and more wealthy customers arrived from the Gulf – such as the Crown Prince Fahad Ben Abdulaziz, brother of King Faisal of Saudi Arabia - because the price of Middle East oil quadrupled and the value of the pound declined (May and Tomkinson, 1979). Subsequently, Ladbroke further diversified its gaming business into the areas of fixed-odds football, ante-post betting and evening greyhound racing (Munting, 1989; Sunday Times, 1978). In 1972, Ladbroke started its property business through the acquisition of London and Leeds Development Corporation, which provided the Group with an entrance into the real estate market in the Eastern USA, Paris, Amsterdam and Brussels (Grant and Pederson, 1998).

In 1973, Ladbroke started its first lodging business when it opened three moderately priced hotels (Caterer and Hotelkeeper, 1979b; Grant and Pederson, 1998). In 1978, Ladbroke expanded its hotel business through the acquisition of

Leisure & General Holdings (L&G) (Felstead, 1978). The result of this acquisition gave Ladbroke control of over 50% of L&G's assets (Felstead, 1978), which included the 14 Mercury Motor Inns (Caterer and Hotelkeeper, 1979b; Financial Times, 1985). Subsequently, Ladbroke augmented its hotel stock through single asset acquisitions such as: Fairlane Motor Inn at Hornchurch; Seven Hills, Cobham; Bridge House, Reigate; and Beehive, Watford. It then proceeded to re-brand these assets into the Mercury Hotels (Caterer and Hotelkeeper, 1979b). In a further move to expand its hotel business, and to maintain a policy 'to purchase prime modern hotels with good trading records', Ladbroke acquired a number of major hotels to complement its expanding chain (AR / Ladbroke, 1979, pp. 4). These single assets included the Pennine President Hotel at Huddersfield, the Gateway Hotel at Newport, the Westmoreland Hotel in London and the Twelve Knights Hotel in Port Talbot, South Wales (AR / Ladbroke, 1979; Daily Telegraph, 1979a; 1979b; Kinloch, 1979). By 1979, Ladbroke's hotel division had grown into 30 properties with nearly 3,000 bedrooms (Caterer and Hotelkeeper, 1979b).

7.2 Hotel expansion- major M&A activities

The following sub-sections discuss the development of Ladbroke's hotel business between 1979 and 2004 through its various M&A activities. The acquisition of Myddleton Hotels (7.2.1) increased Ladbroke's hotel stock rapidly in the UK. Comfort Hotels (7.2.2) provided Ladbroke with a strong foothold in London and access to major European cities. The purchase of Rodeway Inn (7.2.3) enabled Ladbroke to start its hotel business in the US rapidly and to broaden its hotel expansion scope through franchising. The purchase of Hilton International (7.2.4) established its international presence, as well as strengthening its UK hotel stocks, as it became the second largest hotel company in the UK. Stakis Hotels (7.2.5) further strengthened Ladbroke's hotel and leisure business in the UK. The acquisition of Scandic Hotels (7.2.6) increased Ladbroke's presence in the Scandinavian region and almost doubled the number of Hilton hotels in Continental Europe. Each of these major deals will be discussed in the following sections.

7.2.1. Myddleton Hotels

Ladbroke acquired the Myddleton Hotel group (Myddleton) for £4.6 million in late 1978 (The Times, 1978). Myddleton had seven hotels in English tourist centres, including five-star hotels in cities such as Bath, York, Bournemouth, Oxford and Eastbourne (Caterer and Hotelkeeper, 1979b; The Times, 1978). Myddleton's fixed assets stood at £3.83 million and an additional 50 rooms were under construction at the time of the sale (The Times, 1978). According to Stein, the Myddleton acquisition increased the total number of Ladbroke hotels and motor inns from 18 to 25. The purchase enabled Ladbroke to expand its hotel division, which included the Dragonara and Mercury hotels in major tourist centres (The Times, 1978).

7.2.2. Comfort Hotels

In late 1984, Ladbroke bought Comfort Hotels (Comfort) for £77 million from the Comfort Hotels International group, formerly known as Adda International, for an unconditional offer (Caterer and Hotelkeeper, 1979b; Nicoll, 1985). The deal comprised 1,700 bedrooms in London, 1,000 in the rest of the UK and just under 1,000 in Europe, graded in the three-star range (Maughan, 1984a; Warner, 1984).

Comfort was built up by Henry Edwards, chairman of Comfort Hotels, and a renowned hotelier in the UK industry. He was also known for building up Centre Hotels before selling them to Coral Leisure and used the proceeds to buy the Adda International group and developed Comfort (Maughan, 1984a) (Centre Hotels was bought by Bass in 1980, see 8.2.2). The initial offer by Ladbroke was £67.7 million on December 11 1984 (Maughan, 1984b; Warner, 1984). However, there was competition between Ladbroke and Intasun Group (Intasun), Britain's second largest tour operator, to buy Comfort, which led to the final bid of £77 million. Before Ladbroke's bidding, Intasun had offered to buy Comfort for £44.5 million (Eadie, 1984; Maughan, 1984b). Intasun wanted Comfort because the locations of its hotels were in central cities, such as London and major European cities, which coincided with its plan to diversify into London and the overseas hotel market. However, Intasun's bid was complicated by Comfort's bid, worth £16.6

million, for Prince of Wales hotels, a few minutes after its own announced bid for Comfort (Eadie, 1984).

Comfort was interested in Prince of Wales because the latter's hotels were spread out in the UK and in major European countries (Maughan, 1984a). Moreover, Quality Inns, which was a US hotel company and one of the world's largest hotel organisations, held 11% of Prince of Wales shares and could provide Comfort with exposure in the US. In addition, this acquisition could provide Comfort with conference hotels predominantly situated close to seaside locations (Maughan, 1984a). On the other hand, neither Intasun nor Ladbroke was interested in Prince of Wales and both wanted to purchase Comfort with the condition that Comfort abandoned the bid for Prince of Wales (Warner, 1984).

Intasun did not want Prince of Wales because its eight hotels were either in the provinces or in an inconvenient part of London. Moreover, Intasun believed that Comfort was paying too much for Prince of Wales (Eadie, 1984). As for Ladbroke, the group's motive for buying Comfort was to expand its existing market (London) and to penetrate new ones (Europe). Their target market in the UK was predominantly the commercial market in cities, and Prince of Wales's locations and market were different (Goymour, 1985a). Subsequently, Harry Goodman, Chairman of Intasun formally conceded defeat and commented that Ladbroke had offered a 'full and fair offer for the company [Comfort Hotel]'. He also offered to Ladbroke his 14.9% share in Comfort (Maughan, 1984a, pp. 18). According to Stein, the purchase of Intasun's Comfort share for £9.34 million increased Ladbroke's equity share of Comfort and would fend off any potential competitor (Financial Times, 1984).

The acquisition of Comfort made Ladbroke the second largest hotel group in Britain in room numbers after THF (Warner, 1984). Ladbroke doubled in size overnight with the Comfort acquisition and accelerated its existing development plans (Caterer and Hotelkeeper, 1985a). The addition of Comfort's three-star hotels around the country improved Ladbroke's standing from sixth to second position, with an estimated 6,247 rooms (Maughan, 1984c; Mughal, 1984). Moreover, Ladbroke and Comfort complemented each other geographically.

Comfort had nine out of 22 hotels located in London while Ladbroke only had one hotel (the Westmoreland Hotel) out of its 35 in the capital (Maughan, 1984b). Ladbroke also saw the Comfort purchase as an opportunity to operate internationally with the addition of Comfort hotels sited in important continental European capitals such as Copenhagen, Paris and Amsterdam (AR / Ladbroke, 1984; Warner, 1984). In addition, economies of scale could be derived from this deal by integrating the operational and sales and marketing departments of the two companies (AR / Ladbroke, 1984, pp. 7). Ladbroke also planned to spend £7 million to improve the quality of Comfort Hotels in order to achieve a higher room rate at the higher end of the three-star range (Nicoll, 1985; Warner, 1984).

7.2.3. Rodeway Inns

Ladbroke expanded its hotel division overseas in July 1985 through the acquisition of Rodeway Inns International (Rodeway) for $13 million (£10 million) in cash (Financial Times, 1985; New York Times, 1985). Rodeway was a franchise organisation based in Dallas (Financial Times, 1985); it operated in the middle range and tourism markets and was the 15th largest hotel company in the US, located predominantly in the southwest of US (The Times, 1985b; Wall Street Journal, 1987b). The hotels were popular amongst families and middle executives and competed with hotel brands such as Holiday Inn and Howard Johnson. Rodeway's properties were similar in style to Ladbroke's Comfort properties and it ran 138 hotels (17,500 bedrooms) through franchising and management contracts in the US, Mexico and Canada (AR / Ladbroke, 1985; Financial Times, 1985; The Times, 1985a). The combined total of Ladbroke's 60 hotels in the UK and Europe and Rodeway placed Ladbroke among the 20 biggest hotel companies in the world (Financial Times, 1985). Rodeway enabled Ladbroke to establish its presence in the US, which was internationally known as 'the world's largest hotel market' because the US had approximately 24% of the world's lodging market share (AR / Ladbroke, 1985, pp. 3; The Times, 1985a). Moreover, Rodeway's reservation system would also provide Ladbroke's European hotels with a direct sales link to the US business and tourism market (Caterer and Hotelkeeper, 1985b).

'Rodeway is a strategic purchase taking us at low cost and little risk into the US' commented John Jarvis (Jarvis) Ladbroke's hotel chairman (Financial Times, 1985, pp. 18). He further commented that Ladbroke planned to expand the franchise network rapidly and also to increase its number of management contracts (Caterer and Hotelkeeper, 1985b; New York Times, 1985). However, Ladbroke sold Rodeway Inns in 1987 to Ramada Inc. for £12.3 million (Caterer and Hotelkeeper, 1987e; Wall Street Journal, 1987b). Ladbroke commented that Rodeway Inns failed to make Ladbroke a market leader within a set time scale. At the same time, Michael Hirst (Hirst), Managing Director of Ladbroke also commented that Rodeway Inns provided the Group 'with invaluable US experience ... the hotels [Rodeway Inns] operated throughout the length and breadth of the country and provided unique information [business operations in the US] ... it was a practical way of doing some market research' (Caterer and Hotelkeeper, 1987e, pp. 24).

7.2.4. Hilton International

Ladbroke completed its acquisition of Hilton International (HI) on October 15, 1987 for $1.07 billion (AR / Ladbroke, 1987; Los Angeles Times, 1987b; Wall Street Journal, 1987c). It was considered by the directors as a reasonable price and a 'once in a life-time' corporate opportunity to achieve their strategic goal (AR / Ladbroke, 1987, pp. 2). The package comprised 91 hotels worldwide, of which 44 were full ownership, 14 were partly owned and the remaining 33 had management contracts. There were more than 35,000 bedrooms in 44 countries, including the Vista International Hotel in Washington (Feltham, 1987a; Harris, 1987c). The deal also included 27 hotels in Europe, 26 in North and South America, and 38 in the Far East, Australia and other parts of the world, as well as 14 hotels under construction (Feltham, 1987a; Trollope, 1987b).

HI was originally established by Hilton Hotel Corporation (HHC) in the US in 1949 as a subsidiary. In 1964 it was spun off as an independent public company and given the exclusive right to use the Hilton name outside the US (Harris, 1987b). This was a means of raising finance at that time for the parent company, HHC. Although HHC and HI remained financially independent of each other, they continued to share a joint reservation system reputed to be one of the best in the world (Churchill, 1987; Harris, 1987b). In 1967, HHC sold HI to Trans World Airlines (TWA), later known as Transworld Corporation. After operating HI for 20 years, TWA sold HI to Allegis Corporation (United Airlines' new name, hereafter known as Allegis), a Chicago-based corporation, for $982.5 million, because it was closing down the company (Harris, 1987b; Kilman and Valente, 1987). Allegis was already the owner of United Airlines, Westin Hotels and Hertz (rental car company) and the Group bought HI in an attempt to become a full-service travel-services conglomerate (Hamilton, 1987; Hiltzik, 1987; Potts, 1987). However, the diversification strategy proved more troublesome and less profitable than the chairman, Richard J. Ferris (Ferris) had hoped for. In June 1987, less than three months after Allegis had acquired the HI group of hotels, Allegis board members declared that they had lost faith in Ferris' strategy when the company's performance made it a takeover target by its own employees (Hamilton, 1987; Hiltzik, 1987). The pilots' union of United Airlines outlined a plan to break up Allegis in such a way that employees would end up with control of the airline (Kilman and Valente, 1987). Consequently, Ferris and about 20 other senior officers resigned and the HI deal was the first in a series of divestitures for Allegis, which was liquidating its non-airline operations (Dallos, 1987; Kilman and Valente, 1987).

This purchase of HI was not Ladbroke's first attempt. Ladbroke had tried to acquire HI from Transworld Corporation (TWA) in December 1986 but lost the bid to KLM Royal Dutch Airlines (KLM) and Allegis (Harris, 1987a; Harris, 1987b). The Group's offer of $850 million for HI was considered to be running in third or fourth place in terms of the amount offered in the bidding process (Harris, 1987b; Kilman and Valente, 1987). KLM won the bid by offering $975 million (Harris, 1987b). However, KLM's purchase was blocked by KLM's own supervisory board and it had to abort the purchase. The deal was then taken over by Allegis who offered to pay $980 million (Harris, 1987b; Financial Times, 1987). Two months after completing its acquisition, Allegis had to put Hilton up for sale for the reasons mentioned previously (Feltham, 1987a; Harris, 1987b; 1987c). When Allegis put HI up for auction, contenders for the deal included Lufthansa (the West Germany national airline), Japan Airlines, Swissair, Scandinavian Airlines System, Accor, Marriot Corporation (the American hotel group), David and Frederick Barclay of London (Barclay Bank) and KLM, who had aborted the deal previously (Financial Times, 1987; Hamilton, 1987; Kilman and Valente, 1987; The Washington Post, 1987a).

According to analysts, HI was attractive to many buyers because it had many prime sites in major cities of the world. Terry Barlow, Marriott's regional vice president for operations in the UK and Europe, pointed out that HI had established itself in the international market since the 1960s and had strong global presence in countries where the markets were growing (Churchill, 1987).
Ladbroke believed its offer succeeded because it was able to tie up a deal more quickly and because it did not require the regulatory permission needed by some airlines (Feltham, 1987a). Moreover, Ladbroke also offered the assurance of closing the deal with Allegis, and not repeating the KLM incident, which had seen the deal being stopped by KLM's supervisory board (Harris, 1987b; Financial Times, 1987).

According to Stein, 'To have secured Hilton International at a reasonable price is a great coup for Ladbroke' (DeLuca, 1987, pp. 1). He further commented that the hotel division of Ladbroke was strengthened by the strong presence of Hilton in North America while Ladbroke was already strong in the Northern European market. He believed that this purchase would increase Ladbroke's share of the US travelling public since 'Hilton International's overseas marketing strategy had been focusing primarily on catering to Americans' (DeLuca, 1987). Under this deal, Ladbroke acquired all of Allegis' interest in the ownership and operation of all hotels under HI. These included several Vista International Hotels within continental US, which would give Ladbroke a foothold in the USA's upscale market where HI was not permitted to use the Hilton name (Hiltzik, 1987; Kilman and Valente, 1987). The US hotels included the Drake in Chicago, where the most expensive room then cost $1,200 a night.

The HI deal also closed up the gap in the number of rooms between Ladbroke and the top hotel company – THF – in the UK (Feltham, 1987a). In addition, this deal provided Ladbroke with a broader international conference and business market

(Trollope, 1987b), which was a growing segment in the hotel industry from the mid 1980s. The acquisition of HI would also transform the look of Ladbroke from a humble betting shop chain (Feltham, 1987a) into a conglomerate with an international hotel group.

Another attractive feature of HI was pointed out as the name 'Hilton' itself. Geoff Parkinson of Horwath & Horwath, a hotel consultant company, commented that 'Hilton' is 'second to none as a trading name for a hotel' (Churchill, 1987, pp. 18). The deal brought Ladbroke the right to use the brand name across the world, except in the US where HHC has its exclusive rights (Trollope, 1987a). Jarvis from Ladbroke also commented that 'In the hotel business you need a strong brand name and they don't come any better than Hilton' (Feltham, 1987a, pp. 1). Jarvis and Hirst had been looking for some time for an international brand name 'with life', one which could internationalise Ladbroke's hotel division, maximise underlying assets and sustain the group's profits record, as they found Ladbroke brand was unable to rely upon for international expansion (Hannan, 1988b, pp. 41).

The acquisition also gained Ladbroke a joint share in the Hilton Service Corporation, giving it access to Hilton's sophisticated central reservation system (Trollope, 1987a). Economies of scale could be attained by combining the marketing skills of both companies and utilising HI's reservation system to boost bookings in Europe (Feltham, 1987a). In addition, as commented by Hirst, 'It is not just the number of people it [the central reservations system] will give Ladbroke hotels access to, but the quality of the people' (Trollope, 1987a, pp. 7).

7.2.5. Stakis Hotels

Ladbroke completed its takeover of Stakis plc (Stakis) on March 26th, 1999 for an offer of £1,342.7 million (AR / Ladbroke, 1999). According to analysts, talks of the deal were first disclosed after a rise in both Ladbroke's and Stakis's share prices (Walsh, 1999a). Stakis was forced by the Takeover Panel to issue a statement after a sharp rise in its share price by 11% since the newspapers had revealed two weeks previously that Ladbroke and Stakis had held exploratory talks (Walsh, 1999a). Ladbroke had approached Stakis in November after a strategic review of its hotel business in the summer of 1998 (Robinson, 1999c). According to David Michels (Michels), the then Stakis Chief Executive, one of the attractions of Stakis was its room rate levels. Stakis had a network of mainly regional four-star hotels, and was enjoying some of the best occupancy and yield rates in the sector (Financial Times, 1999a). Stakis had an estimated occupancy rate of 78% and it was believed that 'people will pay a premium for this brand name [Hilton after the conversion from Stakis]' (Robinson, 1999d, pp. 28).

Although there was speculation of counter bidding for Stakis from Whitbread, Ladbroke managed to close the deal without much competition. Whitbread, the UK brewer, was deemed to have 'a large war chest' and would have been a strong contender (Brice and John, 1999, pp. 44). However, Whitbread did not feel threatened by the possibility of Ladbroke becoming a close rival in the four-star hotel sector because the former felt that its Marriott hotel brand was still in 'a strong competitive position' should Ladbroke's bid succeed (Robinson, 1999b, pp. 19). On the other hand, other analysts commented that a counter-bid for Stakis was unlikely because the value of Ladbroke's offer had risen due to share prices. The mix of shares and cash offer had lifted Ladbroke's offer price to about 160p, against 109 1/4p before the confirmation of the talks (Walsh, 1999b).

Ladbroke encountered a minor internal objection from Stakis's shareholders despite the absence of external competition. The takeover by the English and the move of the Scottish Headquarters to England had provoked some unhappiness among the Scots (Buxton, 1999). Although the founder of Stakis was not originally Scottish, Scotland was seen as the starting point of this company. Stakis was founded by Sir Reo Stakis (Reo Stakis), a native Cypriot who arrived in Britain in 1928 at the age of 15. Reo Stakis started his business running steakhouses in the 1940s, a hotel business in the 1950s and casinos in the 1960s (Scott, 1999). He floated his company on the stock market in the 1970s and was considered a legend in the hospitality industry for having 'single-handedly changed Scotland's eating habits' (Willcock, 1999, pp. 14). In the leisure trade, he opened Glasgow's first nightclub and Scotland's first casino; and in the hotel trade, Stakis had been the first to provide breakfast-included rates, tea and coffee facilities in each room, and the concept of weekend breaks (Scott, 1999; Willcock, 1999). Despite the objections from shareholders, Ladbroke managed to move its headquarters to England, but maintain a presence north of the border: for example, it kept accounting for all UK hotels, casinos and health clubs, which was centralised in an in-house shared service centre, in Glasgow (AR / Ladbroke, 1999; Cope, 1999). Robert Smith (Smith) Chairman of Stakis pointed out to the shareholders that he had 'a fiduciary duty to recommend Ladbroke's "fair and reasonable" offer which valued its shares at 160p each compared with about 110p before the offer' (Buxton, 1999, pp. 19). Smith also emphasised to Stakis's shareholders that the English people in Ladbroke's hotel business would be facing the same fear as the Scots regarding job losses (Cope, 1999; Walsh, 1999b).

Some analysts commented that Stakis's management and strong operations were one of the major attractions to bidders (Robinson, 1999a). Its management were widely admired and the chief executive of Stakis, Michels, was highly regarded by industry specialists as the best of the UK hotel group managers. 'He is the real star of the Stakis group,' commented one broker (Financial Times, 1999a, pp. 24; Thompson, 1999). It was claimed that Stakis was falling apart after Reo Stakis, the founder handled his empire over to his son Andros in 1988. Andros expanded the business into commercial property, pubs, discos and nursing homes in the late 1980s, but was met with the property market crash in 1990 (Willcock, 1999). In March 1991, Reo Stakis relinquished his chairmanship position to Sir Lewis Robertson (Robertson) and the latter brought in Michels to replace Andros (Willcock, 1999). Robertson and Michels salvaged the company by selling off the 1980s acquisitions and acquiring and rebuilding underperforming hotel and casino assets (Scott, 1999; Willcock, 1999). Under their leadership, Stakis recovered and grew from a value of £70 million in 1992 to £1.2 billion in 1999 (Willcock, 1999).

On the other hand, Peter George (George), Ladbroke's chief executive, admitted that the Stakis deal was in part prompted by unsuccessful merger talks between HHC and Ladbroke in 1998 (Robinson, 1999c). Moreover, in that same year, Ladbroke missed out on two acquisitions. In the first deal, Ladbroke lost its bid for the Intercontinental hotel group to Bass. Ladbroke lost in not being able to move in quickly because of LSE rules, which required Ladbroke to hold a shareholders' meeting seeking consent. This requirement did not fit in with the seller, Seibu Saison, which had wanted to sell its stock and reduce debt quickly (Wall Street Journal, 1998; Guerrera and Cope, 1999; Robinson, 1999a). However, Bass, which won the bid for the Intercontinental Hotel group, was not affected by the rule because it was listed as a brewing and leisure company at the time, and its hotel division represented a far smaller proportion of the company's business (Wall Street Journal, 1998) (see 8.2.4.). The second deal that Ladbroke missed in 1999 was the Coral betting shop chain (Coral bookmaker). Ladbroke won the bid to buy Coral bookmaker, but was forced to sell it by the competition regulatory authorities later. After the sale of Coral bookmaker to Morgan Grenfell Private Equity, the venture capital arm of Deutsche Bank, for £390 million, Ladbroke became cash rich after deriving a profit of £27.3 million (Robinson, 1999a; Wheatcroft, 2001).

The Stakis deal resulted in Ladbroke becoming the second largest hotelier after Granada, the second largest casino operator after Rank Organisation and the largest health club company in the UK (Financial Times, 1999a; Robinson, 1999e). The addition of Stakis's four London hotels and 51 provincial hotels to Ladbroke's several top London hotels and 22 mid-market hotels outside London (Guerrera and Cope, 1999; Robinson, 1999a) would increase Ladbroke's market share in both areas. Ladbroke planned to re-brand Stakis' 54 hotels as Hilton (Robinson, 1999c) because Stakis was only well-known in its home base of Scotland, but was less well known in England (Robinson, 1999b). Ladbroke also expected to derive around two-thirds of its profits from hotels after the deal with the doubling of the number of rooms under the Hilton brand (Robinson, 1999c; 1999d).

The deal was estimated to save Ladbroke £16 million in costs by combining its administration and marketing departments with those of Stakis (Robinson, 1999b; 1999d). According to analysts, economies of scale could be derived through cost cutting and revenues enhancement by integrating Stakis Hotels into Ladbroke's marketing and reservation systems (Financial Times, 1999a). The deal had given Ladbroke a combined database of three million members from its loyalty programme (Robinson, 1999d). Moreover, there was no geographical overlapping in its hotels, casino and health clubs businesses (Robinson, 1999c).

The acquisition of Stakis also led to Ladbroke restructuring its gaming operations as the latter integrated Stakis's 22 regional casinos into its five Ladbroke London casinos (Guerrera and Cope, 1999; Robinson, 1999c). In the same way, Ladbroke's health club business division expanded with the addition of Stakis's 67 LivingWell Health and Fitness clubs, which was also a market leader in UK health clubs sector (Financial Times, 1999a). Moreover, several of these clubs were already operating in 22 Hilton Hotels (Guerrera and Cope, 1999), which was why George commented "It is rare to find a business that represents such a perfect operational mix and complementary geographic fit," (Cope, 1999, pp. 13).

7.2.6. Scandic Hotels

Ladbroke completed the acquisition of Scandic Hotels AB (Scandic), the Scandinavian hotel company, operated by the Swedish hotel operator on June 11, 2001 for £620.2 million (AR / Ladbroke, 2001). The deal included 154 Scandic hotels, of which 133 were in the Nordic region. The Group acquired 95.4% of Scandic in total and took control of the latter's hotels, which were located all over northern Europe (Financial Times, 2001).

Scandic was first established as Esso Motor Hotel in 1963 in Laxå, central Sweden by Esso, the Standard Oil of New Jersey diversified into the motel business (Caterer and Hotelkeeper, 1978a; Stewart, 1996). Esso wanted to develop its service stations on the new motorways being planned in Sweden at the time. In the early 1970s, Esso Motor Hotel expanded overseas to Denmark and Norway and became the biggest hotel group in Scandinavia by 1973. In 1983, the hotel group was sold to a Swedish consortium with Ratos AB as part owner and renamed Scandic Hotels (Scandic Hotels, 2007). Esso Hotels were built next to Esso Europe petrol filling stations in Continental Europe in 1963, when Standard Oil of New Jersey diversified into the motel business (Caterer and Hotelkeeper, 1978a; Stewart, 1996). Ratos AB became the sole owner in 1985 and was listed on the Stockholm Stock Exchange in 1996. It became the first pure hotel business in Sweden to be quoted on the stock market. In the same year, Scandic started to expand via M&A activities. For example, the hotel group purchased 14 hotels from Swedish Reso in 1996 and bought the third largest hotel group in Finland - Finnish

Arctia – in 1998, becoming the first Nordic-wide chain. The hotel group also reached a franchising agreement with Bass for the latter to operate their hotels under Holiday Inn brand name in Germany (AR / Bass - supplementary, 1996). In 1999, Scandic entered a co-operation with SAS Eurobonus (Scandinavian Airlines frequent flyer programme) and Finnair to expand its scope and also acquired 17 hotels that year and thus increased its capacity by 10% or 2,055 rooms. In 2000, Scandic acquired Swedish Provobis hotels located in 16 cities in Sweden (Scandic Hotels, 2007).

Ladbroke commented that it would achieve cost savings of £17 million per year by 2003 from re-branding Scandic hotels into the Hilton brand and the sharing of the central reservation system (Daneshkhu, 2001b). This purchase enlarged Ladbroke's hotel division to 378 hotels with 91,590 rooms (Walsh, 2001). The addition of Scandic hotels – mainly in the Nordic region - would almost double the number of Hilton Hotels in continental Europe, where the Group already operated 65 hotels (Daneshkhu, 2001b). This purchase was brought to the attention of EC, but was cleared because they found no evidence of any possible creation of dominant position or cause of threat to competition in the European hotel business (Europa, 2001). This clearance also supported comments made by Anthony Harris, Managing Director of Hilton International, who claimed that Ladbroke would be the only global player on the Scandinavian market after that acquisition (Financial Times, 2001).

7.3. Comparison of motives for M&A deals

This section compares the motives for M&A deals closed by Ladbroke in the period 1979 and 2001. Table 7.2 provides an outline of Ladbroke's motives for M&A activity retrieved from various secondary sources. Table 7.3 compares the motives cited by analysts during their interviews. Table 7.4 combines the motives retrieved from both sources to provide an overview of Ladbroke's motives for M&A activity in 1996 – 2004.

Myddleton Hotels

The dominant motive for buying Myddleton was to expand Ladbroke's hotel division, as pointed out by Stein. The purchase increased the total number of Ladbroke hotels and motor inns from 18 to 25. Although this was not considered a large number as compared to Ladbroke's purchases later, these hotels provided a strategic fit, being located in major UK tourist cities. The motive to penetrate into major tourist centres and capture the growing market imply a strong value maximising intent with this purchase.

Comfort Hotels

The strategic fit motive is prominent in terms of product and geographical fit between Ladbroke and Comfort. As Respondent 6 pointed out, both hotel groups had the 'same style', meaning they were offering the same products in the three-star market sector. This deal increased Ladbroke's hotel business capacity in terms of an increase in room numbers, and also made Ladbroke the second largest hotel group in Britain after THF. The geographical fit increased Ladbroke's presence in the UK, particularly in London. For instance, Comfort had nine London three-star hotels which covered locations where Ladbroke did not have a presence during that period. Moreover, there was a shortage of three-star hotels in London at the same time (see 4.2, The 1980s); thus, the M&A activity was a suitable and quick method to respond to the market demand.

Ladbroke's motive to expand internationally was also achieved through this purchase as Comfort had sites in important continental European capitals such as Copenhagen, Paris and Amsterdam. Following the increase in the number of hotel rooms, economies of scale were derived through the integration of the operational, sales and marketing departments of the two companies. According to Respondent 2, one of the reasons for Ladbroke to complete this deal was - because 'Ladbroke had the capital to buy', attributed to its strong financial base created from its original core businesses (gaming and real estate). Therefore, value maximisation was achieved through economies of scale. There was also an expansion in scope in terms of an increase in the number of three-star products spread over a wider geographical area. This ultimately provided the company greater reach to existing and new customers.

Rodeway Inns

One of the reasons for Rodeway acquisition was Ladbroke's foray into the international market in the 1980s: Rodeway provided low cost and low risk benefits and 'a practical way of doing some market research in the US', as commented by Jarvis. Moreover Rodeway was predominantly a franchising and management contracting company and this benefited Ladbroke in terms of franchising and management contracting knowledge. The geographical spread in the US also enabled Ladbroke to learn the differences in business operations among states in the country. This concurs with Respondent 2 who commented that Rodeway was a deal 'to test the market in the US' and for Ladbroke to learn about franchising, which Ladbroke was not involved in at that period.

Rodeway operated at the three-star market level and in the tourism sector, and thus was a strategic fit for Ladbroke because both companies were targeting the same kind of customers. Market leadership was another motive for this acquisition as Rodeway was the 15th largest hotel company in the US and the addition of Rodeway hotels gave Ladbroke a total of 60 hotels, which placed it among the top 20 hotel companies in the world quickly. This was supported by the Group's comment during its sale of Rodeway Inns in 1987, that this purchase was a quick way to achieve market leadership. However, they had to sell the group because Rodeway did not achieve the objective of becoming a market leader in the US. This comment implicitly supported the motive of speed to enter a new market, so as to increase its overall market share and attain market leadership. On the other hand, it can be argued that these deals are not considered total failures, in the context of the timing of their purchases. For instance, Rodeway Inns was considered a cheaper way to enter the US market in 1985. The process of acquiring Rodeway also served as a learning platform in franchising for Ladbroke, enabling it to learn the requirements of American visitors travelling within and outside the country, as well as the business operations in the US. Therefore, value maximising motive was considered as more dominant than non-value maximising in this case.

Hilton International

The predominant motive was strategic fit in terms of location and a brand name for Ladbroke to expand its hotel business. HI was one of the earliest hotel companies to establish itself in the international market and thus had a strong global presence. This complemented the geographical presence of Ladbroke's hotels, which was predominantly in the UK. The motive to acquire a good brand name is particularly highlighted by Jarvis who posited that a hotel business needs a recognised brand name, and also advocating this was Parkinson who commented that the Hilton brand was a top trading name. This deal also included several Vista International Hotels within the continental US; therefore, it provided Ladbroke with a renewed foothold in the US, taking into consideration that the Group had already sold Rodeway Inns.

There was also the strategic fit in terms of its target market, as Ladbroke was targeting US travellers and this deal expanded its share of this market since Hilton International's predominant users were Americans. Moreover, the increase in size enabled Ladbroke to gain economies of scale and scope through operational synergies derived by combining the marketing skills of both companies and utilising HI's sophisticated central reservation system to boost bookings and sales in Europe and the US. The benefits in this deal also included speed in reducing the difference in number of rooms operated by Ladbroke and THF, the UK's largest hotel company then.

Analysts had similar opinions of the deal: Respondent 4 commented that this deal was to build up a 'global empire' which concurs with three other analysts who suggested that globalisation was one of the causes of the need for Ladbroke to engage in international hotels. Other comments include the fact that Ladbroke had the 'cash availability' access (mentioned by Respondent 5) and that this could be linked to a good business mix in the company structure, with the core gaming division generating cash to supplement the growth of other business divisions.

Therefore, value maximisation was achieved predominantly through a strategic fit in the company's business. The acquisition fit the company's corporate intent to internationalise its hotel division and provide complementary products to its widening customer base. The expansion enabled Ladbroke to re-brand its products and increase its size and geographical presence quickly.

Stakis Hotels

The main motive for the acquisition of Stakis hotel was the achievement of strategic fit, in terms of geographical fit. It is apparent that there was no overlap in the locations of Stakis hotels with Ladbroke's then portfolio. The addition of Stakis's four hotels in London and 51 provincial hotels increased Ladbroke's market share both in London and outside it. There was also a physical fit in their product specifications as it was possible to convert Stakis hotels into the Hilton brand. In this sense, it also reflected complementary quality between the two hotel companies. Moreover, this sped up Ladbroke's expansion plan, as commented by Respondent 3, in that Ladbroke gained a quick entrance in major UK cities such as Birmingham, Newcastle, Glasgow and so forth, because 'organic growth will take forever and be more expensive than acquisition'. This deal also enabled Ladbroke to derive economies of scale as its number of rooms increased, in turn leading to per unit cost reduction and value enhancement with an expanded pool of customers when the two loyalty programmes were combined.

There was also the complementary fit in terms of related businesses as this deal included casinos and health clubs, which complemented Ladbroke's existing casinos via geographic fit. Moreover, some of Stakis' health clubs were already operating in Ladbroke's hotels. According to Respondent 3, part of the reason for acquiring Stakis was its casinos, which fit in with Ladbroke's gaming division. In addition, there was the anticipation of less stringent regulation for casino operation in the UK during that period. Respondent 6 also supports the fact that there were a number of product fits, in terms of hotels, casinos and health clubs. However, he also thought that there were quite a lot of personal contacts involved in that deal, as he did not find any contest by other companies. Respondent 6's comments further supported Respondent 2's recollection of his direct involvement with this deal.

According to Respondent 2, Ladbroke changed Chief Executive Officer (CEO) twice between 1994 and 1999, and he ascribed Ladbroke's poor financial performance to their choice of CEOs because the latter had no hotel operating background. On the other hand, Michels had been highly regarded by the hotel industry, particularly for his achievement in managing and turning Stakis around, and so became a major motive for this purchase. Although Respondent 6 does not think the purchase of a staff or a management team is the major reason, the fact that Michels became the Managing Director for Ladbroke's hotel division and CEO in 2004 seems to confirm the managerial synergy motive. This value maximising motive is prominent in terms of the acquisition of knowledge and management skills and other business assets in this deal.

This deal could also be considered non-value maximising, if one considers the fact that Ladbroke had failed in closing a couple of deals (InterContinental Hotels group and Coral bookmaker), leading to the fall of Ladbroke's share price. This increased the pressure on the Ladbroke management to turn around the situation by M&A activities. Moreover, George from Ladbroke had also admitted to the failure to merge with HHC in 1998, as one reason that prompted the Stakis purchase. Thus, the closure of the Stakis deal became vital for the management. On the one hand, it can be said that management reputation was at stake; thus there was an aspect of personal motivation among management to excel and M&A activity was a platform to achieve this. On the other hand, taking into consideration several strategic fit existing between Ladbroke and Stakis, the value maximising motive is more prominent.

Scandic Hotels

The dominant motive for the Scandic purchase lies in geographical fit because Ladbroke's and Scandic's hotels were located in different parts of the world. As commented by Respondent 1, Respondent 4 and Respondent 6, there was a need to be in Scandinavia where there were not many international hotel companies, and this purchase put Hilton there ahead of other international companies. Moreover, this purchase doubled Ladbroke's hotel number in continental Europe instantly, supporting the speed motive for this acquisition. Respondent 3 also supports the idea that increasing Ladbroke's number of hotels was a reason for purchasing Scandic, which enabled it to achieve economies of scale. Respondent 5 considered the Scandic purchase as a recognition of a gap in product offered to customers; thus one of the reasons for purchasing Scandic was to supplement Hilton's five-star product with the three-star market sector operated by Scandic.

On the other hand, Respondent 2 regarded the purchase of Scandic as an opportunistic one because the latter happened to be on the market for sale. Respondent 2 was part of a team representing Scandic for this sale. According to him, Scandic realised that its hotel growth in the Nordic region was slowing off in 2001, and anticipated that its share price would fall. Thus, Respondent 2's team, as the representative of Scandic, approached a couple of companies and Ladbroke was the quickest to respond, and the deal was closed within 10 days. Despite the reason of seizing opportunities as given by Respondent 2, this is still considered a value maximising deal. The addition of Scandic Hotels had expanded Ladbroke's hotel division, and increased its presence in a region which has not been penetrated by other international hotel companies.

In summary, the consolidation of motives for M&A in Ladbroke's case shows a mixture of motives for M&A in each deal, rather than one single reason, which concurs with the general M&A literature. The dominant motive was to increase size and this was achieved through all the acquisitions (Myddleton, Comfort, Rodeway, Hilton, Stakis and Scandic). Ladbroke's plan to internationalise its hotel division had been taking place since the early 1980s when it bought Comfort, which included hotels in European major cities, and Rodeway Inns in the US. The major break into the international market was the purchase of Hilton International. Other reasons, such as strategic fit in terms of extending into geographic locations where Ladbroke's hotels were absent, are evidenced in deals such as Comfort, Rodeway, Hilton and Scandic. Product fit is evidenced particularly in the Stakis purchase, as the similar product allowed Ladbroke to re-brand these hotels into the Hilton brand, which increased Ladbroke's market share in the four-star market sector instantly. Thus, the speed motive is supported in addition to product fit that allows re-branding to attain critical mass.

This increase in size (number of rooms) in its hotel division enabled Ladbroke to achieve greater market power in terms of bulk procurement. Moreover, advanced information technology used for management of a bigger pool of rooms for bookings also gave Ladbroke economies of scale via reduction in per-unit cost. In the same way, integration of members registered under two loyalty programmes enabled Ladbroke to derive economies of scope by providing a range of products for its existing and newly registered customers in the database. Other value maximising motives include knowledge acquisition, as evidenced by Rodeway Inns and Hilton International, which gave Ladbroke new means of expansion through franchising and management contracting. Although there was some trace of managerial motive in the case of Stakis, as Ladbroke management was pressured to engage in M&A activities in order to prove their managerial capabilities to the City, the value-maximising motive was more prominent in all these deals.

The deals discussed support the efficiency argument in the M&A literature for cost reduction and value enhancement in the light of complementary or supplementary resources. The motive for the Stakis deal was linked to strategic fit as it added value to Ladbroke not only in its hotel sector, but also in other related business operations such as casino and health club centres. Motives concurring with the M&A literature also include operational relatedness as evident in health club centres which were already operated in some of Ladbroke's hotels. This complemented its hotel division in terms of value added facilities for the hotel customers. Simultaneously, the casinos supplemented Ladbroke's existing casino business with extended locations, particularly in London.

Table 7.2: Ladbroke's motives for M&A activity, 1979 - 2001

	Myd-dleton	**Com-fort**	**Rode-way**	**Hilton**	**Stakis**	**Scandic**
	1979	1984	1985	1987	1999	2001
Economies of scale and scope						
Economies of scale and scope: Cut cost		✓		✓	✓	✓
Economies of scale: Re-brand product		✓		✓	✓	✓
Economies of scope: Loyalty programmes		✓		✓	✓	✓
Market power						
To increase market share: in other businesses					✓	
Increase size/ market share: No. of hotels and rooms, critical mass	✓	✓	✓	✓	✓	✓
Increase size/ market share: Became market leader		✓			✓	✓
Market power: brand rights				✓		✓
Speed						
Speed: Buy market leader			✓			
Speed: Increase size				✓	✓	✓
Strategic fit						
Strategic fit: Complementary product		✓		✓	✓	✓
Strategic fit: Geographical fit	✓	✓			✓	✓
Product portfolio: own, franchise, manage, etc.			✓	✓		✓
New market, new customers						✓
Value enhancement: occupancy and yield rate					✓	
Value enhancement: through location	✓	✓			✓	✓
To acquire new portfolio/ products				✓		
To acquire with minimum assets						✓
Market penetration: same product/ customers		✓			✓	✓
Increase presence in the UK	✓	✓			✓	
Managerial motive				✓		
Managerial synergies: synergies					✓	
Managerial motives: Personal					✓	
Foreign competition						
Internationalisation: new locations		✓	✓	✓		✓
Internationalisation: product		✓	✓	✓		
Others						
Difficult to win hotel management contract					✓	
Risk adverse: franchisor			✓			✓
Brand name, prestigious				✓		

Source: Ladbroke annual reports 1979 – 2004, various newspapers and trade journals.

Table 7.3: Comparing analysts' comments on Ladbroke's motives for M&A activity, 1979- 2001 (R = Respondent)

	R1	R2	R3	R4	R5	R6
Ladbroke - Myddleton (1979) and Comfort (1984)						
To 'entice' presence in the UK, to increase presence in the UK		o				
Ladbroke had the capital then to buy		o				
Ladbroke – Comfort (1985)						
To increase presence in the UK	o	o				
Strategic fit: in terms of geography and style						o
Rodeway Inn (USA) (1985)						
To test market in the US		o				
To understand/ learn about franchising		o				
Ladbroke - Hilton International (1987)						
Global empire building and corporate strategy				o		
Globalization issue	o		o			o
Cash availability/ access (gaming and hotel)					o	
Ladbroke - Stakis (1999)						
To acquire David Michels		o		o		
To acquire Stakis' management				o		
Coverage: Locations	o			o		
Complementary product; portfolio Fit: Casino and health club						o
Strategic move because understand gaming			o			o
Strategic move, good fit, giving geographical spread and location and critical mass			o			
Quick entrance in major cities			o			
Organic growth is slow and expensive – Speed			o			
Ladbroke – Scandic (2001)						
Opportunity: Scandic was up for sale and Hilton need to expand into north Europe or the Scandinavia region		o		o		o
Need 'to be in the Scandinavia'	o			o		o
To gain volume and dominance			o			
Cover mid-market, new market and increase customer base/ portfolio					o	

Source: Semi-structured interviews

Table 7.4: Comparing Ladbroke's motives for M&A activity, 1979 - 2001

	Myd-dleton	**Com-fort**	**Rode-way**	**Hilton**	**Stakis**	**Scandic**
	1979	1984	1985	1987	1999	2001
Economies of scale and scope						
Economies of scale and scope: Cut cost		✓		✓	✓	✓
Economies of scale: Re-brand product					✓	✓
Economies of scope: Loyalty programmes				✓	✓	✓
Market power						
To increase market share: in other businesses					✓	
Increase size/ market share: No. of hotels and rooms, critical mass	✓	✓	✓	✓	✓	✓
Increase size/ market share: Became market leader		✓			✓	✓
Market power: brand rights						✓
To gain volume and dominance						✓
Speed						
Buy market leader			✓			
Increase size quickly				✓	✓	✓
Organic growth is slow and expensive					✓	
Strategic fit						
Strategic fit: Complementary product					✓	✓
Geographical fit and value enhancement through location	✓	✓			✓	✓
Product portfolio: own, franchise, manage, etc.			✓	✓		✓
New market, new customers						✓
Value enhancement: occupancy and yield rate					✓	
To acquire new portfolio/ products				✓		
To acquire with minimum assets						✓
Market penetration: same product/ customers		✓			✓	✓
Increase presence in the UK	✓	✓			✓	
To increase presence in the UK	✓	✓				
Coverage for Hilton					✓	
Complementary product: Casino, good fit and casino's location were good fit					✓	
Strategic fit, giving geographical spread and critical mass		✓			✓	
Portfolio fit: Cover mid-market, new market and increase customer base/ portfolio					✓	✓
Managerial motive						
Managerial synergies: synergies					✓	
Managerial motives: Personal					✓	
To acquire David Michels					✓	

	Myd-dleton	Com-fort	Rode-way	Hilton	Stakis	Scandic
	1979	1984	1985	1987	1999	2001
To acquire Stakis' management					✓	
Growth						
Need 'to be in the Scandinavia'						✓
Health club business was growing and LivingWell was doing well					✓	
Foreign competition						
Internationalisation: new locations		✓	✓	✓		✓
Internationalisation: product		✓	✓	✓		
Global empire building and corporate strategy				✓		
Globalisation issue				✓		
Others						
Difficult to win hotel management contract					✓	
Risk adverse: franchisor			✓			✓
Brand name, prestigious				✓		
Ladbroke had the capital then to buy	✓					
To test market in the US			✓			
To understand/ learn about franchising			✓			
Cash available from other business sector: gaming				✓		
Opportunity: Scandic was up for sale and Hilton need to expand						✓

Source: Ladbroke annual reports 1979 – 2004, various newspapers, trade journals and Interviews

* Words in *italics* are motives mentioned by analysts during interviews

7.4. General development of Ladbroke

The development of Ladbroke's hotel division is studied through the examination of various M&A activities and the macro environment between 1979 and 2001. Ladbroke increased its size from owning three hotels in 1973 to operating 403 hotels across the world in 2004. This rapid and extensive growth is attributed to the use of the M&A mechanism, together with several strategic changes within the company, facilitating its emergence as one of the market leaders in the hotel industry

Ladbroke began its hotel business with the opening of three moderately priced hotels in 1973. The earlier growth was achieved through the acquisition of a leisure company which included 14 motor inns, and other subsequent single-asset acquisitions. In 1980, the purchase of Myddleton further increased its number of hotels and locations in major UK city centres. Ladbroke's growth in the hotel industry was also attributed to related diversifications undertaken during the same period. In 1982, the Group acquired the BPF Travel Inc., a US-based travel company that arranged hotel reservations for large corporate clients. This acquisition established Ladbroke's presence in the US and generated additional business for Ladbroke's UK hotels (AR / Ladbroke, 1982). In 1985, Ladbroke took over Arthur Bell and Sons, a Scotch whisky company, in view of its related business with its hotel sector (Wood, 1985). According to Jarvis, Ladbroke was the second largest hotel operator in the UK and was interested in other companies that had important hotel businesses because of trading opportunities (Wood, 1985). Moreover, the Arthur Bell and Sons deal also included four hotels, which the company had acquired from the Gleneagles Hotel group in 1984. In 1985, Ladbroke also aimed to expand its hotel division internationally through the acquisitions of Rodeway Inns and Comfort deals. The former provided Ladbroke with its first international expansion, and knowledge in franchising and hotel operation experience in the US; and the latter established Ladbroke hotels in major European cities.

Ladbroke was operating as a conglomerate in the early 1980s (see Appendix M). This was partly due to Ladbroke's management emphasis on 'growth with security' by balancing their fast cash flow businesses (such as gaming) with those that were asset-based (property and hotels) (AR / Ladbroke, 1982, pp. 2). Cash was generated by unrelated businesses such as gaming, which was core to Ladbroke, and Central Independent television, the largest UK commercial network station, a Satellite Television company which provided the Group with licence fees (AR / Ladbroke, 1981). In 1985, Ladbroke acquired Home Charm Group plc, a DIY retailer, to meet one of Ladbroke's key corporate strategic objectives of establishing a fourth core business. The Group saw DIY retail as an area in which it could take advantage of the growing level of consumer expenditure on leisure time activities (AR / Ladbroke, 1985). In 1986, Ladbroke's strategic moves changed to focus on four core businesses, which were gaming, hotels, property and DIY retailing. It started to exit from its non-core interests, for example, the sale of Laksys, an audio and video chain, to Granada for £30 million, and the bingo clubs and amusement centres to Rank Organisation for £67.5 million in the same year (AR / Ladbroke, 1986; Batchelor, 1986; Churchill, 1986).

In 1987, Rodeway Inns was sold as this purchase did not realise Ladbroke's aim to gain market leadership in the US within a set time line (Harris, 1987c; Hotel & Motel Management, 1987). In the same year, Ladbroke acquired Hilton International, which was considered its big break into the international hotel industry, as well as gaining an internationally well-known brand name. This purchase also provided Ladbroke with new knowledge in hotel operation through the management contracting method. In the following few years, Ladbroke re-structured its hotel division into an individual profit generating division by capitalising on its brand name 'Hilton'. It used management contracting to expand its hotel division and minimised purchasing hotel assets as it used to do (AR / Ladbroke, 1987; 1991). In retrospect, it is obvious that branding has been playing a major role in Ladbroke's rapid growth in its hotel division. For instance, Ladbroke changed the names of Mercury Hotels and Comfort Hotels into Ladbroke in 1979 and 1985 respectively. In 1987, Ladbroke created the name 'Hilton National' and changed its UK Ladbroke hotels into Hilton National. The plan to develop a group of budget hotels was then considered unimportant and was put aside (Sherrell, 1987d) as Ladbroke concentrated on expanding Hilton hotels, which are positioned in the four- and five-star markets (AR / Ladbroke, 1987; 1991).

The first Gulf War which started in 1991, the three years of economic recession in the UK (1989 – 1992) and abroad, as well as the property market crash, markedly reduced the group's profits because international travel decreased substantially. In 1994, Ladbroke changed its strategy to concentrate on developing its hotel and gaming businesses to enhance shareholder value, leading to decisions to reduce debt and interest costs by selling its commercial property portfolio, and not to make new investments in commercial properties (AR / Ladbroke, 1993). The sale of its property division clearly shows how the strategy of Ladbroke had changed from the belief in the 1980s that 'high quality property development provides the finest assets backing and is a reliable hedge against inflation' (AR / Ladbroke, 1980, pp. 2) to the belief in holding minimum assets to protect its bottom line against unpredictable negative economic change. Ladbroke's hotel industry growth in 1996 came through a strategic alliance with HHC. Ladbroke and HHC signed a formal agreement to reunite the Hilton hotel brand by marketing the brand together on a worldwide basis (AR/ Ladbroke, 1996). Both HHC and HI increased their presence in an instant with the unifying of brands and the consolidation of loyal customers in the database. The number of hotels for HI increased from 160 to 400 instantly. This move reinforced the strength of branding in the hotel industry.

In 1999, Ladbroke acquired the Stakis hotel group in recognition of the strategic fit in terms of products and geographical location. These strategic fits enabled Ladbroke to convert Stakis hotels into the Hilton brand, as a quick way to increase its number of hotel rooms and locations. Ladbroke changed its corporate name – Ladbroke - to the Hilton Group in 1999, upon gaining size through this purchase. However, the Scandic hotel group acquired in 2001 did not go though an extensive re-branding to the Hilton name. Although Hilton is well-known world wide, the name 'Scandic' was more widely recognised in Scandinavia and thus remained intact, as pointed out by one of its executives. This further fortified the power of brand name in the hotel industry. In 2002, the Hilton brand extended its product range into the three-star all-inclusive market sector through an agreement with the Dominican Republic hotel group to re-brand the latter's Caribbean hotels 'Coral by Hilton' (AR / Ladbroke, 2002).

Ladbroke's hotel business was adversely affected by the aftermath of the 9/11 terrorist attack in 2001, in conjunction with other world events and economic slow down worldwide (Baker, 2001). These events led to fewer business travellers and lower demand for hotel rooms. Since Ladbroke's hotel business was concentrating on the four- and five-star markets, this was compounded by business travellers downgrading their accommodation because many companies were cutting costs. This in turn affected the Group's overall financial performance and main revenue generating business shifted from the hotel division to gaming business.

The changes in sales and profit percentages generated between hotel and gaming divisions in the Group's total sale and profit were particularly obvious from 2002 (see Appendix M). In 2002, the gaming division was increasingly generating between 60% and more than 100% profits whilst the hotel division contributed a decreasing percentage from 85% to 44%. The better financial performance was partly due to the abolition of the 9% consumer tax on betting which was replaced by a 15% Gross Profit Tax on gaming operators' gross profits. The other reason was the emergence of online betting stimulated by the availability of cheap, fast Internet access (Mintel, 2005a; 2006). Gradual relaxation of gaming rules from 1996 (see 2.2.6), also contributed to better financial performance in Ladbroke's gaming division. The potential growth in the gaming industry in anticipation of continuous regulation changes, and Ladbroke's experience with the hotel business itself could have accelerated the drastic change of strategy, with Ladbroke returning to its original gaming business in 2006.

After 2004

In 2005, Ladbroke sold Hilton hotel group to HHC in the US. According to Ladbroke, the offer price from HHC was attractive for Ladbroke and the latter expected a number of benefits upon disposing of the hotel company (Hilton Group plc, 2005). Moreover, the Group saw the significant growth in UK and international betting markets as an opportunity to take advantage of, given the strength of the Ladbroke (gaming) brand and its experienced management team in gaming. In addition, Ladbroke expected, as a stand-alone betting and gaming business, to benefit from: (a) being valued independently on the stock market as a pure betting and gaming business; (b) the ability to develop a capital structure and dividend policy appropriate to a pure betting and gaming business; and (c) being able to retain, motivate and recruit key personnel more effectively (Hilton Group plc, 2005). Ladbroke officially changed its 'Hilton Group plc' name back to 'Ladbroke' on February 23, 2006 (British Broadcasting Corporation, 2006). The change marked the end of Ladbroke's 33 years of hotel ventures.

The above discussion of M&A activities in the case of Ladbroke's hotel division revealed a mixture of motives for each deal and supported the general M&A literature, in terms of value and non-value maximising motives. The changes in strategy also shed light on the UK economy and provided a better understanding of 'why' and 'how' a hotel company expanded. The next chapter will examine the development of Bass Group plc.

Chapter 8:
Bass Group plc (Bass)

This chapter explores the development of the InterContinental Hotels Group through the development of Bass Group plc (Bass). The term 'Bass' is used throughout the discussion, including the period after its name had been changed to Six Continents in 2001 and InterContinental Hotels Group in 2003.

Table 8.1: Major merger and acquisition activities, 1979 – 2003

	Bass/ IHG
1979	Clingendael Group
1980	Centre Hotels
1987	Holiday Inn
1988	Holiday Inn
1989	Holiday Inn
1998	InterContinental Hotels
2000	Southern Pacific Hotels Corporation SPHC (Australia) Bristol Hotels & Resorts
2001	Post House
2003	Candlewood Suites (USA)

Source: Bass annual reports, various newspapers and trade journals

The first section describes the beginning of Bass's businesses in brief. The second section examines several major M&A activities that Bass undertook between the period 1979 and 2003 (see Table 8.1). The third section compares and contrasts the motives for each deal by using both the secondary and interview data. The final part discusses the general development of Bass's hotel division in the context of corporate strategy changes and the macro environment.

8.1. The beginning of Bass Group plc

William Bass established the Bass brewery business in 1777 and it was the first registered trademark in the UK (InterContinental Hotels Group, 2004). It expanded its brewery-related business in the second half of the 20th century via several mergers. Bass acquired Tennents Caledonian in Scotland, Mitchells & Butlers in the Midlands, and merged with Charringtons in London in 1967

(InterContinental Hotels Group, 2004). In 1979, the company name was changed from Bass Charrington Limited to Bass Limited. The following year, as a result of the passing of the new Companies Act 1980, Bass re-registered under the Act as a public company and changed its name to Bass Public Limited from Bass Limited (AR / Bass, 1981). Bass' hotel division was established in 1967 following the merger with Charrington in London. It then decided to establish a separate management structure for the hotel division and to rename all the hotels Crest Hotels which were positioned at the three-star market sector (Stewart, 1996). In 1973, Bass expanded its Hotel division through the acquisition of 27 Esso Motor Hotels in the UK and continental Europe (Goymour, 1986; Owen, 1992). Subsequently, Bass's hotel expanded through several more M&A activities which will be examined in detail in the next subsections.

8.2. Hotel expansion- major M&A activities

Bass expanded its hotel business between 1979 and 2003 via several methods. The most widely used method of expansion for Bass was the M&A mode. Bass bought ten hotels from Clingendael Group in 1979 (8.2.1) to increase its presence in the Netherlands, and, in turn, expand its hotel division overseas. Centre Hotels (8.2.2) were acquired in 1980, which increased Bass's hotel stock rapidly in the UK. The purchase of Holiday Inn hotels (8.2.3) and later the rights to the brand name and trademarks provided Bass with a strong presence in London and the world. Bass further gained an international presence and a five-star product market through the InterContinental Hotels (ICH) deal (8.2.4). The acquisition of Southern Pacific Hotels Corporation (SPHC) in 2000 (8.2.5) made Bass the biggest hotel operator in Asia Pacific region. Bristol Hotels & Resorts Inc., (Bristol) a US based Hotel Management Company, (8.2.6) presented Bass with the opportunity to expand rapidly via management contracts and to reduce its hotel ownership. The Post House deal in 2001 (8.2.7) increased Bass' share in the four-star UK market. Candlewood Suites (8.2.8) extended its range of leisure and business products on offer worldwide. Each of these major deals will be discussed in the following sections.

8.2.1. Clingendael Group

In 1979, Bass expanded its hotel sector through the acquisition of hotels from the Clingendael Group in Holland for £16 million, in recognition of the potential growth of the hotel business (The Times, 1979). According to Bass, the Clingendael group of hotels in the Netherlands comprised 10 three- and four-star category hotels (AR / Bass, 1979). These hotels were located across Holland, in areas of potential growth for the hotel business (The Times, 1979). Moreover, the hotels consisted of a range of different types, for instance the modern hotels at Rotterdam and Scheven, the city centre hotel at Amsterdam and the prestigious and well-known hotel, Hotel des Indes, at the Hague (AR / Bass, 1979). This purchase made Bass one of the largest hotel companies in Holland, operating 13 hotels and having the largest number of hotel rooms in the country (AR / Bass, 1979; The Times, 1979). During the same period, Bass was operating 54 Crest Hotels in the UK, 12 in West Germany, two in Belgium and two in Italy (The Times, 1979).

8.2.2. Centre Hotels

Bass bought Coral Leisure Group Limited (Coral Leisure) in December 1980 for £87 million (AR / Bass, 1980; Goymour, 1984b; Stewart, 1996). The deal included Coral Leisure's core businesses - off-course bookmaking (60 licensed betting offices), casino operations, holiday camps run under the brand of Pontin's, diverse entertainment complexes and a hotel group - Centre Hotels (Caterer and Hotelkeeper, 1980c; Stewart, 1996). Bass had been planning to expand its existing hotel division and the Centre Hotels was considered a good fit for the Group because Crest Hotels had been located in provincial areas and the Centre Hotels offered exposure in the London market, major London airports and important provincial city centres in England and Wales (AR / Bass, 1981; 1982). Moreover, during that period, Centre Hotels was the fourth largest hotel group in the country with 22 hotel units and was also the leading three-star hotel operator (Hardman, 1979). Other analysts in the City took the view that Bass was interested in the Pontin's business, in addition to Centre Hotels, because Pontin's was operating 24 holiday camps and was named 'one of the biggest pubs in the world' (Caterer and Hotelkeeper, 1980c, pp. 7).

The origin of Centre Hotels went back to 1900, when it was created as Cranston (London) Hotels, and the company was Scottish-owned and dominated by teetotal investors (Hardman, 1979). In its first 60 years of operation, Centre ran three temperance hotels in London - the Waverley, the Ivanhoe, and the Kenilworth - and the name Cranston (London) Hotels was changed to Centre Hotels (Cranston) in 1965, and later to Centre Hotels by Henry Edwards (Hardman, 1979). The economic crisis from 1973 to 1975 had a spill-over effect on the UK hotel industry, leading to a property market crash because of massive construction programmes and high gearing incurred by companies during the concessions offered by HDIS in the late 1960s (Goymour, 1986; Hardman, 1979). Centre was one of those hotel companies that were badly affected and was sold to Coral Leisure in 1977 for £16.7 million (Stewart, 1996). In 1980, Bass in turn bought Coral Leisure because the latter was facing a financial crisis due to high interest rates, in conjunction with the high unemployment rate in the UK, which reduced the spending power of many of its customers. In addition, although Coral bookmaker had good performance, the Group's casino division, which had been generating high profits, was unsuccessful in its licence renewal for three West End casinos (Caterer and Hotelkeeper, 1980a; 1980b).

After closing the deal, Bass integrated Coral Leisure's businesses, except its casinos, into the Bass management structure. Centre Hotels were integrated into Crest Hotels after refurbishing and re-naming (Goymour, 1984b). Pontin's holiday camps and Coral racing were managed as separate companies and Coral bookmaker was absorbed into Bass Leisure (AR / Bass, 1981). According to Bass, the casino operations did not form part of Bass' development plans and therefore were sold shortly after the acquisition (AR / Bass, 1980).

8.2.3. Holiday Inns Hotels

Bass's acquisition of Holiday Inn brands spanned over a number of years in four batches:

(1) The first acquisition was considerably smaller than their subsequent buys, consisting of the purchase of eight Holiday Inn hotels in the UK and Europe.

(2) The second was the purchase of Holiday Inn Inc., Holiday Corporation's (HC) subsidiary and its 153 international hotels, outside North America, Canada and Mexico, and 13 hotels inside the US.

(3) The third consisted of the takeover of 38 Holiday Inn hotels in Canada.

(4) The final purchase included all the Holiday Inn Hotels in the US and worldwide, the brand rights, trademarks, reservation systems and the training university.

The first Holiday Inn was built in 1952, in Memphis, and the idea of Holiday Inn Hotels was conceived by Kemmon Wilson (Wilson), to provide comfortable rooms, at an affordable price for families, after his own personal bad experience with motels in 1951 (Wilson, 1972). Moreover, he saw the potential in providing this kind of facilities, taking the view that the hotel-motel industry was 'the greatest untouched industry in the world' (Wilson, 1972, pp. 13). In 1954, Wilson teamed up Wallace E. Johnson, a well-known home-builder to start Holiday Inns of America, Inc. (Wilson, 1972). This was followed by the development of a group of Holiday Inn Hotels, through franchising within the US. Other subsidiaries were set up to support the hotel-motel business, namely: Inn Keepers Supply Company (1957) to supply equipments, etc.; Holiday Press (1958) to support printing and office supplies and Holiday Innkeeping School (1959)(known as Holiday Inn University currently) to provide training. In 1963, Holiday Inns of America, Inc. closed a deal with Gulf Oil Corporation to promote a strategic alliance between the two companies through the former's Holiday Inn System (a system which was similar to the loyalty programmes of the present day). The company was listed on New York Stock Exchange in 1963, and three other US stock exchange centres in 1965. In 1965, the company also started to develop its computerised reservation system - Holidex. Within a period of 16 years, Holiday Inn opened 1000 Holiday Inns in the US, expanded into other countries - Canada in 1960 - and extended to other continents such as Puerto Rico in South America in 1963 and Holland in Europe in 1968 (Wilson, 1972).

In 1969, the corporate name was changed from Holiday Inns of America, Inc. to Holiday Inns, Inc. because of its international exposure, and the previous slogan 'The Nation's Innkeeper' was replaced by 'The World's Innkeeper' (Wilson, 1972). In May 1985, the corporate name was changed again from Holiday Inns, Inc. to Holiday Corporation (HC). According to the then chairman and chief executive, Michael D. Rose, 'Holiday Inns' is only one of their brands, and the new name would reflect better the hospitality nature of the business' (Wall Street Journal, 1985a; 1985b, pp.1).

In the mid-1980s, HC decided to reduce debt by selling some of the Holiday Inns (Morris, 1986; William and Cohen, 1986). The company's poor financial performance was partly affected by the oversupply of hotel rooms in the US hotel industry in the mid-1980s (White, 1989). To complicate the situation, many of its older properties had been operating in some less developed countries, which were relatively prone to political instability (Cohen, 1986; Pace, 1981). In order to cut cost in operations and strengthen its profits, HC began expanding in more developed areas and selling properties in less desirable locations in the early 1980s (Pace, 1981; William and Cohen, 1986). The poor performance was also driven by an anti-takeover plan to halt a possible acquisition in the early 1980s (Goymour, 1988b; Wall Street Journal, 1985a). When the Group found that a potential predator had built up a stake in HC's shares, threatening the group with a take-over, HC purchased thousands of its company shares on borrowed money to make its balance sheet look bad (Wall Street Journal, 1985a). In addition, this anti-takeover plan included a $65 per share dividend to be distributed to shareholders by any successful buyer (Bean, 1986; William and Cohen, 1986). Although, HC managed to prevent a take-over, it raised its debt level simultaneously, and this led to the need to reduce it, by putting up its hotels for sale (Feltham, 1987b; Goymour, 1988b).

(1) The acquisition of eight Holiday Inns

In June 1987, Bass completed its acquisition of four Holiday Inn Hotels in England from HC for the price of £58 million ($97 million (Quest, 1987; Wall Street Journal, 1987a). In the same year, Bass acquired four hotels in Europe from HC for

£34.204 million ($55 million). They were located in Paris, Belgium, Brussels Airport and Eindhoven, (Caterer and Hotelkeeper, 1987f; Feltham, 1987b; Wall Street Journal, 1987a). Bass continued to operate all the eight hotels under a franchising arrangement with HC, as Holiday Inns brand (The Times, 1987; Wall Street Journal, 1987a).

According to Bryan Langton (Langton), chairman of Crest Hotels, the hotel division of Bass, the Holiday Inn purchase took place mainly out of the need to grow international in order to increase turnover in its hotel division (Goymour, 1988b). According to him, he was under pressure by the target set by Bass's chairman Sir Derek Palmer for each business division to achieve a turnover of 25%, and his division - hotel, holidays and other leisure business - was accounting for less than 20%. Thus, in view of Crest being a brand that was confined to the European market, rather than an international market, he decided to go international in the hotel division in order to grow. The opportunity came when HC got into financial crisis and started to sell their hotel assets. Thus, Bass had taken its first step towards acquiring an international brand name. These deals also brought Crest hotels into the Holiday Inns international reservations system (Caterer and Hotelkeeper, 1987c). At the closing of the eight deals, Langton asked for further deals and this led to the purchase of the Holiday Inns International outside the US (Goymour, 1988b).

(2) The purchase of Holiday Inn Inc.

In September 1987, Bass and HC closed the deal on the sale of Tennessee-based Holiday Inn International (HII) for about $475 million, including 175 international hotels, 43 of which were under development, 13 US hotels and the trademarks and businesses of HC outside the USA, Canada and Mexico (AR / Bass, 1988; Feltham, 1987b; Wall Street Journal, 1988). The US hotels were located in three southern states: seven hotels in Florida, two in South Carolina and four in Tennessee, and cost Bass $175 million (Goymour, 1988b; The Washington Post, 1987b). Langton considered the 13 hotels in the US as amounting to a small presence in the US, but a major step towards internationalisation, as having a presence in the US was considered to be an achievement of real international status (Goymour, 1988b). In addition, Langton commented that 'the big change for Bass now is a move away from purely a Crest operation, in which we controlled nearly all the assets, into joint-venture, management contracts and partially owned investments' (Goymour, 1988b, pp. 36). Langton also found a cultural fit between the two companies, commenting that, 'The way Bass and Holiday Inn run each company is similar. The greatest thing is the commitment, synergy and philosophy of the two companies' (Quest, 1987, pp. 18). HC and Bass also completed the formation of a joint venture to develop the Holiday Inn brand in their respective markets (AR / Bass, 1988; Wall Street Journal, 1988).

Bass gained three major benefits from this deal. First, an opportunity was created for future growth in the international hotel business with the world's leading hotel brand name (AR / Bass, 1987). Second, Bass gained control of the largest three-star hotel brand outside of the US, Mexico and Canada (Feltham, 1987b; Hannan, 1987). Third, HC's reservation systems had been updated to Holidex 2000, allowing the creation of a database of each guest's information, which provided Bass with important marketing and reservation back-up (Feltham, 1987b; Hannan, 1987).

(3) Acquiring Holiday Inn hotels in Canada

In 1989, Bass acquired Commonwealth Hospitality Limited (CHIC) - from Scott's Hospitality, a Canadian-owned company, based in Toronto, for £1 billion (Fox and Jay, 1995; Wall Street Journal, 1989b). CHIC was the largest franchisee of HC in Canada and was Canada's largest hotel management company (Wall Street Journal, 1989b). According to the deputy chairman and chief executive officer of Scotts, Benson Orenstein, one-third of the hotels were owned by CHIC and the rest were leased (Wall Street Journal, 1989b). The acquisition provided Bass with 38 hotels and over 8,700 rooms, primarily operating as Holiday Inns (AR / Bass, 1989; Harris, 1981). Amongst the 38 hotels, 32 were operated under franchise from HC, two operated as Briarwood Hotels Inc. and four operated under license from the Radisson Corporation. The deal gave Bass the rights to operate Holiday Inn Hotels in Canada and Mexico, both of which were growth areas during that period (Graham, 1989). Bass also increased its own franchising licences and as a result operated 291 hotels in 54 countries with more than 53,800 bedrooms (AR / Bass, 1989).

By the late 1980s, Holiday Inns accounted for 10% of all hotel rooms in the US and more than 25% in the three-star market sector (McCarthy, 1989). During that period, the three-star market sector in the US had a more difficult time due to an oversupply of rooms (White, 1989). Although Holiday Inn had encountered a four point drop in its occupancy rate, the rate of 67% (in 1989) was still four points higher than the average for all hotels in the three-star market sector (White, 1989). According to James Murren (an analyst at the New York investment company of C. J. Lawrence, Morgan Grenfell), this favourable occupancy rate of Holiday Inns attracted Bass to bid for Holiday Inns (White, 1989).

(4) Acquiring Holiday Inn Hotels in the US

Bass completed its purchase of the remainder of the Holiday Inn hotels in North America in February 1990 (Harris, 1989; The Times, 1990a). Bass paid HC £1.25 billion ($1.98 billion) for the final acquisition, which consisted of 1,389 hotels plus HC's computer reservation system, the biggest hotel system in the world with nearly 1,600 different hotels and 310,000 rooms in 53 countries (Bennett, 1989; Graham, 1989). Bass also benefited from the access to the Holiday University, founded in 1959 and was situated near the Holiday Inn's headquarters in Memphis, Tennessee (Bennett, 1989; Hannan, 1987; Wilson, 1972). As part of the deal, HC would retain its hotel groups (Embassy Suites, Hampton Inns and Homewood Suites), a US casino operation, and reorganise under a different name – Promus - as well as receiving a 2% stake in Bass (Graham, 1989).

Some analysts doubted Bass's strategy of buying hotels in the US since the US market was suffering from over capacity and an economic slow down in the late 1980s (Carey, 1990). However, Bass executives saw this purchase as beneficial because of the decreasing property price, which made hotel development easier, and also as a reduction in risk in hard times because the Holiday Inn group was primarily a franchisor (Carey, 1990). This final acquisition made Bass the owner of the Holiday Inn brand throughout the world as well as a major player in the international hotel market (AR / Bass, 1990). In total, Bass paid out £1,689 million for the acquisitions of Holiday Inn Hotels over a few years (AR / Bass, 1990; The Times, 1990a).

8.2.4. InterContinental Hotels

Bass's next big deal was the acquisition of the InterContinental Hotel group (ICH) from Seibu Saison in March 1998 (Daneshkhu, 1999a). Bass acquired ICH for £1.78 billion (US$2.9 billion). The deal included 187 hotels with 65,000 rooms in 69 countries (Goymour, 1984a). 22 of these hotels were owned or held on long lease, which provided the major part of ICH's profit (AR / Bass, 1998). Out of the 187 hotels, 117 (44,000 rooms) were under the ICH brand and 20 (8,000 rooms) were under the three-star Forum brand (Willman, 1998b). Forum hotels were based in London, targeting business travellers on a tighter budget (Goymour, 1984a). There were another 50 hotels, which were operating together with the ICH and Forum hotels under a joint venture marketing agreement with Global Partners (AR / Bass, 1998). Bass also agreed to issue a license to Seibu Saison Group to have the exclusive right to operate the ICH and Forum brands in Japan where Bass had no operating arm (McDowell, 1998; Willman, 1998b).

The origin of ICH goes back to 1945, when United States president Franklin Roosevelt and the US State Department wanted to help countries in Latin America to strengthen their economies. It was found that the lack of adequate hotels was discouraging business and tourist travel in that region. Juan Trippe (Trippe), the President of Pan America World Airways (Pan Am) was then asked to survey the situation (Caterer and Hotelkeeper, 1981i). With the help of some hoteliers, the survey confirmed that there was a shortage of hotels, but Trippe could not find any US company to participate in establishing hotels in Latin America. Finally, Trippe decided, in 1946, to form a wholly-owned subsidiary, InterContinental Hotels Corporation, to handle the problem (Caterer and Hotelkeeper, 1981i). The number of ICH grew to 14 by 1956, and in 1961, the company established its first hotel outside the Latin America continent, in Beirut, in the Middle East (Pace, 1981). In the 1970s, ICH expanded together with Pan Am's airline business and in 1972, Forum Hotels were created to provide relatively inexpensive accommodation

(Pace, 1981). However, Pan Am faced several challenges from new competition brought about by airline deregulation in the late 1970s; oil price crisis; increasing labour costs and over extended air routes, leading to a lost of $217.6 million in the first half of 1981. Therefore, Pan Am started to sell assets to reduce its lost, including the sale of ICH (New York Times, 1981a).

Grand Metropolitan (GM) bought ICH from Pan Am for £246 million ($500 million) in August 1981 (Cole, 1988; Goymour, 1984a; New York Times, 1981b). When GM bought over ICH, the Group had already expanded and established 97 hotels and new hotel projects in 46 countries (Caterer and Hotelkeeper, 1981i). In December 1988, Seibu Saison Group, a Japanese conglomerate, acquired ICH from GM when the latter decided to sell its hotel business in order to focus on its drink, food and retailing businesses (Lipman, 1988; Lowenstein and Marcom Jr, 1988). In 1998, Seibu Saison Group also experienced a financial crisis and ICH was put on a six-week auction, whereby Bass competed with rivals such as Marriott International, Patriot American Hospitality Inc. and Ladbroke (Willman, 1998b). Marriott and Bass were the highest bidders, and Bass emphasised that it was able to beat the US group – Marriott International - by promising to deliver cash quickly to the troubled Japanese company, which had been selling several assets to cover its subsidiaries' bad debts (Willman, 1998b). Some industry analysts commented that this deal made sense for Bass because it was already dominating the three-star market by operating or franchising 2,400 facilities (McDowell, 1998). Moreover, it was noted that the upper end of the hotel market had long been the choice of business executives and had been the most consistently profitable in the 1990s as the economy strengthened (McDowell, 1998).

8.2.5. Southern Pacific Hotels Corporation

In January 2000, Bass's affiliate companies, Bass Overseas Holdings Limited bought Southern Pacific Hotels Corporation (SPHC) from Hale International Limited (Hale) for A$315 million (£125 million) (Herald, 2000). This deal included 24 hotels in Australia (only 6 were owned or leased), 13 in New Zealand, eight in the Southern Pacific Islands, three in Papua New Guinea and 11 in the rest of Asia

(Kermode, 2000; Herald, 2000; Daneshkhu, 1999d; Oyama, 2000). Hale created SPHC in 1958 and the latter became the second largest hotel management company in Australia in the early 2000s, owning, leasing, managing and franchising hotels throughout the Asia Pacific region (InterContinental Hotels Group, 2000a; Oyama, 2000; Herald, 2000). Its main brands were the three- and four-star Parkroyal, four-star Centra, and three-Star Travelodge hotels (Daneshkhu, 1999d; 2000a). Hale, in turn, was owned by the Pritzer family, which also owned the Chicago-based Hyatt hotel group. The Pritzker family had decided to sell SPHC in order to concentrate on the Asia-Pacific region and expand its five-star Hyatt hotels and three-star Travelodge hotels (Daneshkhu, 2000a).

Commenting on the deal, Bass saw the buy as 'an excellent opportunity for Bass to strengthen our number one position in the Asia Pacific market' (Herald, 2000, pp. 20). Moreover, Bass saw marketing and operational synergies in the SPHC acquisition because these newly acquired properties could be re-branded as InterContinental, Crowne Plaza and Holiday Inn and incorporated into Bass's global reservations system. In addition, Bass's customers would benefit through the linking of Bass's customer loyalty programme, 'Priority Club' with SPHC's 'Pacific Privilege' (InterContinental Hotels Group, 2000a).

The purchase brought Bass from 10th position to become the second largest hotelier in Australia and the largest hotel group in the Asia Pacific Region, with 170 hotels and over 40,000 rooms under its management (Condon, 2000; Daneshkhu, 1999d; InterContinental Hotels Group, 2000a). According to Tom Oliver, Chairman and Chief Executive Officer of Bass Hotels & Resorts, SPHC hotels were well managed and their Parkroyal and Centra brands had established a good reputation in the regional markets: "There was clear opportunity to build upon this strength by introducing Bass Hotels & Resorts world-class global brands to the properties" (InterContinental Hotels Group, 2000a). During this same period, Bass was already operating a 102-strong hotel portfolio in the Asia Pacific region under the Inter-Continental, Crowne Plaza and Holiday Inn brands. According to Tony South, Bass's chief operating officer in Australia, New Zealand and the South Pacific, 'Globally, the game is to gain market share. If you are a global organisation, you can't afford not to be in this part of the world' (Condon, 2000, pp. 50).

Analysts viewed the SPHC purchase as an expensive one because although it has many operating contracts, it owned little real estate. However, these same analysts also agreed that there was growth potential in the Asian market where SPHC already has significant market share (Binkley, 2000). During that period, higher hotel-occupancy and room rates were recorded in Asia and this improvement was attributed to the increase in the number of foreign executives from the US and Europe travelling to Asia for business (Binkley, 2000). Industry executives such as Ted Teng, president of Asian operations for Starwood Hotels & Resorts Worldwide Inc., commented that Asia was considered a tantalising frontier for Western hotel investors and operators because the region held 55% of the world's population and 30% of its GDP, but only 17% of its hotel rooms (Binkley, 2000). Therefore, the purchase of SPHC could be considered 'entirely consistent with Bass's strategy of expanding its hotel brand portfolio and moves it into a part of the world with good growth prospects,' as pointed out by analyst Philip Morrisey at Warburg Dillon Read (Herald, 2000, pp. 20).

8.2.6. Bristol Hotels and Resorts Inc.

Bristol Hotels & Resorts, Inc. (Bristol), a US-based hotel management company and Bass jointly announced on February 28, 2000 that Bass would acquire 90% of Bristol for $157 million (£98.7 million) in cash (Daneshkhu, 2000b; New York Times, 2000). Bass and Bristol had been doing business since the late 1990s. Bristol was the largest franchisee of Bass's Holiday Inn hotels in the US and Bass already owned the other 10% of Bristol's share (Bauman, 2000; InterContinental Hotels Group, 2000c; New York Times, 2000). Moreover, Bass had also sold its ownership of 60 Holiday Inn branded hotels in the US to Bristol in 1997 for $391 million in cash, together with a 32% stake in the equity of Bristol. The sale was part of Bass's plan to reduce its involvement in ownership in the three-star market sector. According to Bass, this deal enabled the Group to maintain a strategic interest in a major franchisee of their brand (AR / Bass, 1997). Bristol agreed to continue to use Holiday Inn brand name and put over $150 million into re-developing the hotels to meet the brand's quality standards. In addition, Bristol converted 10 of its existing hotels into Holiday Inn brand, thus increasing Bass's distribution (AR / Bass, 1997).

After the purchase of Holiday Inns in 1997, Bristol merged with FelCor Lodging Trust Inc. (FelCor), a Real Estate Investment Trusts (REITs) in the US. Bristol became a pure hotel management company after transferring its assets into FelCor (InterContinental Hotels Group, 2000b). In this deal between Bass and Bristol in 2000, Bass gained a total of 112 hotels, including 12 on management contract and 100 on lease agreement from FelCor (AR / Bass, 2000; Daneshkhu, 2000b). Within the 112 hotels, about 75% of them held Bass's brands in the US and Canada, and 83 hotels were already in Bass's computer system. Among the 83 hotels, 59 were Holiday Inns, 18 were Crowne Plazas and six were Holiday Inn Express hotels (Baker, 2000). In this deal, Bass also expected to derive benefits from economies of scale and profit enhancement from the combined administration and operations. Bristol enhanced Bass's already considerable expertise in the field of hotel operations and management in North America since Bristol was a pure hotel management company with significant track record and experience in this area (AR / Bass, 2000; Baker, 2000; InterContinental Hotels Group, 2000c).

8.2.7. Post House

In April 2001, Bass paid Compass £810 million in cash for Post House hotels (Post House) and planned to re-brand them as Holiday Inns (Daneshkhu, 2001a). Compass, which had decided to move out of the hotel business in order to concentrate on its catering sector, had put up Post House for a three-month auction (Clark, 2001a). The deal consisted of 79 three-star hotels with 12,300 rooms, of which 77 hotels were owned and / or held under long lease whilst 78 hotel units were located in the UK and one in the Republic of Ireland (Hotel Report, 2001).

According to Tim Clarke (Clarke), the chief executive of Bass, Post House had been well-maintained, with £200 million of capital expenditure invested over the past four years (Clark, 2001a). Bass intended to invest £75 million over the next three years to revamp and re-brand Post House into Holiday Inns, in order to drive its hotel business towards a stronger mix of international customers in the UK (Clark, 2001a). Bass also intended to sell 15 Post Houses whose locations were too close to the other Holiday Inns or unsuitable for upgrading (Daneshkhu, 2001a). Clarke further commented that Bass benefited from Post Houses' strategic locations because many of them were located close to important motorway intersections and airports in the UK and Ireland (Caterer and Hotelkeeper, 2003; Clark, 2001a). Moreover, the Post House acquisition also increased Bass's market share by trebling its number of hotel units to 96. Clarke commented that Bass believed the three-star market Post House had a strong future under its expanding Holiday Inn brand (Clark, 2001a).

8.2.8. Candlewood Suites

On December 31 2003, Bass completed an acquisition of the three-star extended stay Candlewood Suites brand from Candlewood Hotel Corporation in the US, for $15 million in cash (£9 million) (Verjee and Bolger, 2003). The transaction actually involved three parties – Bass, Candlewood Hotel Corporation and Hospitality Properties Trust (HPT) (Chittum, 2003; InterContinental Hotels Group, 2003). Candlewood Hotel Corporation was closing its business and sold the franchising rights of the Candlewood Suites brand and future franchise agreements to Bass (InterContinental Hotels Group, 2003). At the same time, HPT in the US bought 12 hotels from Candlewood for $90 million, bringing its Candlewood Suites portfolio to 76 hotels (InterContinental Hotels Group, 2003). Finally, Bass entered into an agreement with HPT to manage their 76 Candlewood Suites hotels and the management agreements would be for 25 years with options to extend (InterContinental Hotels Group, 2003). In addition, all the guests of Candlewood Suites hotels would be tied into the Bass's loyalty programme and its central reservation office (Chittum, 2003). This purchase expanded Bass's management portfolio by about 40% in North America, to nearly 12,500 rooms (AR / Bass, 2003; Chittum, 2003; Verjee and Bolger, 2003).

According to Steve Porter (Porter), President for the Americas sector of Bass (InterContinental Hotels Group, 2003):

> "This acquisition is consistent with our long term strategy to prove and deliver winning brand concepts, while reducing our capital exposure in real estate assets and growing our revenue stream from management and franchise fees. Our growing relationship with HPT gives us the best of both worlds,"

Porter continued that:

> "The Candlewood Suites acquisition expands our industry supply share in a segment where we have experience and dominance - the mid-price market - with good quality assets that significantly grow our room and hotel supply share virtually overnight. The brand is a perfect fit within our current portfolio of brands and will benefit tremendously from our global enterprise values such as Priority Club Rewards, global sales and our worldwide reservation system."

The Candlewood Suites brand would become the sixth in Bass's portfolio. Since Candlewood Suites was positioned in the three-star extended stay segment, this purchase supplemented Bass's five-star extended stay Staybridge brand. This acquisition thus positioned Bass in two tiers of the growing extended-stay hotel market (Chittum, 2003).

8.3. Comparison of motives for M&A deals

This section studies each deal closed by Bass by comparing it to the M&A literature. The motives identified in the secondary sources are listed in Table 8.2, and those extracted from the semi-structured interviews are presented in Table 8.3. Table 8.4 tabulates information from both sources for further comparison work.

Clingendael Group

The Clingendael Group purchase was predominantly to expand Bass's hotel division in recognition of the potential growth of the hotel business. Bass also gained a number of benefits from this deal, including an increase in market share and market leadership in Holland, as well as acquiring a few strategically located hotels.

Centre Hotels

Centre Hotels was considered part of a bigger sales package offered by Coral Leisure. The predominant motive for this deal was to expand Bass's hotel division and this was made possible since Centre was already the fourth largest hotel group in the country and the leading hotel operator in the three-star market sector. This purchase provided Bass with an increase in market share in the three-star market sector and a gain in strategic fit in its geographical location. Centre was the fifth largest hotel group in London and offered Bass exposure in the London market, as well as major London airports and important provincial city centres in England and Wales where Crest was not previously represented (AR / Bass, 1981; 1982). The other motive was the strategic fit in terms of operations and value enhancement for the company as a whole. As commented by some dealers Coral's Pontin's could be an attraction for Bass since it also operated entertainment centres, and the pubs could complement Bass's brewing retail outlets. Thus, the Centre deal not only increased the size of Bass's hotel division, but its other divisions such as brewing. Moreover, the Group also gained new gaming businesses – betting, bingo and casino.

Holiday Inns

The major motivation to buy the Holiday Inn group was to expand in the international hotel industry and to become a big player in that industry. As pointed out by Langton, Bass's hotel division needed an international brand name to grow and the Crest brand was not strong enough to achieve that task. The timing for the sale of the Holiday Inn group happened to coincide with Bass's new strategy and thus acquiring an established brand name became an important motive. Respondent 1, Respondent 2 and Respondent 3 agreed that internationalisation and globalisation were part of the causes for hotel M&A activities during the 1980s.

The other motive was that Bass could learn a new way of operating hotels, particularly in franchising, as the hotels operated under the Holiday Inn name were not all owned, but nearly all in joint venture, management contracts and partially owned. As pointed out by Langton that this way of operating hotels was different from Bass's conventional way of owning and operating their Crest Hotels. This is supported by Altinay (2001), who found that Bass wanted to gain knowledge and expertise in the international hotel business, particularly in franchising. Moreover, there was a compatible business culture and national culture due to their Anglo-Saxon background. From a different angle, Respondent 5 considered the ability of franchise business to generate cash as a major motive. Holiday Inn was predominantly a franchising business; thus this enabled Bass to re-invest cash generated for expansion, in addition to cash generated by its brewing business.

There was also the speed element, since Holiday Inn was already the biggest three-star market hotel chain in the world, and Bass became the biggest hotel company worldwide within a short period of time. Respondent 1 and Respondent 6 also pointed out that its major motive was to gain volume and dominance in this industry. Bass gained critical mass worldwide and economies of scale were derived particularly through the room reservation system. The Holiday Inn hotel chain was the first in the hotel industry to develop and possess a computer system dealing with room reservation management. Bass benefited from this innovation, which helped the Group to cut operational and distribution costs as well as to enhance sales values. Other attractions of this deal included a healthy occupancy rate compared to other hotel companies at the same market level, during the economic slow down in the late 1980s. Moreover, there was also the cultural fit between Bass and Holiday Inns, in terms of their operating philosophy. Therefore, this was considered a value maximising deal, particularly through the brand name and its potential to generate more profit.

InterContinental Hotels

The dominant motive for buying ICH was to expand Bass's international hotel division by purchasing another well-known international name. ICH is one of the first five-star hotel groups to establish its presence worldwide; thus Bass gained extended locations in major cities worldwide. Moreover, during that period, demand in the industry for this market sector was growing among business executives despite the slow-down of the world economy. According to Respondent 1, Respondent 2 and Respondent 4, this purchase supplemented Bass's existing portfolio of one-star to four-star market sectors with a new luxury product, as well as increasing its number of hotel rooms worldwide. Similarly, Respondent 4 considered this purchase as 'global empire building'. Although Respondent 3 commented that this was an opportunistic buy because the owner happened to be selling it, this was not totally non-strategic in terms of the benefits discussed above. Moreover, part of Bass's corporate strategy was to expand its hotel division, due to a continuing decline in its brewing business. This motive is supported by Respondent 1, Respondent 2 and Respondent 3 who agreed that the hotel industry was a growing industry while demand for beer was decreasing and leading to a declining brewing industry. In addition, Bass's brewing division's growth through the merger with Carlsberg –Tetley in 1997 was stopped Board of Trade on competition grounds (AR/ Bass, 1997).

Southern Pacific Hotels Corporation

The dominant motive was strategic fit as can be seen in several ways. Firstly, Bass planned to continue its hotel expansion internationally and since its presence was considerably weaker in the Asia Pacific region as compared to its other locations such as the US, Europe and the Middle Eastern, SPHC served as a platform to penetrate this region. As highlighted by one of Bass's executives, Bass needed to move into the Asia Pacific region in the early 2000s because this was the growth area for hotel expansion. Respondent 3 also pointed out that the asset light structure of SPHC fitted in with Bass's aim to expand its hotel sector with minimum capital investment cost.

Secondly, Bass wanted to be a market leader and SPHC was already the second largest hotel management company in Australia. This purchase made Bass the largest hotel company in Asia Pacific region quickly. It could also imply that this deal enabled Bass to attain speed in expansion and a market leading position.

Thirdly, SPHC products complemented Bass's products because these newly acquired properties could be re-branded as InterContinental, Crowne Plaza and Holiday Inn. This is supported by Respondent 1 who commented that this purchase was one that complemented its existing portfolio. Moreover, demand for five-star hotels was increasing after the decline due to the 1997 Asia Crisis, because of expatriates visiting the Asia Pacific region, as evidenced by the higher hotel-occupancy and room rates. From another perspective, it can also be said that the SPHC purchase coincided with Bass's aim to grow its company, and with the decline of its core brewing business the growing hotel industry became a complementary strategy to counteract that decline.

This purchase increased Bass's market share in all the different market levels, and this further enabled the Group to enjoy economies of scale and scope. For instance, Bass's global reservations system was able to handle more hotel units in its database, meaning there was a lower per unit cost for the Group. At the same time, by combining Bass's customer loyalty programme, 'Priority Club', with SPHC's 'Pacific Privilege', the number of customers in its data base expanded, and Bass benefited from a bigger pool of customers, in which cross-selling could provide it with economies of scope in terms of a wider range of products being available to existing customers of Bass and SPHC.

Bristol Hotels and Resorts Inc.

The strategic fit motive is most prominent for this deal as Bass continued to expand the size of its hotel division. Strategic fit in terms of an existing operational relationship was found between Bass and Bristol. Bristol, as a pure management hotel company, was operating 75% of its hotels under Bass's brands. Although this deal did not exactly add a large number of hotels to its existing stocks, since 75% of these hotels already held by Bass's brands in the US and Canada, and 83 hotels existed in Bass's computer system, it was still a value enhancing deal. As highlighted by Respondent 3, there was no asset involved (the deal included 100 hotels on lease and 12 management contracts), which was consistent with Bass' strategic plan to reduce its capital investment. Moreover, this deal consolidated Bass market leadership in terms of maintaining a major franchisee of its own brand. This deal was also value enhancing because Bass gained an added 10 Bristol hotels to be converted to the Holiday Inn brand.

Post House

The major reason for the acquisition of Post House was to increase Bass's presence in the UK, particularly in increasing the company's size rapidly. This is according to Respondent 2, who had participated as one of the team members advising Compass (owner of the THF after its merger with Granada in 2000) in the sale of Crest, and thus knew that the best way 'they [Bass] could get Holiday Inn brand to have the dominant three-star market position within the UK was to acquire the Post House'. Similarly, Respondent 3 and Respondent 6 agreed that there was strategic fit between products as Post House and Bass were both in the three-star market sector and this made it easier for Bass to re-brand these hotels. Thus, this deal also enabled Bass to achieve its plan to attract more international customers through its international brands when re-branding Post Houses into Holiday Inns. There was also the geographic fit in terms of locations of Post House and Crest supplementing each other. This is supported by Respondent 4, who posited that globalisation was part of the reason for this purchase because 'Holiday Inns did not have much foothold in the UK, only five or six hotels. However, it got 40, 50 hotels in the UK suddenly'. In an implicit way, the motive of speed is reflected here in terms of the trebling in the number of Bass's hotel units to 96. This purchase also solidified Bass's market leadership in the three-star market sector and economies of scope were also achieved by integrating two different loyalty programmes, which enabled customers to utilise a wider range of products provided by Bass, as well as increasing its customer base. It also fits in with Bass's intention to expand its hotel division since it sold its brewing division in 2000.

Candlewood Suites

The dominant motive for the purchase of Candlewood Suites was to extend its range of products in its continuous hotel expansion strategy. In this deal, Candlewood Suites is an extended long-stay product in the three-star market sector and this supplemented Bass's upscale extended long-stay product – Staybridge. This is supported by Respondent 1 and Respondent 6 who commented that it was a purchase to supplement its existing portfolio. On the other hand, since Candlewood Suites is also a three-star product, it can be argued that this extended long-stay three-star product became a complementary product for Bass's existing three-star Holiday Inn hotels. The motive is one of value maximising and enabled Bass to achieve economies of scope because this purchase increase its range of products offered to customers. Moreover, economies of scale and scope are also achieved by integrating its database of members under different loyalty programmes. In addition, Candlewood Suites was a brand ownership purchase, thus was a strategic fit with Bass's plan to expand with minimum capital investment. This is particularly pertinent for the management since the Group had been facing pressure from its shareholders to sell off fixed hotel assets and to return more dividend.

In summary, the discussion of motives for M&A in Bass's case supports the general M&A literature. There is a mixture of motives in each deal, rather than one single reason. Moreover, these deals also support the efficiency argument in terms of cost reduction and value enhancement. The dominant motive was to increase size and this was achieved through all the acquisitions (Dutch Clingendael Group, Centre, Holiday Inns, ICH, SPHC, Bristol, Post House and Candlewood Suites). Following these acquisitions, the increase in size and market share led to greater market power in terms advanced information technology used for management of a bigger pool of rooms for bookings, thus achieving economies of scale with a reduction in per-unit cost.

In the same way, integration of members registered under two loyalty programmes enabled Bass to derive economies of scope in terms of providing a range of products for existing and newly registered customers in the database.

Correspondingly, speed as a motive is dominant, particularly in the case of Post House which sped up Bass's expansion in size in the UK three-star market sector. SPHC positioned Bass quickly as a leading hotel operator in the Asia Pacific region. The essence of speed is achieved partly due to strategic fit between products, which enabled similar products to be re-branded quickly and attain critical mass. Geographical fit is also dominant for all the acquisitions, domestically (Centre and Post House purchases) and internationally (Holiday Inns, InterContinental and SPHC). Strategic fit is also present in terms of complementary and supplementary resources: for instance, Candlewood suites supplemented Bass's five-star extended-stay portfolio with a three-star extended-stay product. At the same time, this purchase complemented its mid-market Holiday Inn hotels. In a similar vein, the ICH deal supplemented its range of one- to four-star market sectors with a five star product. Managerial motive in terms of non-value maximising and personal ego was absent in this discussion. Bass's strategy to internationalise its hotel division was most obvious in all acquisitions, except Post House, which was to gain critical mass within the UK.

Table 8.2: Bass's motives for M&A activity, 1979 - 2003

	Clingen-dael 1979	Centre 1980	Holiday Inn 1988	ICH 1998	SPHC 2000	Bristol 2000	Post House 2001	Candle-wood Suite 2003
Economies of scale and scope								
Economies of scale and scope: Cut cost	✓	✓	✓		✓		✓	✓
Economies of scale: Re-brand product	✓	✓			✓	✓	✓	✓
Economies of scope: Loyalty programmes	✓	✓	✓	✓	✓	✓	✓	✓
Market power								
To increase market share: in other businesses	✓	✓						
Increase size/ market share: No. of hotels and rooms, critical mass	✓	✓	✓	✓	✓	✓	✓	✓
Increase size/ market share: Became market leader	✓	✓	✓	✓	✓			
Market power: brand rights			✓	✓	✓			
Market power: size			✓					
Speed								
Buy market leader	✓	✓	✓	✓				
Increase size quickly					✓		✓	
Strategic fit								
Strategic fit: Complementary product	✓	✓			✓	✓	✓	✓
Strategic fit: Geographical fit	✓	✓	✓				✓	
Product portfolio: own, franchise, manage, etc.			✓	✓	✓	✓		✓
New product & new platform				✓				✓
New market, new customers			✓	✓				✓
Value enhancement: quality of product					✓		✓	✓
Value enhancement: occupancy and yield rate			✓	✓				
Value enhancement: through location			✓				✓	
To acquire new portfolio/ products				✓				✓
To acquire with minimum assets					✓	✓		✓
Market penetration: same product/ customers	✓	✓	✓		✓	✓	✓	
Increase presence in the UK	✓	✓					✓	
Other core businesses decline			✓	✓	✓		✓	

	Clingen-dael	Centre	Holiday Inn	ICH	SPHC	Bristol	Post House	Candle-wood Suite
	1979	1980	1988	1998	2000	2000	2001	2003
Growth market								
Growth market			✓	✓	✓		✓	
Managerial motive								
Managerial synergies: synergies				✓		✓		✓
Pressure from the City				✓				
Foreign competition								
Internationalisation: new locations			✓	✓	✓	✓		✓
Internationalisation: product			✓	✓	✓	✓		✓
Others								
Difficult to win hotel management contract					✓	✓	✓	
Culture: corporate culture is similar			✓					
Risk adverse: franchisor			✓			✓		✓
To acquire with minimum assets					✓	✓		✓
To learn about franchising and management contracts			✓	✓				
Brand name, prestigious			✓	✓				

Source: Bass annual reports 1979 - 2004, various newspapers and trade journals.

Table 8.3: Comparing analysts' comments on Bass's motives for M&A activity, 1979 - 2003 (R=Respondent)

	R1	R2	R3	R4	R5	R6
Bass – Holiday Inn (1987-1990)						
Holiday Inn: to become global player, platform to grow the company	o	o	o	o		
To gain volume and dominance	o					
Cash generative business - franchising					o	
Bass – InterContinental (1998)						
Opportunity - ICH on market for sale			o			
Strategic decision because sales of brewing (core business) was declining and unable to expand due to regulations			o			
Growth area – hotel industry	o		o			
Global empire building	o			o		
Supplementary products: to enter up-market		o	o			
Bass - SPHC (2000)						
To gain more franchising and management contract and reduce asset holding			o			
To supplement portfolio	o					
Bass - Bristol (2000)						
To gain more franchising and management contract and reduce asset holding			o			
Bass – Post House (2001)						
To expand in the UK, to expand Holiday Inn, the mid-market position in the UK		o				o
To gain volume and dominance	o					
To increase the number of hotels in the UK (to increase market share)	o			o		
Good fit with Holiday Inn			o			o
Opportunity						o
Bass – Candlewood Suites						
Cover mid-market, new market and increase customer base/ portfolio					o	o
To supplement portfolio	o					

Source: Semi-structured interviews

Table 8.4: Comparing Bass's motives for M&A activity, 1979 - 2003

	Clingen-dael	Centre	Holiday Inn	ICH	SPHC	Bristol	Post House	Candle-wood Suite
	1979	1980	1988	1998	2000	2000	2001	2003
Economies of scale and scope								
Economies of scale and scope: Cut cost	✓	✓	✓		✓		✓	✓
Economies of scale: Re-brand product	✓	✓			✓	✓	✓	✓
Economies of scope: Loyalty programmes	✓	✓	✓	✓	✓	✓	✓	✓
Market power								
To increase market share: in other businesses	✓	✓						
Increase size/ market share: No. of hotels and rooms, critical mass	✓	✓	✓	✓	✓	✓	✓	✓
Increase size/ market share: Became market leader	✓	✓	✓	✓	✓			
Market power: brand rights			✓	✓	✓			
Market power: size			✓					
To gain volume and dominance			✓				✓	
To increase the number of hotels in the UK and to increase market share							✓	
Speed								
Buy market leader	✓	✓	✓	✓				
Increase size					✓		✓	
Strategic fit								
Strategic fit: Complementary product	✓	✓			✓	✓	✓	✓
Geographical fit and value enhancement through location	✓	✓	✓				✓	
Product portfolio: own, franchise, manage, etc.			✓	✓	✓	✓		✓
New product & new platform				✓				✓
New market, new customers			✓	✓				✓
Value enhancement: quality of product					✓		✓	✓
Value enhancement: occupancy and yield rate			✓	✓				
To acquire new portfolio/ products				✓				✓
To acquire with minimum assets					✓	✓		✓
Market penetration: same product/ customers	✓	✓	✓		✓	✓	✓	

	Clinden-gael	**Centre**	**Holiday Inn**	**ICH**	**SPHC**	**Bristol**	**Post House**	**Candle-wood Suite**
	1979	1980	1988	1998	2000	2000	2001	2003
Increase presence in the UK	✓	✓					✓	
Other core businesses decline			✓	✓	✓		✓	
Cash generative business, Franchising			✓					
Strategic decision because sales of brewing (core business) was declining and unable to expand due to industry regulations				✓				
InterContinental: to enter up-market				✓				
Strategic move because Bass wanted to move from more franchise to more management type of organization structure change, reorganization or restructuring					✓	✓		
Good fit with Holiday Inn: to expand in the UK, to increase market share in mid-market position in the UK							✓	
Cover mid-market, new market								✓
Managerial motive								
Managerial synergies: synergies				✓		✓		✓
Pressure from the City				✓				
Growth								
Hotel market is growing			✓	✓	✓		✓	
Growth area (expanded into growth area since growth in the other business sector in the company had been thwarted)				✓				
Foreign competition								
Internationalisation: new locations			✓	✓	✓	✓		✓
Internationalisation: product			✓	✓	✓	✓		✓
Holiday Inn: to become global player, platform to grow the company			✓					
Global empire building			✓					
Others								
Difficult to win hotel management contract					✓	✓	✓	
Corporate culture is similar			✓					

	Clinden-gael	Centre	Holiday Inn	ICH	SPHC	Bristol	Post House	Candle-wood Suite
	1979	1980	1988	1998	2000	2000	2001	2003
Risk adverse: franchisor			✓			✓		✓
To acquire with minimum assets					✓	✓		✓
To learn about franchising and management contracts			✓	✓				
Brand name, prestigious			✓	✓				
Chance/ opportunity/ Serendipity (ICH on market for sale)				✓				
Opportunity							✓	

Source: Bass annual reports 1979 - 2004, various newspapers, trade journals and interviews

* Words in *italics* are motives mentioned by analysts during interviews

8.4. General development of Bass

In this section, Bass's hotel development is examined through its M&A activities between 1979 and 2003 and its general development in the context of macro environment changes over time. Bass established its hotel division in the 1960s, continued to expand it through M&A activities in the late 1970s and early 1980s (Esso Motor Hotels, Clingendael Group and Centre Hotels). In 1980, Bass bought Coral Leisure, comprised Centre hotels, which were integrated into its Crest hotel group. Bass also diversified into leisure business by integrating the Coral racing into its business operation (see Appendix N). Subsequently, the Group extended its leisure business into bingo and social clubs, snooker clubs and a video theatre in 1983. Bass also branched out into businesses such as Satellite Information Services Limited, formed between Bass and the Racecourse Association, as well as producing and supplying amusement machines in 1986 (AR/ Bass, 1983; 1986).

In the 1980s, Bass went through three major strategy changes and re-structuring programmes. First, the Group extended its business into budget hotel sector by creating Toby Restaurants in 1984, as part of a response to increasing market demand for this sector. It took over the operations of 238 public houses from its beer operating companies, created Toby Restaurants and built budget hotels alongside these restaurants (Trollope, 1985c).

Second, a declining demand for beer and limited growth in the brewing business, in conjunction with the benchmark set by Chairman Palmer for each business division to achieve a 25% turnover became part of the motivations to acquire Holiday Inn in 1987 and expand Bass's hotel division through this particular deal, and as a corporate solution in general. Moreover, Bass had identified the need to own an international brand name as the way to internationalise its hotel division. A new division was created to manage all of Bass's hotels and restaurant operations after the purchase of Holiday Inns in 1988, and this division was split again in 1990, as hotels were established as an individual division after Bass bought out Holiday Inns and its brand rights worldwide. Bass also went through a rationalisation of assets that resulted in the sale of 23 Crest hotels in Europe, properties that no longer fitted into its long-term strategy. Bass decided to concentrate on building the Holiday Inn brand name (AR / Bass, 1988). Moreover, Bass had agreed not to use the Crest brand name to compete with Holiday Inn franchisees outside the UK from November 1994, as an agreement in the Holiday Inn deal (Caterer and Hotelkeeper, 1988). This led to the brand 'Crest' being sold to THF in 1990.

In its re-organisation of its hotel division, Bass closed down Holiday Inn's manufacturing division, and Holiday Clubs (the specialist direct selling organisation) resulting in a loss of 600 corporate staff (The Times, 1990b). Like its previous owner, HC, Bass used franchising as a main vehicle for expansion, to draw on the advantage of less capital investment with this mode of expansion. Bass sold its many assets, established separately run franchised operations, and appointed Mike Levin as the President of Franchising in order to improve its relationship with franchisees and attract new franchisees (The Times, 1990b).

The third major change of structure lie in Bass dismantling its historical integrated structure of Brewing and Pub business in 1989, and replacing it with two divisions: Bass Brewing and Bass Retailing (see Appendix N). This was attributed to the Beer Order enacted in 1989 (see 2.2.7) leading to the sale of more than 5,000 pubs by Bass's brewing business, hence the decision to re-organise its business structure.

In the early 1990s, this rationalisation of assets and franchising through brand name helped to reduce negative impact from the economic downturn and the First Gulf War between 1989 and 1992. Bass attributed its profitable position to the strength of its brand name which maintained a premium pricing and outperformed its direct competitors (AR / Bass, 1991; 1992). Thus, Bass maintained this strategy of focussing on franchising as a means to expand its hotel division, in conjunction with the continuous programme of disposing hotel assets and non-core businesses to reduce capital investment as well as increase cash flow (AR / Bass, 1993; 1995). This resulted in Bass's continuous re-structuring programmes. There were two major re-organisations in the company in the 1990s.

First, the Group continued its disposal of assets, including the sales of ownership of 60 Holiday Inn branded hotels in the US in 1997. In October 1997, as part of its strategy to cater to a range of brands serving different segments of the international hotel market, Bass added a fourth hotel brand - Staybridge Suites - to meet the demands of longer stay guests (AR / Bass, 1997). With the addition of a new product, Bass re-organised to create new presidents for each brand in order to focus on guests' preferences. Each brand became a profit centre and pursued its own strategic plan (AR / Bass, 1997; 2000).

However, this structure based on brand was re-structured in 1998 according to the type of services each hotel brand provided (AR / Bass, 1998). This change took place mainly due to the acquisition of ICH in 1998, one of the world's oldest hotel brands. Moreover, ICH operated mainly through management contracts and this kind of operation added to Bass's knowledge of hotel operations, in addition to reducing capital investment costs. For instance, there were separate units for four-and five star (ICH and Crowne Plaza), three-star (Holiday Inn), one-star (Holiday Inn Express) and five-star extended stay (Staybridge) operations.

The third change was the disposal of Bass's leisure division. Bass disposed of its leisure businesses - the Gala chain of bingo clubs, Coral bookmaker, Barcrest (amusement machines manufacturer), BLMS (amusement machines operators), the 1,400 tenanted pub estates and over 321 lower-performing managed pubs - to concentrate on its hotel and brewing businesses (AR / Bass, 1998). The performance of Bass's leisure division was considered good, except for its bingo business, which, like other companies involved in the gaming business, had been adversely affected by the National Lottery, started in 1994 (Financial Times, 1997b). In late 1997, despite the deregulation of the bingo industry, in terms of relaxation of advertising restrictions, Gala's overall performance was still affected by competition from other modes of gambling, namely the National Lottery and bookmakers (King, 1997; Doward, 1997). Moreover, the taxation, compared to other gambling sectors, remained high at 10% per one pound stake, whilst it had been halved in some other sectors (Doward, 1997). According to Daneshkhu (1997b, pp. 29), Bass ascribed the poor performance of its Gala clubs to increased supply, falling demand and 'intense competition'. Moreover, Gala was performing badly due to it's the poor location of many of its sites (King, 1997). Following this strategic change, Bass also changed its corporate name from Holiday Hospitality to Bass Hotels & Resorts, to stress its strengthened hotel division (AR / Bass, 1998).

In the late 1990s, Bass went through a fourth major re-organisation by selling its two century-old brewing business and its Bass brand rights. The reasons given for this sale was that Bass's share in the British beer market had been shrinking since 1996, while its hotel division was contributing more in terms of group sales and operating profit (Daneshkhu, 1999d). Moreover, the opportunity to grow its brewing business was restricted when its merger with Carlsberg –Tetley in 1997 was halted by the Board of Trade on the grounds of anti-competition rules in the brewing industry. Bass's group share price was also decreasing as a result of being graded as a brewing company, and its hotel division's financial performance was ignored. Bass executives claimed that they would not be tied down by 'sentimental nostalgia' for brewing because the main concern was shareholder value (Willman, 1999c, pp.12).

Bass's corporate strategy to focus on the growth sector, in this case the hotel business, saw the Group expanding through the acquisitions of two hotel management companies, Bristol in the US, and SPHC in Australia. Both purchases created critical mass for Bass in US and Asia Pacific region respectively, and quickened its international hotel expansion without high capital investment cost. These purchases further revealed Bass's strategy of hotel expansion as one that is based on the power of branding to attract customers and investors in order to expand. In 2001, Bass continued its hotel expansion through the purchase of Post House (financed by the sale of its brewing business). The Group also changed its name to Six Continental to reflect better the global spread of the group's business after the sale of brewery (Daneshkhu, 2001c). According to one of Bass executives, 'We definitely didn't want a made-up name,' and moreover the company was reluctant to favour one of its hotel brands over another (Daneshkhu, 2001c, pp. 24).

In the early 2000s, Bass's financial performance was adversely affected by the US 9/11 terrorist attack and subsequent global uncertainty, which discouraged international travellers (AR / Bass, 2001). This indirectly led to the accelerated sale of Bass hotel assets as Bass faced increasing pressure from shareholders to sell assets and return dividends. The most prominent incident occurred in 2002, when one of Bass's shareholders, David Pitt-Watson, a managing director of Hermes Investment Management Limited (a fund management company) demanded excess capital the Group was holding (derived from the sale of its brewing interests in 2001), to be returned to shareholders; and objected to the possible purchase of either Wyndhams or Starwood, two other hotel groups that had been put up for sale (Dickson, 2002).

In 2003, Bass re-structured its company by de-merging its hotel and pub division, and assuming the corporate name of InterContinental Hotels Group, whilst its pub division adopted the equally well-known name, Mitchells & Butlers (Mesure, 2003). However, Bass also faced a take-over challenge in 2003 when it announced its de-merger plan. Hugh Osmond's (Osmond) investment company, Capital Management, offered to buy up Bass for £5.6 billion (Milner, 2003). The offer was turned down by Bass, and this led to a hostile bid in which Osmond attacked Bass for not delivering adequate profits and trading its property assets under net asset value (Evening News, 2003). The management team was also criticised for their deal-making skills as Bass was deemed to have paid too much for ICH and Post House, and sold for too little its Gala bingo and Coral bookmakers (Garrahan and Saigol, 2003). Although the hostile bid was unsuccessful as Osmond did not get the shareholders' approval, the outcome was the quickening of Bass's cost cutting programmes. For instance, the group moved its headquarters in the heart of London's West End to Windsor earlier than planned and sold the Mayfair InterContinental. The Group also identified several hotels in the US for disposal and started a redundancy programme in the US, as well as negotiating with labour unions in the UK and across Europe to cut jobs (Garrahan and Jones, 2003). Bass also continued to reduce its asset ownership via the sale of 16 Staybridge Suites properties to HPT, and bought the franchise rights to the brand name 'Candlewood Suites'. These moves fitted in with Bass's plan to expand by maintaining its brand presence and creating value for Bass's shareholders (AR / Bass, 2004).

Bass shifted from emphasising the use of cash flow to re-invest and expand its company before the 1980s, to branding and using a brand name to expand its hotel division. The importance of brand is illuminated through the branding of Crest in the 1970s, followed by the motive to buy the Holiday Inn brand, the re-branding of hotels (Crest and Post House into Holiday Inns), as well several changes of corporate names, entailing adopting well-known brand names such as 'Holiday' Hospitality; 'Bass' Hotels & Resorts; and 'InterContinental' Hotels.
Although Bass did mention the Group was not willing to adopt one of its hotel brand names as a corporate name, the more prestigious InterContinental' name was selected in 2003. This in turn reflected Bass's focus on using brand as an expansion tool in particular, and brand as a widely used marketing tool in general.

This chapter compared and contrasted motives for M&A activities to provide better understanding of 'why' and 'how' a hotel company expanded. The motives for M&A activities, in the case of Bass's hotel division, supported the value and non-value maximisation literature. These deals provide some in-depth understanding of company-specific motives, such as increasing shareholder value, becoming a global market leader, expanding into growth areas and acquisitions of international brand names. Moreover, these activities also revealed the changing business environment in the UK. The next chapter reviews the final case – Whitbread plc.

Chapter 9:
Whitbread Group plc (Whitbread)

This chapter explores the development of Whitbread Group plc (Whitbread). The first part provides a brief history of how Whitbread started its business. The second part examines several major merger and acquisition activities (M&A) that Whitbread undertook between the 1990s and 2004 (see Table 9.1)

Table 9.1: Major merger and acquisition activities, 1995-2004

	Whitbread
1995	Marriott
1999	Swallow Hotels
2004	Premier Lodge

Source: Whitbread annual reports, various newspapers and trade journals

The third part compares and contrasts the motives for each deal by using both secondary and interview data. The final part discusses the general development of Whitbread's hotel division in the light of corporate strategy changes and the macro environment. The term 'Whitbread' is used throughout the discussion, including the period after the hotel group name had been changed to the Country Club Hotel Group in 1991.

9.1. The beginning of Whitbread Group plc

Samuel Whitbread started his career in brewing at the age of 14 through an apprenticeship at Master of the Brewers' Company, a brewery in London (Whitbread, 1994). In 1742, he formed a partnership with Godfrey and Thomas Shewell and founded Whitbread brewery. Whitbread became a publicly quoted company in 1889, as a means to raise capital for funding the purchase of free house leases from public house operators on the verge of bankruptcy (Pederson, 2003). Between 1955 and 1971, Whitbread engaged in many M&A activities, including buying out smaller brewers and taking over 26 regional breweries (Pederson, 2003). Whitbread also expanded its drink business through off-licence retailing, spirit and wine production and distribution and also continued to grow its food and hotel businesses. The hotel and restaurant businesses started in the early 1970s with the purchase of Severnside Hotels from Trust Houses and the formation of a joint venture – Whitly Inns – with J. Lyons to operate over 100 restaurants (Ritchie, 1992). In 1973, Whitbread signed a 50 / 50 joint-venture with John Pontin, Chairman of JT Construction Group, a Bristol-based building company, to manage Country Club Hotels (CCH) (AR / Whitbread, 1984; Goymour, 1986; Caterer and Hotelkeeper, 1983a). CCH was founded in 1968 by the JT Construction Group when it acquired the Redwood Lodge, Bristol and the St. Pierre Hotel Golf and Country Club, Gwent (Caterer and Hotelkeeper, 1983a). Whitbread invested another £2.5 million stake in CCH group and further developed CCH as leisure-based conference hotels, which appealed to the business meetings' market and to those looking for relatively active weekend breaks.

In the mid 1980s, Whitbread identified two areas – hotels and restaurants – with opportunities for expansion (AR / Whitbread, 1990). Thus, between 1984 and 1985, Whitbread developed a group of hotels consisting of pubs and rooms by organising its managed pub estates together nationally and re-branding them as Whitbread Coaching Inns (WCI) (AR / Whitbread, 1984/85; Slattery, 1988). The first four units were opened in 1986, and WCI expanded into 38 by 1989 (AR / Whitbread, 1986; 1989). According to Whitbread, WCI was designed to avoid the cyclical trends of the hotel business in general because of its hotel locations mainly in country towns and its value-for-money accommodations, providing a full range of services all the year round (AR / Whitbread, 1987).

The other hotel development was to create a group of budget hotels - Travel Inn - as part of a strategy based on the growing budget hotel market (Pederson, 2003). Whitbread started the first budget hotel by building it next to its Beefeater restaurant. Later, Whitbread continued to open Travel Inns beside other restaurants, such as Roast Inns and Brewers Fayre, because Travel Inns brought substantial extra business to the adjacent restaurants (AR / Whitbread, 1989; 1990). The advantage that Whitbread had over its competitors was the land it owned beside the restaurants, which provided the space to build the budget hotel group (AR / Whitbread, 1984).

In 1989, Whitbread decided to reposition WCI's business from 'pub image' to 'hotel image', thus, the name of WCI was changed to 'Lansbury Hotels' (AR / Whitbread, 1989, pp. 19). By 1990, CCH had become the leader in leisure-based conference hotels, operating 10 hotel units (AR / Whitbread, 1990). Whitbread's hotel expansion was sped up through M&A activities later, which will be discussed below.

9.2. Hotel expansion- major M&A activities

In its hotel business, Whitbread grew mainly organically in the 1980s, but engaged in three major M&A activities between 1995 and 2004. Whitbread acquired 16 Marriott Hotels in 1995 (9.2.1), which provided the Group with an international brand name and the right to operate it exclusively in the UK. Swallow Hotels was bought in 1999 (9.2.2) to increase the Group's hotel rooms rapidly in the UK. The Premier Lodge deal in 2004 (9.2.3) solidified its position as the largest budget hotel operator in the UK. Each of these major deals will be discussed in the following sections.

9.2.1 Marriott Hotels

Whitbread bought 16 British hotels trading under the Marriott brand from Scott's Hospitality (Scott's), a Canadian-owned company, based in Toronto, for £180 million ($288 million) (Cope, 1995b; Fox and Jay, 1995; New York Times, 1995). The sale of Scott's UK hotels was attributed to the need to enhance the Group's earnings, which had been affected by world recession since the late 1980s (Wolffe, 1995). Through this deal Whitbread became the master franchisee of Marriott brand and obtained the right to operate and develop Marriott's brand in the UK (Edgecliffe-Johnson, 1995; Holman, 1995). The deal also propelled Whitbread from the ninth position to become the third largest hotel operator in the UK (see Appendix B). Whitbread operated more than 10,000 rooms during that time, including both Marriott hotel rooms and those of its existing budget hotels - Travel Inns (Buckingham, 1995; Edgecliffe-Johnson, 1995).

UK Marriott Hotels were previously branded as Holiday Inn Hotels (The Times, 1991). Scott's was the biggest UK hotel franchise holder of the Holiday Inn brand before 1992. The group decided to terminate its contract to franchise the Holiday Inn brand after failing to secure a territorial franchise that would have given it exclusive control of the Holiday Inn brand in the UK (Bond, 1992; The Times, 1991). In January 1992, Scott's reached a new master franchise agreement with Marriott Corporation (Marriott), the American owner of the Marriott brand. Marriott had granted Scott's exclusive franchises for two of its brands, the four-star Marriott and the three-star Courtyard by Marriott (Bond, 1992; Edgecliffe-Johnson, 1995). According to Jan Hubrecht, managing director of Scott's, he was 'pleased with the Marriott deal, because it gives us greater control over our own destiny' (Bond, 1992, pp. 23). Ed Fuller, managing director of Marriott Lodging was also pleased to forge the alliance with Scott's Hotels, which he claimed shared Marriott's management philosophy, marketing focus and strong commitment to quality (Bond, 1992). The new franchise brand and the termination meant that Holiday Inn, or Bass which had become the owner of this brand by then, lost 13 hotels, comprising 40% of its UK room stock in July 1992 (The Times, 1991).

As a result of this deal, Whitbread obtained the exclusive brand rights to operate and develop Marriott's brand in the region, including re-branding some of its existing hotels in the UK into the Marriott brand (Edgecliffe-Johnson, 1995; Holman, 1995). Whitbread's 14 CCH, which had golf courses and leisure centres attached became Marriott Resort Hotels. The Group also took over the operations of four three-star hotels under the Courtyard by Marriott brand (Cope, 1995b; Edgecliffe-Johnson, 1995).

One of the benefits of the Marriott deal was to capitalise on the strength of the Marriott brand name and the Marriott worldwide reservation system to attract American visitors to the UK (The Times, 1995). According to analysts, Whitbread's CCH had lost out due to a lack of an international reservation system as compared to one of its major competitors, THF (THF was the first UK hotel group to develop its own worldwide management and reservation system). Thus the re-branded Whitbread hotels would overcome this weakness when their hotels became included in the Marriott worldwide reservation system (Cope, 1995a;

Edgecliffe-Johnson, 1995). In addition, Marriott's reservation system also provided Whitbread with access to Marriott's main customer base in the US and the Far East. These customers' profiles were considered in terms of their being potential future customers who might book their four-star holiday break at a Marriott resort in the UK (Buckingham, 1995; The Independent, 1995).

According to David Thomas (Thomas), managing director of Whitbread Restaurants and Leisure: 'The purchase will provide us with key city centre locations and is a perfect geographic fit with our existing hotels. There will be financial and operating synergies as well as significant benefits from the leading international brand name in hotels.' (Buckingham, 1995, pp. 14). Whitbread expected to achieve economies of scale through cost savings when they merged the two administration systems. Other cost benefits would be achieved when Whitbread sold its beers, wines and spirits to Marriott Hotels (Cope, 1995a). According to analysts, 'the thinking in hotels now is that size is once again the key factor in hotel-chain performance'; therefore the Marriott Hotels could expect to benefit from improved procurement through Whitbread's system (The Independent, 1995, pp. 16). The acquisition of Marriott brand right coincided with the period when the UK economy was picking up and hotel price rates and occupancy rates were improving; thus, the deal was considered a beneficial one for Whitbread (Stevenson, 1996; The Independent, 1995).

9.2.2 Swallow Hotels

In 1999, Whitbread bought Swallow Hotels for £730 million, including debt (Financial Times, 1999b; Willman, 1999b). The deal included 38 three, four- and five-star hotels and 199 pubs in the North-East of England (Baker, 1999; Daily Record, 1999; Walsh, 1999d). News of the talks between Whitbread and Swallow over an agreed bid for Swallow emerged only after Swallow's share price rose more than 10% on rumours of a bid (Baker, 1999; Willman, 1999a). The deal was finalised in less than a fortnight from start to finish (The Guardian, 1999).

According to Whitbread, the Group made a preliminary approach to Swallow with the intention of making a £450 million takeover (King, 1999). Whitbread had underpinned its bid for the Swallow hotels and pubs group by buying 21.3% of the shares to add to the 28.9% already committed by directors and two fund management groups - Mercury Asset Management and Phillips & Drew Fund Management (Armstrong, 1999b; Willman, 1999b). The two fund management groups had given irrevocable commitment on their shares, provided there were no better offer from competitors within 21 days (Willman, 1999b). However, analysts believed a rival was unlikely to emerge because Whitbread was offering a high premium of 40% above Swallow's share price (Armstrong, 1999b; Frost, 1999; Willman, 1999b).

According to Thomas: 'Swallow is an excellent strategic acquisition for Whitbread in a segment of the UK hotel market that we have targeted for expansion. Whitbread will merge Swallow Hotels with its 35-strong chain of Marriott hotels in the UK' (Daily Record, 1999; Frost, 1999, pp. A17). It was suggested that at least two thirds of Swallow's hotels could become city-centre Marriott Hotels, while some lesser units could be converted to its three-star Courtyard by Marriott brand (Walsh, 1999c). The acquisition would double Whitbread's number of four- and five-star hotels to 73 and 11,000 rooms, making it the second largest upmarket hotel group in the UK after Ladbroke's Hilton hotels (Armstrong, 1999b). According to Simon Johnson, a leisure analyst at Credit Suisse First Boston: 'It is a full price, but it is a deal that makes sense.' (Daneshkhu, 1999b, pp. 26).

The move was also considered an ideal geographic fit because most of Swallow's hotels were located in the North East of the country compared with Whitbread's focus on the South (Armstrong, 1999b; King, 1999). The addition of the Swallow hotel portfolio would increase Whitbread's distribution significantly, particularly in key cities - such as Edinburgh, Dundee, London, Birmingham, Manchester, Liverpool, York and Sheffield - where Marriott was underrepresented (Daneshkhu, 1999b; Walsh, 1999d). Whitbread expected to reduce operation cost from this acquisition, through lower administration and marketing charges as well as greater purchasing power, by combining their administration, computer systems and marketing department (Armstrong, 1999b; Flanagan, 1999; Financial Times, 1999b). The other attraction of Swallow was the disposal of Swallow's tenanted pubs estate. Swallow had sold its pub estates to Pubmaster for £127.5 million and closed its Sunderland and Sheffield breweries in June 1999, which Whitbread had no intention to acquire (Armstrong, 1999a; King, 1999).

9.2.3 Premier Lodge

In 2004, Whitbread bought Premier Lodge hotels from Spirit Amber (formerly known as Punch Retail), the Midlands-based Spirit Group for £505 million and also paid a sum of £31.2 million for 19 pub restaurants (Bowers, 2004; Goodman, 2004; Osborne, 2004; Walsh, 2004c). The deal included nine sites next to these hotels, which were under development. Whitbread planned to invest £32 million in completing these nine sites and convert the pub restaurants into its Brewers Fayre brand (Walsh, 2004c). Both groups also agreed to maintain operations at a number of sites where other Spirit pub restaurants were joined to Premier Lodge sites.

Premier Lodge was originally owned by De Vere, previously called Greenalls, a Warrington-based company (The Scotsman, 2004; Evening News, 2004). In 1999, Greenalls decided to sell its pub and budget hotel businesses in order to focus on its four- and five-star hotels (De Vere) and health clubs during a restructuring exercise (Cowell, 1999; Evening News, 2004). Although Premier Lodge had been one of the strongest performers for Greenalls, it did not have the required scale, which was believed to be the key issue for profitability, as commented by their investor relations manager, Siobhan Turner (Wilson, 1999). She pointed out that to attract regular room occupancy, 'a network from day one and developing room yields is what makes for good margins. The price of the room is only part of the total yield' (Wilson, 1999, pp. 17). Thus, Greenalls decided to sell its 769 pubs and restaurants, and the 69 Premier Lodges to Scottish & Newcastle (S&N), an Edinburgh-based group (Wilson, 1999).

In 2003, S&N decided to sell its S&N Retail division, including the brands Chef & Brewer, T&J Bernard and Premier Lodge, to reduce debt and strengthen the Group's financial position (Reid, 2003). In October 2003, Spirit Amber, a newly-created company backed by a consortium which included US private equity group Texas Pacific, the Blackstone Group, CVC Capital Partners and Merrill Lynch

Global private equity, took over the S&N Retail division (Pain, 2003; Ringshaw, 2004). Spirit Amber became the UK's largest managed pubs group after the acquisition, with a portfolio of more than 1000 outlets, employing over 17,000 staff (Pain, 2003; Reid, 2003).

Shortly after the deal was completed in November 2003, Spirit Amber engaged Merrill Lynch to conduct a strategic review of their businesses (Ringshaw, 2004). After the review, Karen Jones, chief executive officer of Spirit Amber, decided to put Premier Lodge up for sale as the Group wanted to focus on the food, drink and entertainment businesses (Birmingham Post, 2004; John, 2004). In early 2004, the investment banks - Merrill Lynch and Bear Stearns - were appointed to sell the hotel business (Garrahan, 2004a; Ringshaw, 2004).

The sale of Premier Lodge attracted many competitors. Whitbread competed against five other strong bidders to emerge as the winner of Premier Lodge (Waples, 2004). According to analysts, Premier Lodge were attractive to any company that was eager to enter the UK budget hotel sector as this sector was enjoying strong growth while more upmarket hotels had been suffering over the past three years. Moreover, the lack of land had made it more difficult for hotel operators to build budget hotel and achieve organic growth (Reece, 2004). The bidders in the first round included:

- PAI Management, a French private equity company;
- Collins Stewart, a stockbroker of Nomura, the Japanese investment bank;
- Apax, a private equity company;
- A joint bid by De Vere (the original owner of Premier Lodge), the Warrington, Cheshire-based group and Sun Capital, an investment group
- Permira, a private equity company

(Dennis, 2004; Garrahan, 2004c; Walsh, 2004a).

The auction process entered its final round with Whitbread competing with Apax Partners (Dennis, 2004; Walsh, 2004b). Whitbread won the bid over Apax Partners, on the basis of its offered price, whilst the other four competing companies withdrew from the competition (Dennis, 2004; Garrahan, 2004c; Walsh, 2004a). During the bid for Premier Lodge, Whitbread lodged an "informal submission" with the Office of Fair Trading (OFT) notifying it of its interest in Premier Lodge for guidance on whether a deal could be blocked on competition grounds (Dennis, 2004; Garrahan, 2004b, pp. 2). According to Whitbread, "Due to the size of the Premier Lodge estate its potential acquisition would be subject to OFT scrutiny ... because Whitbread's Travel Inn brand was already the biggest budget hotel operator in the UK' (Garrahan, 2004b, pp. 2). Whitbread had some 18,000 rooms across the UK; Travelodge, which is the second largest, had about 13,000 rooms; and the second runner up, Premier Lodge, had 8,100 rooms (Garrahan, 2004e; Jones and Faint, 2004). Whitbread was given clearance on June 2, 2004 by the OFT that its bid for Premier Lodge would not present problems (Garrahan, 2004d).

For Whitbread, Premier Lodge was seen as a natural fit for their Travel Inn chain (Garrahan, 2004c). According to Alan Parker (Parker), chief executive of Whitbread, 'This acquisition offers an excellent fit with our existing Travel Inn businesses and strengthens our leadership in UK budget hotels (Birmingham Post, 2004, pp.17). Premier Lodge had a greater concentration in urban locations compared to Whitbread's Travel Inns (Garrahan, 2004a). Moreover, the former consisted of newly refurbished or recently built assets, which were trading strongly, with sales up 20% in the first half of 2004 (Birmingham Post, 2004). The addition of Premier Lodge would expedite Whitbread's aim of having 25,000 rooms under the Travel Inn brand by 2007-2008 (Reece, 2004). Other analysts believe that Whitbread bought itself five to six years of organic growth as a result of the acquisition of Premier Lodges in 2004' (Deloitte & Touche LLP, 2004, pp. 4). According to Whitbread, the combined operations would be renamed as Premier Travel Inn to end customers' confusion between Travel Inn and its main rival, Travelodge (Bowers, 2004). Whitbread would become 'by far the biggest budget hotel business in the UK', with 29,141 rooms in 461 locations (Birmingham Post, 2004, pp. 17).

9.3. Comparison of motives for M&A deals

This section provides a comparison of motives for major M&A deals closed by Whitbread. Table 9.2 provides an overview of Whitbread's motives for M&A activity in 1995 – 2004, retrieved from various secondary sources. Table 9.3 compares the motives cited by analysts during their interviews. Table 9.4 combines the motives retrieved from both sources to provide an overview of Whitbread's motives for M&A activity in 1995 – 2004.

Marriott Hotels

One of the dominant motives for the Marriott deal was the acquisition of its brand right. According to Respondent 6, the "Whitbread - Marriott deal was a franchise deal rather than anything else. It wasn't really a merger or an acquisition, it was just taking on a franchise". Similarly, Respondent 2 commented that it was a purchase of a group of hotels belonging to a Canadian company that owned the franchising rights to operate the international Marriott brand in the UK. On the other hand, Respondent 3 took the view that Whitbread realised that the Group needed a global brand in order for its hotel division to take off. Thus, it may be argued that the purchase was an acquisition of international brand name by buying the brand right to operate the Marriott hotel group in the UK. This move could have been due to pressure to gain an international market, in view of competitors such as Bass, Ladbroke, THF and so forth operating international brand names.

The other motive strategic fit. There was the geographical fit as Marriott hotels supplemented Whitbread with key city centre locations. Whitbread was already operating 14 four-star hotels – CCH – and the Group recognised that CCH was restricted in its growth due to the huge space needed to build golf courses, and the lack of distribution channels. Thus, access to the use of Marriott's reservation system would solve the distribution problem and enable Whitbread to derive economies of scale. Moreover, this deal also enabled Whitbread to achieve economies of scope through access to Marriott's other customers in the computer database, as well as creating a critical mass for Whitbread in terms of a larger pool of customers available to possibly use its CCH. In addition, there was also the strategic fit in terms of managerial capabilities, as Respondent 1 points out that Whitbread acquired the rights to use the Marriott brand to operate Marriott hotels as its master franchisee, building on its existing franchising skills in the restaurant business and extending these to the hotel business. The Marriott deal also synergised with Whitbread's strategy of supplementing its declining brewing business with financially value enhancing business.

Whitbread's Marriott deal also supports the managerial motive (e.g. in terms of ego). Whitbread's financial performance was affected by the economic slow down and the First Gulf War between 1989 and 1992. As a result of this, Peter Jarvis (Jarvis), Whitbread's managing director commented that he was looking for business opportunities with strategic fit with its existing ones. His motive was to sustain the Group's rating and reduce its gearing to less than 2%. This implied that management were under pressure to perform in order to satisfy the City and get good ratings for the Group's share price. Moreover, Jarvis admitted that organic growth was perceived as dull and he was determined to prove Whitbread was 'no risk-averse wimp' (Bernoth, 1995, pp. 1). This again is implicitly linked to Jarvis's personal motive, not wanting to be linked to risk aversion, since investment decision making is generally decided by the executive management, including Jarvis himself.

Swallow Hotels

The main reason to acquire Swallow was to increase its size quickly. Respondent 4 and Respondent 5 support this motive because they agreed that there was strategic fit between products and locations. Both products were positioned in the four-star market and it was possible to convert Swallow hotels to the Marriott brand to obtain critical mass quickly. Moreover, as Respondent 6 points out, Swallow's locations were not overlapping with those of Whitbread, thus extending the latter's geographical presence in the UK. Whitbread has been a predominantly UK hotel operator and Respondent 3 considered this deal as close to Whitbread's core territory, in terms of hotel operation and its concentrated presence in the UK. There was also the speed motive, in view of Respondent 4's comment that there was a 'built out process', mainly referring to land limitation and the difficulty for hotel companies in finding good locations and building new hotels from scratch.

Although it is evident that there are a number of value maximising motives in this deal, some managerial personal intent is also found, in terms of Whitbread's management's need to prove its managerial capabilities. During the late 1990s, Whitbread's overall financial performance had been adversely affected by its reduced market share in the beer market as the Group failed to close two deals (Courage and Allied Breweries). Its brewing division's financial performance was declining while its hotel division was performing well. Thus, Whitbread was under pressure from the City to improve its financial results and hotel acquisition became one of the solutions. This is supported by the comment by Respondent 2 who was directly involved with this deal:

> "The share price when they announced they were pulling out of this transaction [of Allied Breweries] fell and our advice to them was in the first instance they had to make an acquisition to illustrate to the market they could make an acquisition effectively and to illustrate to the market they [M&A activities] worked. We looked at a variety of options and the one that came along was Swallow hotel and we acquired Swallow hotels for them. And if you look at the share price graph, you will see that at that time that we bought Swallow hotels the share price started to move up. So we were successful. We paid too much for it. We paid far too much to acquire Swallow hotel, but at that time, it worked. "

Thus, this could be translated into managerial ego and personal need to prove their management capability, which supports the non-value maximising motive for M&A activity.

Premier Lodge

The purchase of Premier Lodge was predominantly to gain critical mass. Whitbread was already the UK largest budget hotel operator and Premier Lodge was the third largest, thus, this deal was a strategic fit for Whitbread's hotel business. It sped up the Group's aim to expand this sector and also consolidated its UK's number one budget hotel operator position. This was supported by

Respondent 1 and Respondent 6, who also commented that this was a deal to gain market dominance in the budget hotel market sector.

There was also the strategic fit element, taking into consideration Whitbread's four-star Marriott brand being badly affected in the early 2000s by the world wide economic downturn, US's 9/11 event and the UK's foot and mouth disease outbreak. Demand for four-star hotels such as Marriott declined while the budget sector enjoyed increasing demand. Thus, the acquisition of Premier Lodge supplemented the loss of revenues in Whitbread's hotel division and overall corporate financial performance. Strategic fit in terms of locations is also prominent as Premier Lodge's urban locations supplemented Travel Inns' predominantly motorway accommodation. Moreover, the lack of land for building and the fact that it is more time consuming to build from scratch made this acquisition more value enhancing. Simultaneously, this could point to the speed motive, as some analysts also pointed out that the advantage of this deal for Whitbread as saving itself five to six years by using M&A activity rather than expansion by organic means.

In summary, the number of motives for M&A activities is quite consistent for all three deals. Whitbread's motives also concur with the general M&A literature, in which there is a mixture of reasons in each deal, rather than one single reason. The dominant motive was to increase size and this was achieved through all acquisitions (Marriott, Swallow and Premier Lodge). These deals also support the M&A literature efficiency argument for cost reduction and value enhancement in the light of complementary or supplementary resources. For instance, the purchase of 14 hotels and the Marriott brand rights complemented Whitbread's existing four-star hotels (CCH), and the Swallow purchase also complemented its Marriott Hotels, in terms of extending its geographical presence in the UK. Simultaneously, both purchases complemented its four-star hotel market and supplemented its brewing division by increasing its number of retail outlets for beer distribution.

By the same token, the motive of product fit is also present, particularly noticeable in the Swallow and Premier Lodge purchases. Swallow's similarity in terms of product allowed Whitbread to re-brand its hotels under the Marriott brand, which increased Whitbread's market share in the four-star market sector instantly. Similarly, Premier Lodge and Travel Inns could be re-branded and re-named (Premier Travel Inn) for Whitbread to gain critical mass quickly. Therefore, the speed motive is also present, in that re-branding allowed rapid attainment of critical mass, and in turn is able to achieve greater market power in terms of bulk procurement. Advanced information technology used for the management of bookings for a bigger pool of rooms had also given Whitbread economies of scale via reduction in per-unit cost. Likewise, integration of members registered under two loyalty programmes enabled Whitbread to derive economies of scope by providing a range of products for its existing and newly registered customers in the database. Although there was some trace of managerial motive in the Whitbread – Swallow case, as management was pressured to improved financial performance, thus engaged in M&A activities in order to prove managerial capabilities to the City, the value-maximising motive was more dominant in all these deals.

Table 9.2: Whitbread's motives for M&A activity, 1995 - 2004

	Marriott	Swallow	Premier
	1995	1999	2004
Economies of scale and scope			
Cut cost	✓		
Economies of scale: Rebrand product	✓	✓	✓
Economies of scope: Loyalty programme	✓	✓	✓
Market Power			
To increase market share: in other businesses	✓	✓	✓
Increase size/ market share in No. of hotels and rooms, critical mass	✓	✓	✓
Increase size/ market share: Became market leader	✓	✓	✓
Brand rights	✓	✓	
Size	✓		
Speed			
Buy market leader	✓	✓	✓
Increase size quickly	✓	✓	✓
Strategic fit			
Complementary product	✓	✓	✓
Geographical fit	✓	✓	✓
To acquire new portfolio/ products	✓	✓	✓
Market penetration: same product/ customers			✓
Increase presence in the UK	✓	✓	✓
Growth market			
Hotel market is growing	✓	✓	✓
Managerial motive			
Pressure from the City		✓	
Pressure from shareholders	✓	✓	
Managerial synergies: synergies	✓		✓
Foreign competition			
Internationalisation: new locations	✓	✓	✓
Others			
Brand name, prestigious	✓		
Culture: corporate culture is similar	✓	✓	✓

Source: Whitbread annual reports 1979 - 2004, various newspapers and trade journals.

Table 9.3: Comparing analysts' comments on Whitbread's motives for M&A activity, 1995 - 2004 (R=Respondent)

	R1	R2	R3	R4	R5	R6
Whitbread – Marriott (1996)						
To buy international brand						o
Whitbread – Swallow (1999)						
Opportunistic deal				o		
Chance Serendipity (on the market for sale)				o		
Close to core territory (related M&A)				o		
Critical mass for Marriott brand						
'Built out process' – run out of space			o			
'quicker to buy' - Speed				o		
Strategic fit: convert Swallow to Marriott brand						o
Strategic fit: Geographical expansion						o
Whitbread – Premier Lodge (2004)						
Expand current portfolio, market penetration				o		
To gain volume and dominance	o					
No financial motive						o

Source: Semi-structured interviews

Table 9.4: Comparing Whitbread's motives for M&A activity, 1995 - 2004

	Marriott	Swallow	Premier
	1995	1999	2004
Economies of scale and scope			
Cut cost	✓		
Economies of scale: Rebrand product	✓	✓	✓
Economies of scope: Loyalty programme	✓	✓	✓
Critical mass for Marriott brand	✓		
To gain volume and dominance			✓
Market Power			
To increase market share: in other businesses	✓	✓	✓
Increase size/ market share in No. of hotels and rooms, critical mass	✓	✓	✓
Increase size/ market share: Became market leader	✓	✓	✓
Market power: brand rights	✓	✓	
Market power: size	✓		
Expand current portfolio, market penetration			✓
Speed			
Speed: Buy market leader	✓	✓	✓
Speed: Increase size	✓	✓	✓
'quicker to buy' - Speed		✓	
Strategic fit			
Complementary product	✓	✓	✓
Geographical fit	✓	✓	✓
To acquire new portfolio/ products	✓	✓	✓
Market penetration: same product/ customers			✓
Increase presence in the UK	✓	✓	✓
Strategic fit: convert Swallow to Marriott brand		✓	
Strategic fit: Geographical expansion		✓	
Close to core territory (related M&A)		✓	
Growth market			
Risk adverse: franchisor	✓	✓	✓
Managerial synergies: synergies	✓		✓
Managerial motive			
Pressure from the City		✓	
Pressure from shareholders	✓	✓	
Foreign competition			
Internationalisation: new locations	✓	✓	✓
To buy international brand	✓		
Others			
Brand name, prestigious	✓		
Culture: corporate culture is similar	✓	✓	✓
Opportunistic deal		✓	
Chance Serendipity (on the market for sale)		✓	
No financial motive			✓
'Built out process' – run out of space			✓

Source: Whitbread annual reports 1979 - 2004, various newspapers, trade journals and Interviews

* Words in *italics* are motives mentioned by analysts during interviews

9.4. General development of Whitbread

The development of Whitbread's hotel division is examined through various M&A activities between 1995 and 2004 to provide a general view of how the Group developed its hotel division in response to macro environment changes over time. The Group started its hotel business in the early 1970s with the purchase of Severnside Hotels and a 50 / 50 joint venture to operate CCH. In the 1980s, the hotel division formed part of Whitbread's retailing division as the Group concentrated more on its brewery and restaurant sectors because it saw opportunity for growth in these sectors (AR / Whitbread, 1982).

Between 1982 and 1992, Whitbread engaged in numerous M&A activities to consolidate these two businesses (drinks and food). For example, off-licence companies (Thresher), pubs (public houses), spirit distributors (European Cellars), restaurants (Pizza Hut, Henekeys and Denny's) were expanded in domestic and overseas markets. Whitbread also engaged in a few related diversifications such as discotheques (Aureon Entertainments) and amusement machine operations (JPM), as these served as retailing outlets for its drinks sales and provided entertainment machines for its pubs. Unrelated diversifications included retirement homes (Gatehouse nurseries) and television network (TV South) (AR / Whitbread, 1984; 1985; 1986). Whitbread's diversification strategy since the 1980s has been ascribed to its understanding of customers' needs and subsequent adaptation and development of its products accordingly, in order to take advantage of the increasing market demand (AR / Whitbread, 1995). This was particularly evidenced by its change from being a focused brewing company, to become a conglomerate in the 1980s with its businesses extending into retailing (restaurants, leisure machines, soft drinks and budget hotels) (see Appendix O).

According to analysts, Whitbread was the first brewer to spot the changing demographics of Britain and anticipate the 'slow death of the traditional blue-collar boozer' (Bernoth, 1995, pp. 1). For example, the Group led the trend in the UK of the development of family-oriented pub-restaurants such as Brewers Fayre. It also identified increasing demand from conference and business travellers and the lack of budget hotels to meet market demands; and thus started to refurbish its CCH and Lansbury hotels as well as create Travel Inns.

In the 1980s, particular emphasis was placed on its internationalisation programmes to increase the proportion of earnings from overseas to a level of approximately 30% (AR / Whitbread, 1980). This was carried out by its acquisitions of a number of breweries, restaurants, pubs, distillers, and distributors in the UK, North America and Europe (AR / Whitbread, 1984; 1985; 1986; 1987). By 1987, Whitbread considered itself an international company producing and marketing all types of drinks from beers, wines and spirits to soft drinks and food through Threshers, Beefeater Restaurants, Roast Inns and the Pizza Hut chain (AR / Whitbread, 1987). However, Whitbread's corporate strategy changed to focus on beer, restaurants and hotels from the late 1980s (AR / Whitbread, 1993). This was partly due to a decline in Whitbread's market share in the drinks industry, which was affected by widespread consolidation worldwide (Toman, 1989). Thus, Jarvis decided to sell its spirit business in 1989 and consolidate the Group's resources and management skills in other growing and potential markets, particularly restaurant chains, hotels, public houses, and brewing businesses (Toman, 1989; Wall Street Journal, 1989d).

Whitbread's hotel development was predominantly organic and the hotel division earned a more dominant position in the company's portfolio in the early 1990s when the Group decided to integrate three brands - Travel Inn, CCH and Lansbury - under the umbrella of the Country Club Hotel Group (CCHG) (The Independent, 1995). However, this strategy did not last, as financial performance for the budget hotel (Travel Inn) and four-star hotels (CCH) was growing faster than the three-star market sector (Lansbury). Therefore, Whitbread decided to concentrate on the more successful market sectors and sold Lansbury (AR / Whitbread, 1993; The Independent, 1995). According to Slattery and Johnson (1993), the first Gulf War was a big driver for this decision as Whitbread suffered in financial performance evident by declines in Lansbury's room rates (5% decline) and profits (40% decline). Moreover, the absence of leisure facilities was an obstacle to the growth of the Lansbury brand, as it was less attractive to wholesale and contract markets. In addition, Lansbury hotels were located in secondary or tertiary locations and their average of 39 rooms per hotel was considered too small.

The decision to sell Lansbury reflected not only Whitbread's responses to the macro environment, but also changes to Whitbread's corporate strategy. Hotel development became one of its core focuses and 1995 saw Whitbread's first major hotel acquisition via the purchase of 16 hotels from Scott's and the brand rights to use the name Marriott in the UK. Subsequently, Whitbread sold its non-core divisions and those that were growing slowly, such as Gatehouse Nursery, First Quench off-licence, joint venture operations and overseas restaurants. It continued to expand its hotel division through the purchase of Swallow Hotels in 1999, increasing the Group's hotel market share by re-branding the former into the Marriott brand name and speeding up its expansion programme.

In 2000, Whitbread decided to re-focus its businesses in the growth areas of hotels, restaurants and health and fitness centres. This led to the sale of its two-century old brewery and pub businesses (Cowell, 2001; Wall Street Journal, 2001). According to Whitbread, the exit was due to two factors (Whitbread plc, 2000). Firstly, there was a need to focus on investment in the growth markets during that period, since its core brewing business was restricted in growth by the Beer Orders of 1989 (see 2.1.7). Secondly, Whitbread's attempt to acquire the Allied Domecq pub estate in 1999 was being given attention by the OFT, leading to Whitbread's withdrawal from the bid. Thus, the lack of growth opportunity in the brewing industry in conjunction with declining demand in this industry drove Whitbread to exit from it. Although not explicitly explained as such, the exit could also be ascribed to the need for Whitbread to create value for its shareholders. This need was apparent from the fact that Whitbread had been under pressure from the City and its shareholders to improve its financial performance since the late 1990s. The mounting pressure to generate higher returns on shareholders' invested capital, and gaining confidence from the City, had led to more disciplined growth. This is evident from the rationalisation of hotels and disposal of some Swallow hotels in 2003 to reduce capital commitment. In addition, the Group also explored new ways to develop the Marriott brand without the use of significant amounts of shareholder funds. This included operating Manchester's Victoria &

Albert Hotel through management contract under the Marriott brand for the hotel's owner – Royal Bank of Scotland (AR/ Whitbread, 2003).

The Travel Inn business had been expanded through organic growth, as well as a joint venture with Punch Retail (later known as Spirit Amber) and a management agreement with RoadChef (motorway services group) in the year 2000 (AR/ Whitbread, 2001, pp.5; AR/ Whitbread, 2002). Whitbread's Travel Inns had become the UK's largest budget hotel group and the second largest operator in the UK hotel market, with 336 hotels and estimated 25,000 rooms at the end of 2000 (AR/ Whitbread, 2000). In 2004, Whitbread continued its hotel expansion via the acquisition of Premier Lodge to consolidate its position as the largest UK budget hotel operator. According to Whitbread, the purchase of Premier Lodge was aiming to increase scale, so as to reduce cost and increase revenue by re-branding the two budget hotel groups - Travel Inn and Premier Lodge - and marketing them under one brand in the UK (AR / Whitbread, 2004). Whitbread had been developing its Travel Inn reservation system since 2001, which resulted in a higher proportion of reservations being directed through the Internet and accounted for an average of 31% of all its room reservations in 2004 (AR / Whitbread, 2001; 2004). The Group thus planned to improve its operational efficiency by capitalising on IT investment. Therefore, Whitbread also modified its reservation system for Travel Inn to accommodate the addition of Premier Lodge's bedrooms (AR / Whitbread, 2004).

Whitbread went through another major strategic change in its hotel division in 2004, as a result of a strategic review after the Group's financial performance was affected by another economic crisis, driven by world economic slow down, terror threats, the SARS epidemic and wars (Bain, 2006). Whitbread decided to exit its four-star hotel business for several reasons. First, there was a decrease in demand for this type of room, in conjunction with rising costs in business utilities and minimum wage rates (Bain, 2006). Second, the number of Americans staying at Marriott's properties in London declined because of a weaker exchange rate for the US dollar (Stenier, 2005). A third factor could have been the fact that the Marriott brand was not owned, but franchised by Whitbread. This means the Group had to pay franchise fees to Marriott International and finance the operations of Marriott Hotels, as well as bearing all the risks of non-profitable operation when demand was low. Respondent 2 succinctly pointed out that, as an analyst, he would place a lower price on Whitbread's share price because Whitbread did not own the Marriott brand, but only the brand rights in the UK.

According to Parker,

> "This sale [Marriott hotels and Marriott brand right] brings the excellent partnership that we have enjoyed with Marriott International to a close . . . We are now a more focused company, intent on delivering improvements in operating performance, reducing costs and driving growth in our best performing brands." (Bain, 2006, pp. 31).

Therefore, Whitbread re-focus it businesses on other branded sectors, such as its Travel Inns (budget hotel), health clubs (David Lloyd Leisure) and restaurant chains (Brewers Fayre, Beefeater, Pizza Hut). The general review of Whitbread's hotel development and, specifically the three M&A deals, provided some in-depth understanding of company-specific motives - such as becoming a market leader, expanding in growth businesses and increasing shareholder value.

This chapter compared and contrasted the motives for M&A activities to provide a better understanding of 'why' and 'how' a hotel company expanded. The motives for M&A activities as discussed in this case support the M&A literature. Value maximisation is dominant in all three deals. To a lesser extent, a non-value maximising motive existed in the case of Swallow purchase. The next chapter provides a cross examination of these motives among four hotel companies and themes emerging from the study of the development of the UK hotel industry.

Chapter 10:

Discussion on the development of four hotel companies

This study sets out to develop a deeper understanding of four UK hotel companies and their expansion through M&A activities over a period of 26 years, endeavouring to evaluate the development of the UK hotel industry into big business. The previous four chapters identified the motives for M&A activities through a theoretical framework developed through M&A literature review and confirmed after the UK hotel development chapter. Each of these four chapters provides a narration of how the company under discussion started and of various major deals closed, followed by an analysis of each deal, based on secondary data, semi-structured interviews and M&A literature. Each chapter ended with a general overview to outline the development of each hotel division in the light of the macro environment during the period of study. This chapter sums up the findings across the four cases in the context of M&A literature, via the discussion of motives that supported or did not support the literature; and the latter are further evaluated. It also traces and compares strategy changes among the four companies, synthesising hotel company development in response to changes in the macro environment, in order to shed light on the changes in the industry structure.

In this chapter, the first section compares and contrasts the motives for M&A activities across four hotel companies and the M&A literature. The second section highlights and explains the motive to acquire brand names and brand rights which emerged in these findings, but has been neglected in the general M&A literature. The third section evaluates the emergence of big business in the hotel industry in the context of brand acquisition. The fourth section compares hotel development generally across the four cases, particularly illuminating how conglomerates balanced their business portfolio in the context of macro environmental changes. The final section summarises the chapter.

10.1. Motives which support the M&A literature

In this study, the findings are consistent with the M&A literature in general. They support the propositions that management decisions about M&A activities are based on value maximising motives, and to some extent, the non-value maximising reasons. It is apparent that organisational motives are overlapping within each M&A deal, but certain variables are more dominant than others. It is also confirmed that value (economies of scale and scope, market power, strategic fit and speed) and / or non-value (managerial motives) maximising motives depend on the interactions between the company's intent and variables in the macro environment. The following discussions under organisational motives (10.1.1. and 10.1.2.) integrate one or more variables to facilitate the discussion. The macro environmental factors (10.1.3.) were overlapping, but not as apparent as the organisational motives, thus these factors (deregulation, technology, foreign competition and industry growth) are discussed separately.

10.1.1 Organisational motives: Value maximisation

Value maximising motives are consistent amongst all four companies, in terms of increasing size and extending geographical presence. Market penetration in terms of acquiring the same product is also commonly found in all four hotel companies as a means for increasing size and market share. By comparing and contrasting common variables identified in the four companies it is apparent that there was an increase in the number of variables cited after the mid-1980s for Ladbroke, Bass and Whitbread. THF was the exceptional case, having fewer variables cited as compared to the other three companies, which could be ascribed to the fact that THF was already the market leader in the UK hotel industry and had been since the late 1970s. Thus, the incentive to become market leader and to increase its size through speed was absent.

As compared to the other three companies, the number of variables cited in Bass's M&A activities stream-lined over the years. This could be due to two factors. Firstly, Bass had accumulated experiences in the area of M&A activities over the years and this provided Bass with in-depth knowledge and a clear strategy of what the Group wanted in each deal. Secondly, Bass had built up a portfolio of brands and products at different market levels, thus, the deals they closed in the early 2000s were more related to the expansion in the same market level and portfolio. This implies that variables found will be similar to previous M&A deals.

To increase size is observed to be the most dominant motive for M&A activity in this study, which are linked to cost cutting as 'per-unit cost reduced from an increase in the size of scale of a company's operation' (Gaughan, 2007). In the case of the hotel industry, fixed costs form a large proportion of total costs, and economies of scale can be better achieved through bulk procurement and reduced administration cost when there was an increase in the number of rooms. For example, Bass commented that the Group saved approximately £15 million after the acquisition of ICH in 1998, through re-organisation of management, such as setting up a new team to handle worldwide asset development and management in Atlanta (US) head office and re-structuring its geographical management responsibilities (AR/ Bass, 1998).

This study also supports economies of scale as a value maximising motive based on the addition of the same kind of resources - supplementary and complementary (Salter and Weinhold, 1979). In the case of the hotel companies, the presence of supplementary resources can be explained in the context of an increase total number of rooms, through Bass's purchase of the InterContinental Hotel group. The latter was a five-star brand and supplemented Bass's range of two- and three-star hotels. By the same token, it can be argued that strategic fit is present, in terms of supplementing locations can also lead to operational synergy. This particular motive in the hotel industry is attributable to the nature of the hotel business, involving delivering goods and services directly to customers at certain locations. Therefore, to cover more geographical areas means to cover more market segments; thus providing for more customers becomes an indispensable requirement for the hotel industry. Strategic fit is also achieved via supplementing each company's existing hotel locations with newly acquired hotels to create critical mass, whether it is an international acquisition or a domestic one limited to the UK. This is evident by THF's purchases of Anchor, KB and Crest – these had increased the company's geographical spread in the UK. Similarly, Bass with its

Centre and Post House deals, as well as Ladbroke with its Comfort and Stakis deals all shared the same motive to expand in geographical presence.

Strategic fit in terms of complementarity between related resources via the purchase of complementary products (Hill and Hoskisson, 1987; Jemison and Sitkin, 1986) is illustrated by the M&A deals: THF - Post House, Ladbroke – Stakis, Bass – Post House, and Whitbread – Swallow. These transactions consisted of purchasing similar types of hotels, which were positioned in the same market level. This contributed to the group's rapid expansion, enabling it to bypass the lengthy process of building hotels from scratch, resulting in significant value enhancement and cost reduction. For example, Whitbread's acquisition of Swallow and the conversion of the latter into Marriott's brand had increased the number of Whitbread's hotel rooms at the same four-star market level as well as in its hotel division as a whole.

Value maximising was also achieved through economies of scope, which is the sharing or utilising of inputs by related activities to achieve a potential source of benefits, such as using the same input to generate a vector of products, rather than one product (Teece, 1980; Willig, 1979). This is supported by THF's purchase of KB's hotels, adding a new product – historic hotel (Heritage Hotels) to its range of hotel at different market levels, thus provided its existing customers with more choices to select from, with a range of budget (Travelodge), three-star (Post House) and five-star (Exclusive) hotels. Similarly, the purchase of Candlewood Suites, positioned in the three-star extended stay segment, had supplemented Bass's five-star extended stay division – the Staybridge brand. Thus, in both purchases, Bass had increased the total number of hotel rooms operated and its market size. By the same token, it can be argued that Whitbread and THF had achieved economies of scope by starting their budget hotel business beside their existing pubs and motor way eating places. The strategy of using the same piece of land, and building accommodation next to those drinking and eating places had helped both companies to maximise the use of their lands and values.

Economies of scope has also been posited as one that is achieved through the sharing of specialised know-how (Teece, 1980; Willig, 1979). This is evident by

Whitbread using its franchising capability in its restaurant business and applying this skill to operating the franchised group of Marriott Hotels. Similarly, the motive of gaining knowledge and expertise for operating international companies and franchising are demonstrated by the acquisitions of Holiday Inns by Bass, and Rodeway Inns by Ladbroke, thus supporting this part of the literature.

Managerial synergy is also found in some of these deals closed, particularly prominent in the Ladbroke – Stakis deal and supports the M&A literature. Lubatkin and Lane (1996) emphasise the importance of managers' capabilities in merged companies to recombine resources and enhance competencies which create value. Similarly, managerial synergies and market power are created upon acquisition of new knowledge and resources (Trautwein, 1990; Vermeulen and Barkema, 2001). In the Ladbroke - Stakis case, it has been stressed that acquiring Michels' business acumen and expertise was the motive for this particular M&A activity. Although there was argument against this motive (Respondent 6), it can also be argued that the motive for acquiring the management capabilities of one individual is possible. This was evident by Michels being made the managing director of Ladbroke's hotel division after the integration of Hilton and Stakis in 1999. He was also made Ladbroke's chief executive in 2003. Michels also had previous working experience with Ladbroke, implying managerial synergies could be derived from his familiarity with both organisations' culture, in conjunction with his management skills. This supports the M&A theory of Hitt *et al.* (1998) who suggested that resource complementarities are important since the operational fit between Michels and Ladbroke's operational culture could enhance value for Ladbroke.

Ingram *et al*'s (1992) suggestion that M&A activity provides a much faster means of growth as compared with internal expansion or organic growth is supported in this thesis. Speed became a quick solution for expansion is evident by a number of deals. For example, Ladbroke doubled its number of hotel rooms through the purchase of Stakis; Bass's acquisition of Post House saw the Group tripled its number of hotels rooms; and Whitbread's purchase of Premier Lodge, the third largest budget hotel chain in the UK, enabled the Group to speed up its growth in this same sector and consolidate its leading position in the budget market sector.

In other words, M&A activities became the quick solution for expansion as evident by the instant size increase amongst all four hotel companies.

The purpose of attaining speed in M&A activity is linked closely to the nature of the hotel industry. The basic need of the hotel business for land and building was an urgent one, but in the UK, obstacles such as lack of land and suitable buildings, as well as planning restrictions became major obstacles for any expansion plans. This has been a perennial problem for the UK hotel industry since the 1980s. M&A thus became a solution to create capacity and to meet demand. It is also a swift and strategic way to gain a bigger slice of the market vis-à-vis competitors. This supports the argument that speed gives 'immediate access' to products and customers, and reduces competition from rival companies rather than adding more productive capacity (Schoenberg, 2003, pp. 98).

M&A activity also enables a company to enter a growing market quickly and seize opportunities ahead of competition. For example, THF's purchase of Crest Hotels from Bass in 1990 (included a few sites called Kelly's Kitchen) and Whitbread's acquisition of Premier Lodges in 2004 demonstrated the motive of speed to expand into the growing budget hotel sector. Similarly, Bass acquired SPHC to expand into the Asia Pacific region, which was a fast growing area and it was essential for them to enter the market quickly in order to establish its presence and / or to consolidate its presence in that region. The discussion so far confirmed that motives for M&A on an organisational level are value maximising in this study. The next section evaluates the motives of non-value maximising motives.

10.1.2 Organisational motives: Non-value maximisation

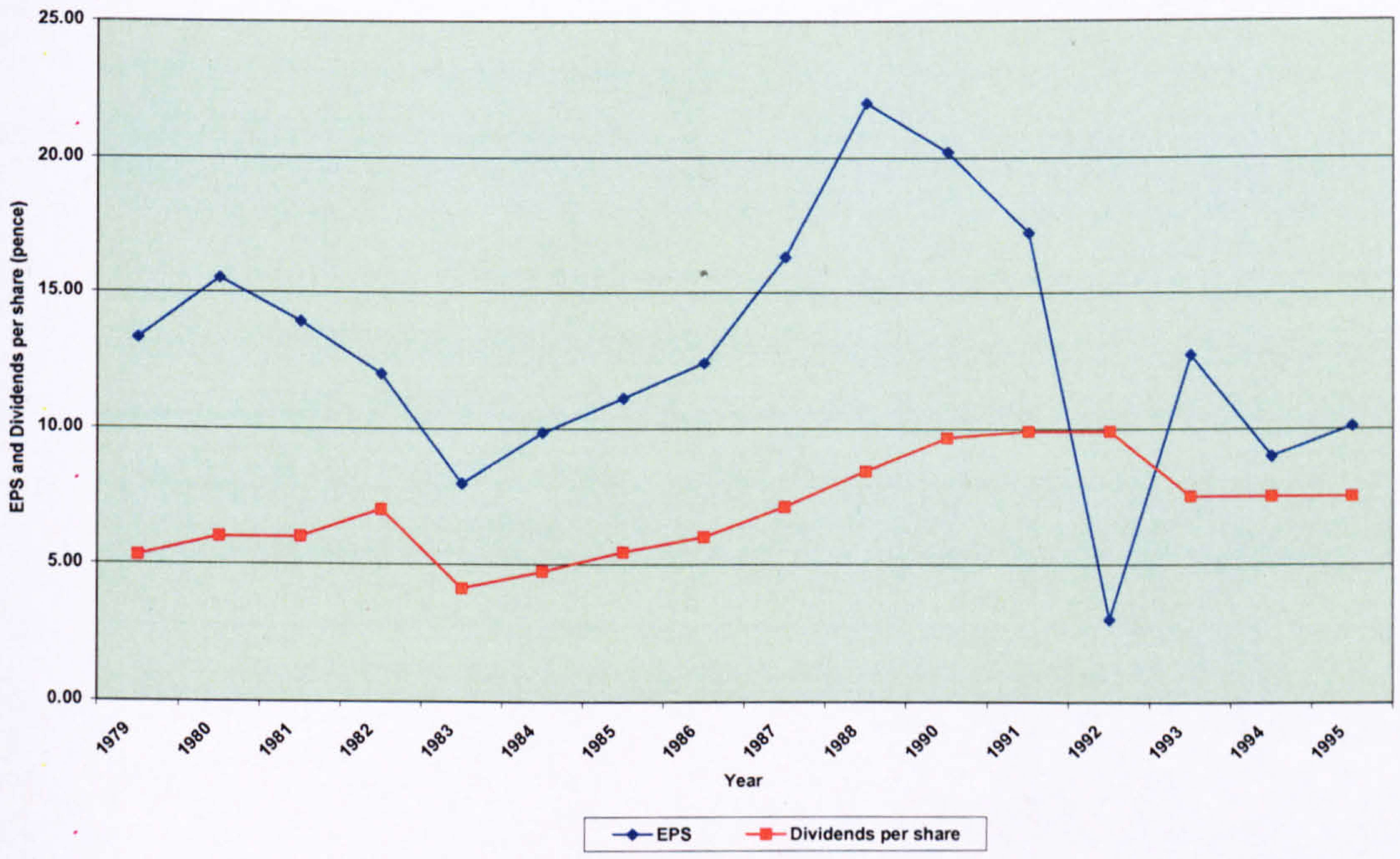
In this study, non-value maximising motives, in terms of achieving benefits for management rather than for shareholders (Berkovitch and Narayanan, 1993a; Cosh and Hughes, 2001; Morck *et al.*, 1990) point to two different conclusions. The first conclusion supports the literature regarding managerial motive, in terms of managers engaging in M&A activities for the sake of growth in sales and company size, rather than profit (Baumol, 1967; Marris, 1964). The second conclusion partially supports the argument that managerial power and control grow in tandem with company size and non-value maximising motives in M&A activities are related to managerial welfare (Jensen, 1986).

The first conclusion in this study is supported by the notion of 'ego', commonly cited by respondents. Although Respondent 4 admitted that ego is not a 'scientific reason' [for M&A activity], he also noted that, in terms of management ambition, 'if I want to have a chain bigger than you've got, you can't discount that [ego] is part of it.' To some extent, this general remark supports the works of Baumol (1967) and Marris (1964). The findings in this research support the managerial personal motive proposition, taking into consideration three of the deals closed by three different companies. In the case of the THF – Savoy, there was an obvious personal reason displayed by Forte Sr. who battled to buy The Savoy for over a decade (see 6.4). Ladbroke's purchase of Stakis could also be considered to be motivated by non-value maximising reasons because Ladbroke had failed to close a couple of deals previously (ICH and Coral bookmaker) (see 7.3). Thus, the closing of the Stakis deal was vital for the management to prove its capabilities to the City. In the same vein, Whitbread's acquisition of Swallow was linked to personal motive, as pointed out by Respondent 2, because of its failure to close a deal to acquire Allied Domecq in the summer of 1999. As a result of that failed deal, the Group's share price fell and there arose a need to acquire something in order to prove its management capabilities to the City (see 9.3). These examples point to managerial motive, displaying their wish to satisfy personal need and / or prove their competences, which could lead to engaging in M&A deals without due diligence, resulting in non-value maximisation for shareholders.

The second conclusion does not support the non-value maximising motive, in terms of achieving benefits for management, rather than for shareholders. This study only supports, to a certain extent, the argument that managers sought the prestige of running a big company or to enjoy higher pay when the company became bigger (Marris, 1964; Schoenberg, 2003; Wright *et al.*, 2002; Yagil, 1996). This is explained from two points of view: firstly in terms of earnings per share (EPS) and dividends, and secondly, in terms of increasingly active shareholders who monitor management and company financial performance.

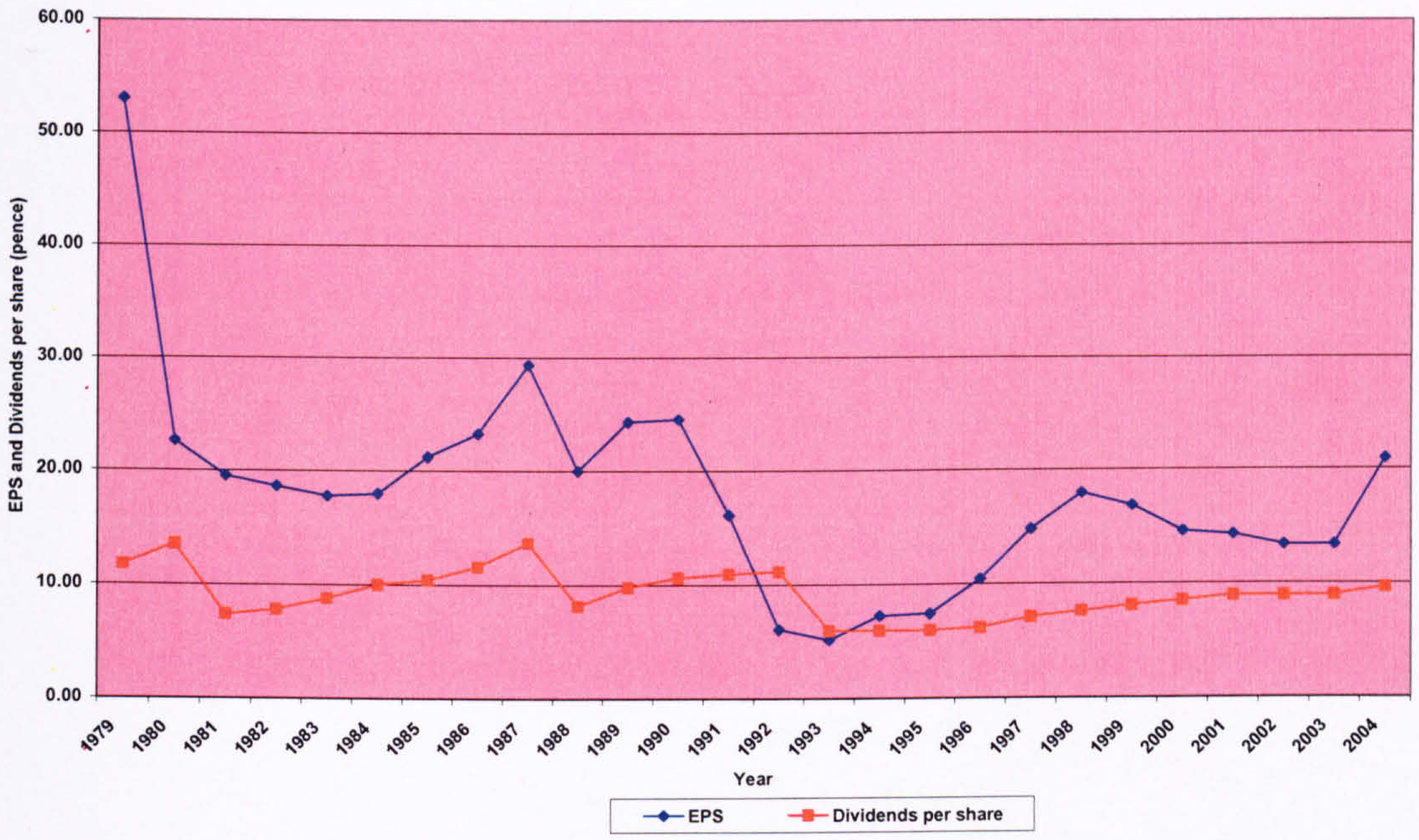
First, two simple indicators of shareholder value - namely EPS and dividends per share - did not display a drastic decline ascribable to hotel M&A activities. It is apparent that all four hotel companies' EPS declined between 1991 and 1992 (see Figure 10.1 – 10.4). Although three companies had acquired other hotel companies in the late 1980s (Ladbroke-Hilton International in 1987; THF-Kennedy in 1988; and Bass-Holiday Inns from 1987 – 1990; Whitbread has no hotel acquisition activities until 1995), the decline was attributed to macro environmental factors, rather than to these specific M&A activities.

Figure 10.1: EPS and Dividends per share for THF, 1979 – 1995



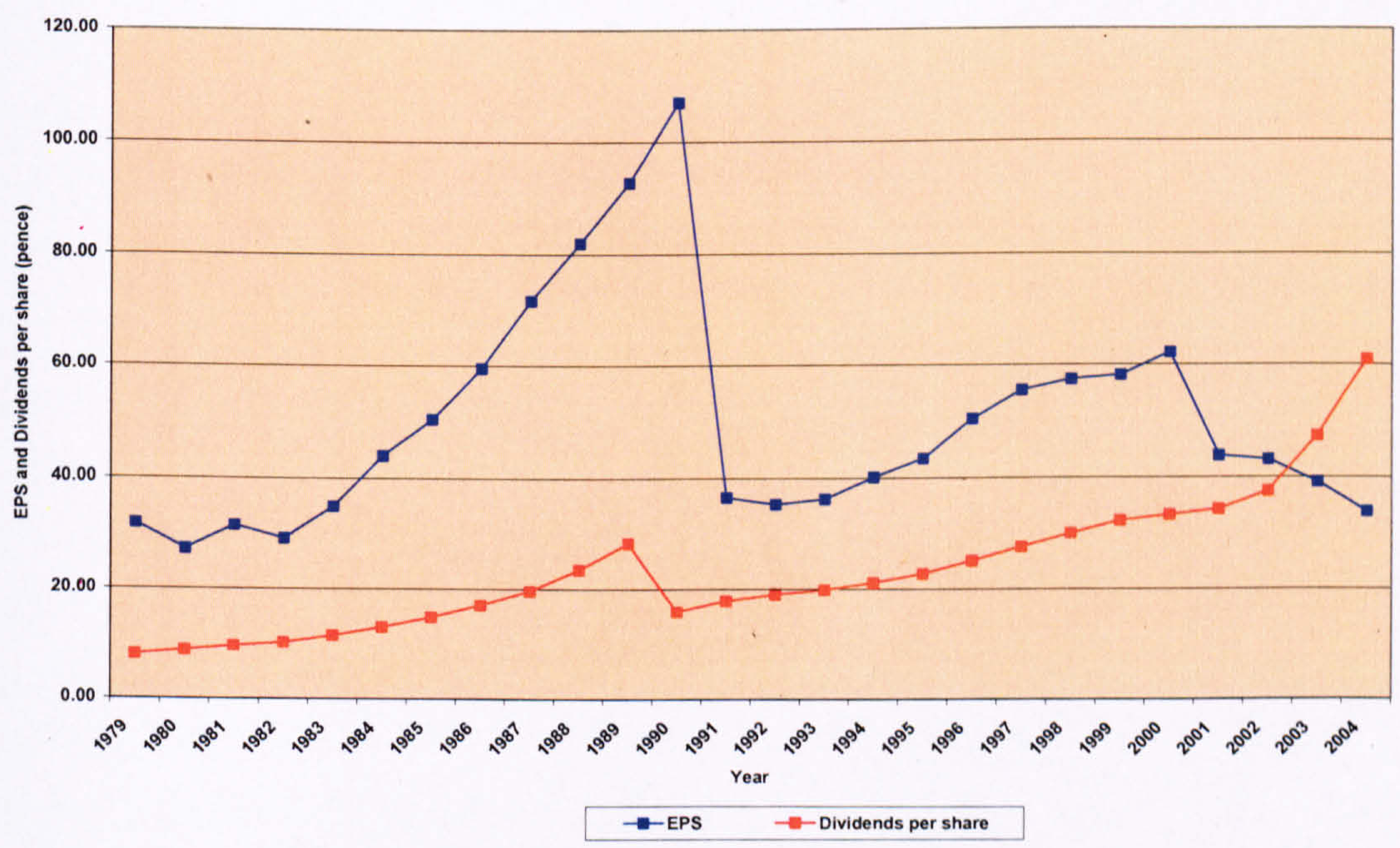
Source: THF annual reports, 1980 – 1995

Figure 10.2: EPS and Dividends per share for Ladbroke, 1979 – 2004



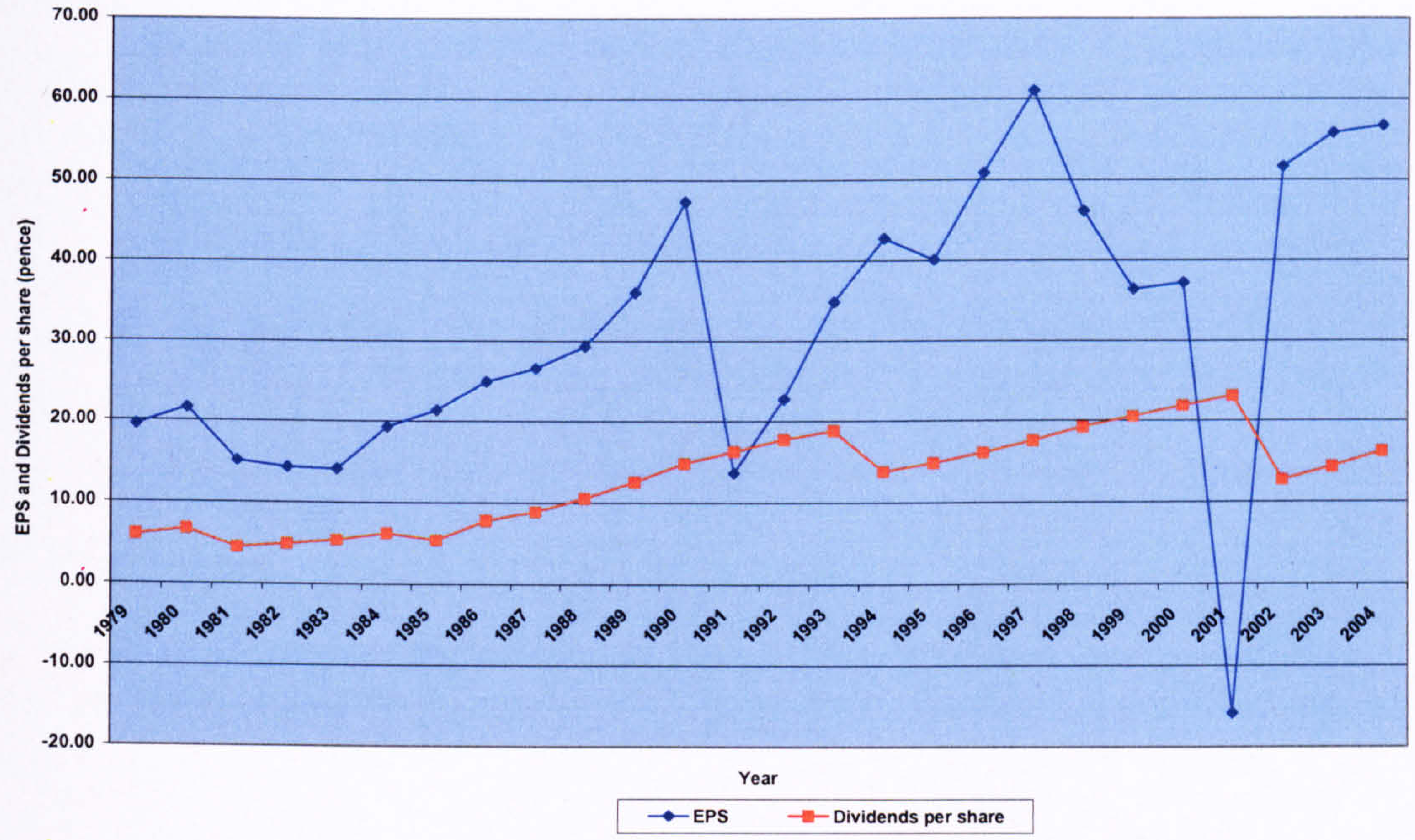
Source: Ladbroke annual reports, 1980 – 2005

Figure 10.3: EPS and Dividends per share for Bass, 1979 – 2004



Source: Bass annual reports, 1980 – 2005

Figure 10.4: EPS and Dividends per share for Whitbread, 1979 – 2004



Source: Whitbread annual reports, 1980 – 2005

In the late 1980s, the UK economy was challenged by rising unemployment and high inflation and interest rates, leading to decreasing demand for property. Therefore, the property market was faced with low demand for new buildings and higher building costs (Scott, 1996). This adverse effect spilled over to the hotel industry, which, like the property market, experienced a 'double blow' because of a reduction in hotel demand and an increase in servicing debt interest. Ladbroke sold its property division; Whitbread rationalised its hotel division and sold off its three-star Lansbury hotel group. THF also reduced debt and maximised profit by disposing of the group's underperforming assets and non-core businesses. Bass on the other hand was not as severely affected as the other three companies because the former had had reduced its ownership of hotel assets and expanded via franchising, since buying the Holiday Inns hotels in the late 1980s.

Although Bass experienced a minor decline in its EPS during the same period, its shareholders also benefited from a continuous growth in dividend distributions. The reduction in property value also led to Ladbroke and THF's decision to adjust their distributed dividends to better reflect the balance between providing an adequate income for shareholders and the need to retain cash for investment in the group's businesses (AR / Ladbroke, 1993; AR / THF, 1993). In the same period, the severity of the recession had affected Whitbread's financial performance, particularly from its brewing business due to customers' reduced disposable income. The Group's concentration of two thirds of its brewing leasehold property and half its beer business in the south of England was the major cause (AR / Whitbread, 1992). Therefore, it is argued that management did not acquire hotels at the expense of shareholder values because the adverse effects on financial performance have largely been ascribed to the ups and downs of economic cycles and world events.

These companies faced another difficult market conditions in the early 2000s (THF was taken over in 1996) as a result of the combination of worldwide recession, the 9/11 terrorist attack in New York, SARS and the Afghanistan and Iraq wars. There were similarities between three companies: Ladbroke's and Whitbread's EPS declined from 1999 and Bass's EPS was reduced from 2001; all three hotel companies had acquired another hotel group in 1999 (Ladbroke – Stakis; Whitbread – Swallow) and 2000 (Bass – Post House). In the case of Ladbroke, the general downturn in the world economy was the major cause of reduced demand for hotel rooms, leading to a decline in EPS, although dividends were unaffected (AR / Ladbroke, 2002); this was partly due to a change in gambling taxation (see 2.2.6), which led to a re-balancing of income generation. As for Whitbread and Bass, the declines were ascribed to reduction of overall operating profits, contributed to by their sales of brewing divisions in 2000 (AR / Bass, 2001; AR / Whitbread, 2000 / 01). Bass's dividend per share was not affected because the Group had been re-structuring since the late 1990s, by the sale of hotel assets and re-organising itself into a hotel management company. However, Whitbread's dividend per share was affected, due to a combination of brewing sales and a concentration of hotel business in the UK. This discrepancy is apparent when compared to Bass's hotel diversity in terms of market levels and geographical presence worldwide.

In other words, the above shows that management motives for these M&A activities were not totally based on their desire to increase sales and profits, but there were also strategic elements, in terms of expanding into a growth market – the hotel industry - in consideration of shareholder value. Moreover, management had displayed organisational capabilities, by recognising opportunities (hotel growth) and responding to the external environment (decline in property value and consumer demand for beer) in order to improve company and shareholders' value. The decline of shareholder value may rather be attributed to the combination of external factors - macro environmental changes and other company-specific reasons.

The second conclusion does not support the argument of the declining ability of shareholders to monitor management as the corporation grows larger and more complex (Cosh and Hughes, 2001; Jensen, 1986; Weidenbaum and Vogt, 1987; Wright *et al.*, 2002). It is found that this phenomenon is disappearing in the case of UK hotel companies because of pressure exerted from analysts in the City and major investors, particularly financial institutions in the UK.

As financial institutions became major owners of hotel companies, they exerted strong influence on the corporate strategy of each company, including decision making regarding capital investment, even though they were not making day-to-day operational decisions. This is demonstrated particularly in the case of Bass's shareholders demanding dividend return, and intervening with management over potential acquisition activity. Therefore, it can be observed from this study that the non-value maximising motive for M&A activity is increasingly unsustainable, particularly in the UK hotel industry from the late 1990s.

The growing power and importance of shareholders was confirmed via the hostile take-over of THF by Granada in 1996. In this case, the main rationale posited by Granada during the hostile bid was that THF was not managing the company well and not returning justifiable profits to shareholders. The final decision for the bid depended on THF's main shareholder, a financial institution – MAM - which held a substantial amount of the company's shares. MAM's decision to sell THF shed light on the fact that financial institutions as major shareholders have in effect become the external monitors of management teams. This supports Marris (1964), who posited that M&A activity could be a form of control for management and their non-profit maximising behaviour. THF being taken over by Granada, might, to a certain extent, not have proved that managers pursued their own welfare at the expense of shareholders, as posited by Marris (1964), but it did show that companies considered to be underperforming in the market would attract takeover bids to displace the management. The analysis of the four cases in this study also shows that managers cannot engage in M&A activities based purely on personal interests, because financial performance reflects managerial capabilities and their remunerations are tied to company's financial performance. Respondent 3 pointed out that senior management are typically rewarded via option and long-term incentive plans, and, in order to be rewarded, their interests have to be aligned with the shareholders' interest, because 'the management in the company will only make money when we, the shareholders of the company, make money'. This supports Jensen and Meckling's (1976) proposition that managers will act in the best interest of shareholders when there are appropriate incentives for them.

The implication of the concern for increasing shareholder value reveals in another way how the hotel industry is being taken more seriously by the City. The hotel industry was increasingly becoming an important investment vehicle for financial institutions as evident by the bid for Premier Lodges in 2004. The final six bidders constituted five financial institutional investors and one hotel operator (Whitbread).

10.1.3. Macro environment

(i) Deregulation

Deregulation has been suggested by Mitchell and Mulherin (1996) and Mulherin and Boone (2001) as a major industry shock in the UK between the 1980s and 1990s. Harford (2005) also agreed that industry shocks - regulatory, technological and economic - are drivers of merger waves. However, Harford (2005) and other authors, Gugler *et al.* (2005) also argued that capital available for investment is crucial. These assumptions are supported in this study, particularly with regard to the deregulation of UK financial sector. M&A activities in the hotel industry could not have taken place without financial support, either from the company itself or other sources, because of high capital investment. Deregulation of the UK financial sector in the 1980s played its role in releasing more funds for re-investment activities in the economy, and opened up opportunities for all industries to access capital at a competitive price.

Financial deregulation is particularly crucial for the hotel industry and it can be broken down into two kinds of impacts, direct and indirect. Firstly, the direct impact was in terms of funds made available for expansion, in the form of bank loans with competitive interest rates and / or money generated from the share market and / or insurance companies and building societies. The anticipation of the financial deregulation itself produced an enormous number of M&A activities within the financial sector, which in turn created demand in the economy for durable and non-durable goods alike. This benefited hotel companies by allowing them easier access to capital, considering how capital intensive this industry is.

Secondly, the indirect impact is the increased demand for non-durable goods. For instance, Godley (2002), while studying the transformation in the service industry found an unprecedented increase in the number of foreign retailers specialising in clothing in the late 1980s and early 1990s in the British retail market. He ascribes this phenomenon to the rise in income in the UK, with foreign retailers responding to the demand, leading to a shift in the domestic demand market for clothing on British high streets. In the same way, increased affluence among the British led to higher demand for leisure activities. The 1980s in the UK saw the rise in demand for short break holidays. This rise in the demand for hotel rooms within the UK itself spurred demand and growth in the hotel industry. This in turn increased the confidence of investors and attracted more financial capital into the industry, as evident with the four companies in this study. The under-supply and higher demand situation at that time particularly led to the need to engage in M&A activities in order to capture the market share quickly and meet demand adequately.

In the first half of the 1990s, although banks had tightened their lending requirements due to the loss of a great deal of money in the recession years between 1989 and 1993, hotel companies were able to obtain funds by rationalising and selling their assets. Particularly in the late 1990s, financial institutions changed their perspectives and developed a preference for tangible assets investment over the share market, mainly due to the technology market crash in the late 1990s. Hotel companies began to engage in more sale-and-leaseback and sale-and-manage back contracts with financial institutions. In this sense, deregulation of the UK financial sector, as an industry specific shock for the financial industry, became a general industry shock for the other industries, including the hotel industry, and induced merger waves during the 1980s and 1990s.

As with motives on an organisational level, different industry shocks did not take place in an exclusive manner, but were, to some degree, mutually dependent. For instance, deregulation of the UK financial sector was partly induced by globalisation, and the opening up of the UK financial sector to foreign competition led to the installation of new computer systems to facilitate financial exchange worldwide. In the same way, technology advancement worldwide has different impact on different companies and industries, including changes in hotel operations and distribution systems, which will be discussed next.

(ii) Technology

Technology is considered a general industry shock and has an impact in inducing corporate restructuring (Mulherin and Boone, 2001; Toxvaerd, 2004). It is also an effective tool in M&A activities because economies of scale and scope are attained when the same amount of resources are used to produce more products or distribute a wider range of products (Gaughan, 2007; Singh and Montgomery, 1987). Andrade *et al.* (2001) posited that technological innovations created excess capacity which led to the need for industry consolidation. Although their studies were based on the manufacturing industry, the fact that technology created excess capacity is as applicable to the case of the hotel industry. For example, in the manufacturing industry, excess capacity is created in terms of products due to the advancement in technology. In the hotel industry, technology created excess capacity, in terms of using the same computer distribution system to handle a bigger pool of data such as the supply of rooms.

Technology advancement, particularly through information technology (IT), enables hotel companies to consolidate information regarding the number of rooms at different market levels, sell them through the same technology and achieve economies of scale by operating at a lower per-unit cost. The technological shock is particularly pertinent for the hotel industry as international trade barriers across borders disappeared and mobility of visitors between national borders increased. IT enables quick dissemination of information and so enhances sales and marketing, as well as the management and operation systems of hotel units across borders. This is supported by several M&A deals discussed previously, such as Whitbread - Marriott, Bass - Holiday Inn, Ladbroke – Hilton and THF - Le Meridien. These companies advocated the cost cutting factor derived from economies of scale, when rooms from two different companies were integrated after M&A activities into the same computer reservation system. Economies of scope are also achievable by cross selling a range of different products, such as hotel rooms, at different market levels or located in different geographical regions and countries.

(iii) Foreign competition

Powell and Yawson (2005) found foreign competition in the UK to be an influential driver for M&A activities between the 1980s and 1990s. Toxvaerd (2004) suggests that globalisation was a major factor leading to merger waves. This is supported by Jones (2005) who posits that the pace of globalisation intensified from the 1980s and attributes this to the combination of political and economic events. For example, drivers of the rapid development include the financial deregulation in the US (1975) and the UK (1986) which enabled more capital flows across borders; China's adoption of market oriented policies in 1979 and the collapse of Communism in Russia and Eastern Europe in 1989 opened up new markets for foreign investment. Moreover, the deregulation of air transport and telecommunications had also reduced transportation costs (Jones, 2005).

During much of the 1980s, globalisation, deregulation and foreign competition led to more funds made available for investment in the UK, from local and foreign companies. In addition, interest rates and inflation rates were low, in conjunction with an increase in disposable income level, which had added to the change in

British consumer demand. The UK became the legitimate location for hotel companies to invest because of stable economy and a high volume of international visitors to the country. This growing demand for hotel rooms in the UK also attracted both domestic and foreign companies to expand their hotel interests there (Hotel Companies in the UK, 1987). UK hotel companies saw the opportunities to use international brand names to expand market share and attract international visitors, because they were also facing a shrinking demand from the domestic market, as the British were travelling out of the UK. Concurrently, particularly those with an international brand name in the US, decided to expand out of their country due to market maturity there. UK hotel companies became more prominent in the international hotel industry when Ladbroke bought the Hilton hotel company (1987) and Bass purchased the Holiday Inn hotel company (1987-1990). These were big hotel companies in terms of international presence and size (number of rooms) worldwide during that period. In the 1990s, the UK hotel companies continued to grow internationally by buying up international brand names (Le Meridien by THF in 1994) or brand rights (Marriott by Whitbread in 1996).

(iv) Growth (high or low growth industry)

According to Powell and Yawson (2005) and Mitchell and Mulherin (1996), M&A activities had been concentrated more in industries with low growth in the 1980s. The findings in this study of the UK hotel industry have presented different views, in terms of a high volume of M&A activities in the growing hotel industry in the 1980s. As discussed previously, the financial deregulation during that period had a spill over effect on other industries, leading to growing demand for non-durable goods and services. This difference in findings probably occurs because of the difference in sample used. The samples used by Powell and Yawson (2005) and Mitchell and Mulherin (1996) were based in manufacturing industries facing declining growth, leading to consolidation of excess capacity, in the low growth industries. However, this study supports the view of Powell and Yawson's (2005) with regard to the negative correlation between low growth industry in the 1990s and M&A activities. This was demonstrated by Ladbroke – Stakis, Bass – SPHC and Bristol, and Whitbread – Swallow engaging in M&A activities in the late 1990s under an economic downturn and a decrease in demand for hotel rooms, slowing the growth in the hotel industry.

This study also supports the view of Mulherin and Boone (2001, pp. 135) who concluded that M&A activities in the 1990s were not restricted to industries with a slow growth. For instance, the deals such as SPHC and Bristol closed by Bass were linked to the aim of expanding in a growth industry, which was the hotel industry at that time. These moves were partly motivated by the aim to reduce the company's exposure to another declining industry – brewing. Similarly, Whitbread expanded its hotel division aggressively from the mid-1990s, as part of its intention to balance its business portfolio, due also to the slow growth in brewing. Thus, corporate restructuring is not only dependent on industry and / or general shocks; there were also company specific motives. In this sense, this study also supports the view of Blair and Schary (1993), Gulger *et al.* and Toxvaerd (2004) that there are company-specific reasons interacting with industry and general shocks.

In summary, this sub-section presented the analysis derived from a cross-case comparison in the context of variables obtained from the theoretical framework to present how this study supported or did not support the M&A literature. As found in this thesis, industry and general shocks - deregulations, technology, growth or decline in specific industry and foreign competition - interacted with organisational motives which led to M&A activities. The study has explained the circumstances which triggered hotel expansion via M&A activities in terms of environmentally induced or 'push' factors and opportunities arising which 'pull'. As the globalisation of trade and visitors mobility continued in conjunction with IT's rapid development as a vehicle for real time information dissemination and sales purposes, the increasing competition posted by hotel companies as well as online agents, led to hotel operators' increasing awareness of the power of brand names. It is found that the motive to acquire a well-established brand name or brand right is common in these four case studies. However, this particular motive has not been extensively discussed in the M&A literature. In view of the growing importance of this factor amongst hotel operators, brand acquisition will be evaluated in detail in the next section, in the context of the M&A literature.

10.2. Brand and brand right acquisitions

Strategic fit is often cited as a motive for M&A activity based on relatedness between resources, such as the complementary characters of the assets and operations of the combined companies to produce the product and derive maximum value for the company (Hill and Hoskisson, 1987; Jemison and Sitkin, 1986). In the context of the hotel industry, the acquisition of brand and brand rights could provide the same strategic fit. This may be achieved either by buying up a branded hotel group and re-branding the existing hotel company, or buying up a hotel company which complements existing products and re-branding its hotels. Evidently, either way of re-branding hotels leads to an increase in size, in terms of number of hotels and rooms, and creates critical mass. This concurs with the complementary resources, which lie in the similarities in the types of room operation between two hotel companies. A brand name is acquired and used to re-brand acquired hotels which carry the same kind of rooms, enabling the acquirers to save time and cost compared to organic growth.

In addition, branding also increases market power through increase in market share. Generally, the M&A literature relates to achieving market power through increasing market share, realised by the purchase of the same product in the market, thus increasing a company's size relative to its competitors (Gaughan, 2007; Hitt *et al.*, 1998; Ingram *et al.*, 1992; Singh and Montgomery, 1987; Vermeulen and Barkema, 2001). In the case of the hotel industry, the concept of market share in the M&A literature can be applied to the hotel company in terms of a rise in numbers of customers, rather than products, through M&A activities. This explicitly relates to enhancing value by integrating two loyalty programmes, thus increasing market share. This is evident from deals such as Whitbread-Marriott, Bass-ICH and Ladbroke-Stakis. In these deals, integration of customers under two loyalty programmes and cross-selling of different products or the same products at different locations, provided by the same hotel companies, can be translated into higher sales and profits. Thus, brand has become an important motive for M&A activity because 'A brand name is a promise to the customer of a certain level of product quality and service execution' (Muller, 1998, pp. 91). Moreover, the combination of globalisation and technology drives brand recognition as some travellers prefer to use the same brand name for assurance when travelling away from home.

Technology and brands are found to be interdependent and are more specific to the hotel industry in terms of exploiting operational synergies. It has been clearly pointed out by David Bland, Managing Director at Bass Hotels and Resorts (Europe, Middle East and Africa) that 'the strength of the Internet demanded strong brands and the Internet also provides an opportunity to obtain incremental sales through intermediaries such as Lastminute.com' (Sangster, 2000a, pp. 13). Melvin Gold of Pannell Kerr Forster (PKF), a business consulting company, including hotel consultancy, also commented that 'as the big groups get bigger, hotels which do not rely exclusively on their local market are going to have a look at branding and group reservations systems to reach a global market' (Cohen, 1999). These views shed light on the importance of technology and brand, clearly influencing factors on the management decision-making process and the motive to increase the size of a company.

Correspondingly, a well-established brand name acquired is value enhancing for the combined companies when extended to different products and to offering more goods and services to customers. This is evident from the creation by Holiday Inn of the Express by Holiday Inn brand name, and Marriott Courtyard by Marriott was similarly created by Marriott as a three-star product, offering amenities and services that are ranked between limited service and four- and five - star type of hotel. In the same way, Ladbroke started its hotel business in the four - and five - star market sectors and extended its range of products through three-Star (Hilton Garden Inns) and three-star all-inclusive sectors (Coral by Hilton). These examples provide empirical support to Singh and Montgomery's (1987) conceptual study that suggests scope economies occur through distribution systems and intangible assets like brand name when these are used for more than one product.

Brand name can become a strategic fit with corporate and business strategies, thus enhanced the value for companies. For instance, Ladbroke re-branded its existing Ladbroke hotels as Hilton National after the acquisition of Hilton International in 1987. The Group also replaced its corporate name with Hilton

Group plc in 1999 in order to identify itself as a major player in the hotel industry. Similarly, Bass re-branded its Crest hotels to Holiday Inns in the late 1980s and adopted the more prestigious name of 'InterContinental' from its hotel division as its corporate name in 2003 after de-merging its hotel and drinks divisions.

This discussion so far shows that brand name and brand right acquisitions provide the means to increase market share via re-branding of rooms, merging members of loyalty programmes and product extension. This discussion also highlights the strategic fit between complementary products which enhance value and reduce cost, resulted partly from operational synergies. According to Gaughan (2007) and Singh and Montgomery (1987), an increase in market share also encompasses market power and monopolistic control and the power to set price. In this study, financial synergy is gained through market power and monopolistic control derived from the acquisition and ownership of brand names. This in turn leads to market power to control licensing, franchising and/ or management rights. Moreover, the rights to brand name also enable the brand owner to control its 'price' in terms of franchising fees and management fees. This supports the view of Gaughan (2007), that the source of market control can be linked to monopoly power because of ability to set and maintain price above competitive levels.

Price setting for hotel rooms might not be prevalent because of intense competition in the industry; however, price setting could take place in terms of franchising fees. For example, the consolidation of the Holiday Inn brand and the sole ownership of its brand name enabled Bass to set and control franchising fees. Bass increased its franchise fee for the Holiday Inn brand in 1991 after it acquired the whole chain. The power of owning a brand name and its exclusive rights is further evidenced by Bass granting a license to Seibu Saison Group (seller of InterContinental Hotels) to continue the operation of the InterContinental and Forum brands in Japan where Bass had no exposure. This monopoly power is best illustrated by the breakdown in a franchising deal between Scott's and Bass in 1991. Scott's had wanted the sole franchise rights and control of the Holiday Inn brand in the UK, but this was rejected. This led to Scott's terminating its contracts with Bass, and re-branding all its Holiday Inns hotels into the Marriott brand. Likewise, Whitbread, which bought Scott's chain of UK hotels, had the advantage of gaining this exclusive right to operate Marriott's brand name in the UK. This could also be translated into monopoly power over the use of this brand name in the UK, simultaneously eliminating direct competitors operating in the same market level (four-star), without increasing capacity.

Financial synergies are argued in the general M&A literature in terms of increased sizes and decreased lending rates, as well as reductions in perceived risks and higher debt capacity because additional funds are easier to obtain when the asset backing of the merged companies is larger (Halpern, 1983; Hitt *et al.*, 1998; Kitching, 1967; Lewellen, 1971; Lubatkin, 1983; Yagil, 1996). This is supported by Respondent 4's comment that financial synergies can be derived in the case of a bigger company buying over a smaller one; the latter company, increased in size, is able to borrow more money at lower rate on the back of the bigger company. This financial synergy is also supported by brand name and right acquisitions, in terms of enabling hotel operators to gain access to capital markets more easily because investors feel 'safer behind a brand name and an established company' (Cohen, 1999, pp. 9). In a similar vein, Respondent 4 also pointed out that there are financial synergies in M&A activities when the value of a brand enables these hotel companies to expand through management contracts and franchising, cutting down debts and increasing shareholder value by returning more dividend. This implies a well-recognised brand name attracts investors, which enables hotel companies to move towards expansion without equity or minimum equity investment, and this no doubt reveals ownership of a brand name and rights as synonymous with market power. For instance, Bass retains the brand rights to the brand name Holiday Inn and Intercontinental; Whitbread held the right to the Marriott brand in the UK (1995 – 2005), and THF had the brand rights to Le Meridien worldwide (1994 – 1996). Therefore, the acquisition of a recognised brand name and not assets had provided these hotel operators with the opportunity to grow, particularly from the 1980s.

The argument for brand acquisition in this study also highlighted the relationship between M&A activities and a low-concentrated industry. The general argument for industry concentration is attributed to sales and profits or the amount of product produced by a few dominating companies (Powell and Yawson, 2005). Moreover, Powell and Yawson (2005) argued that low-concentrated industries have a higher rate of M&A activity, as companies compete to gain a greater share of the market. Branding has become increasingly recognised as an important asset of hotel companies, and it was estimated in 1999 that 80% of all the UK's hotels were unbranded (Buckingham, 1999). Thus, the opportunity created by the low concentration of branded hotels motivated hotel companies to acquire brands as a means of expansion, via corporate affiliation such as franchising and management contracting.

Due to the difficulties in organic growth, brand acquisition as well as purchasing-and-re-branding exercises became common activities in the hotel industry. A lack of land and the difficulties in obtaining development permits severely constrained the building of new hotel rooms in the UK since the 1980s (Hannan, 1986; Ward, 1997). These constraints coupled with the opportunity created by the under-supply of rooms in the industry, a lack of corporate affiliated hotel rooms, globalisation and higher customer expectation in the quality of hotels made these brand acquisitions and re-branding more valuable. Moreover, it was considered cheaper to buy asset and re-brand as Respondent 3 and Respondent 6 mentioned. In weighing the cost-benefits between the options of new build or acquisition, branding strategies play a particular important influence. As commented by Respondent 6,

> 'The increase in the number of global travellers and greater mobility in general make branding a much more important part of the exercise today than it was, it was global branding'.

Although technology, globalisation, deregulation of the financial sector and industry growth are commonly examined as proxies for industry shocks (Mitchell and Mulherin, 1996; Mulherin and Boone, 2000; Powell and Yawson, 2005; Toxvaerd, 2004), there is no specific discussion based on land limitation, planning restrictions and property markets. One reason is that previous M&A related research was conducted within a mix of industries. Moreover, there has been no specific study carried out in the context of the interaction of organisational intents and macro environmental factors in M&A activities, based on the UK hotel industry.

The aim to understand the emergence of big business in the UK hotel industry via the study of M&A activities led to the revelation of brand as an important motive in this activity. The role of brand and brand right acquisition has also shed light on big business concepts and will be discussed in the next section.

10.3. Brand acquisition and big business

The importance of the role of brand and brand right acquisition provides several new dimensions to big business concepts, particularly in the context of the UK hotel industry.

Firstly companies' ownership of huge capital assets is embedded in the description of big business (Schmitz, 1993). Although the four hotel companies owned large capital assets, via several M&A activities, it has been observed from the 1980s that increasing emphasis on acquiring and owning brand names and brand rights among hotel companies has changed the meaning of owning huge assets in this industry. Brand name and brand rights have provided hotel companies with the market power to franchise out their names and / or engage in management contracts, as a means to expand, leading to value enhancement and cost reduction. For example, THF's acquisition of Le Meridien in 1994 (consisting of management contracts in the main) and Bass's acquisition of hotel management companies SPHC and Bristol (2000), show a trend towards involving fewer fixed capital assets, but instead purchasing companies that hold the operating rights to a number of brand names. Thus, the hotel industry is increasingly becoming big business, not predicated on high fixed capital assets, rather on intangible ones.

Secondly, Schmitz's (1993) concept of a big business is one that integrates the production and sales of a diverse number of products and / or geographic areas. In the hotel industry, the integration of the production and sales of a number of products in one or a number of locations simultaneously, is increasingly different from Schmitz's description. First, there is a difference between the former's study of the manufacturing sector and the more service orientated nature of the hotel industry. Although it could be argued that the hotel room serves as a product itself and is produced by companies for nightly sale, the nature of the hotel business requires product (rooms) to be delivered in many places at the same time for customers' consumption. Second, as mentioned previously, in the process of becoming a big business, hotel companies became increasingly dependent on branding to expand. Similarly, integrating production and sales processes is also dependent on a recognised brand name, in terms of re-branding the products of one company into another brand name and integrating these products into the same marketing and distribution system to promote sales. There are many examples in this study, namely, the re-branding of Crest hotels into Holiday Inn brand; THF integrating Post Houses into the Crest brand; Ladbroke converting its Ladbroke Hotels into Hilton National and Whitbread's purchase of Marriott brand rights and changing the names of its country club hotels into the Marriott brand.

Thirdly, there is the argument made by Cassis (1997, pp. 5) regarding big business, namely that it "is a wider concept ... [it] is a matter of large-scale operations, of money and power, whatever the type of activity or the forms of organisation". In the hotel industry, it is increasingly clear that hotel companies are large-scale operations, due to the need to be present at as many locations as possible to provide goods and services concurrently. Moreover, money is inherent in this industry due to its nature of high investment costs, regardless of the source of funds, whether originating from the company through internally generated resources or attracted from external investors. In addition, the ownership of a well-recognised brand name and brand rights has increasingly become a significant part of the market power of hotel companies to attract both customers and investors as a means of expansion and survival. Customers are attracted to a good brand name for the quality it guarantees, and this in turn generates the interest of investors to invest in hotel companies with a brand name. Each hotel company under study had, in its history, used its acquisition and ownership of a brand name or brand right to expand its hotel business and emerge as a leading company in this industry. For instance, THF – Le Meridien Hotels; Ladbroke – Hilton Hotels; Bass – Holiday Inn Hotels and InterContinental Hotels and

Whitbread – Marriott Hotels. These purchases enabled Bass and Ladbroke to become two of the leading hotel companies worldwide, by the number of hotel rooms operated, as well as consolidating THF's position as the UK largest hotel company, in terms of number of rooms and a leading brand name.

Fourthly, the big business concept lies in Cassis's (1997) and Schmitz's (1993) proposition that a limited number of large companies compete with one another in the same industry. In their studies, being big was based on companies owning major market shares, in terms of sales figures and production output. In the case of the hotel industry, a few major companies competing against one another depend not only on financial figures. In general, the number of hotels and rooms affiliated to the same hotel company and / or branded under the same name is used to present the market share (see Appendices B and F). This is partly ascribed to the importance of being present in a number of locations - locally, regionally and / or internationally to deliver products (hotel rooms). Particularly attractive is the customer loyalty programme which retains and / or attracts customers when a hotel company is able to provide many choices of location for their convenient use. Thus, the UK hotel industry saw the emergence of big business in the context of leading hotel companies, which own a major market share in terms of powerful brand names and rights. In 2004, a survey conducted by MKG consultants revealed that the ten largest hotel companies in the world were managing 75% of the world's 4.6 million rooms (Hotel News Resource, 2004). The InterContinental Hotels Group, originally Bass Group plc and Hilton International, owned by Ladbroke plc were ranked the largest and the 10th largest hotel group in the world respectively (Hotel News Resource, 2004)[2]. The acquisition and ownership of brand names enabled UK hotel companies to increase market power and gain market share within the UK, and also worldwide.

10.4. M&A activities and changes in corporate strategies

The examination of M&A activities in the development of four UK hotel companies also reveals how the corporate strategies of these companies changed over time

[2] Notes: 536,318 rooms and 102,602 rooms for InterContinental Hotels Group and Hilton International respectively.

in response to macro environmental change. Over a span of more than two decades, companies changed from conglomerates with diverse business portfolios, divested several business divisions and returned to focussed business.

In the 1980s, corporate resources among the three hotel companies were spread in supporting different business divisions. The four companies had distinctive strategies because of their different backgrounds in terms of original businesses. Strategies changed according to changes in market demand and in conjunction with companies' objectives, in order to strengthen their organisations by increasing market share and becoming market leaders, and by balancing out deteriorating businesses in their business portfolios for growth and survival. The ability to fund their asset-heavy hotel business was facilitated through cash flow obtained from other business divisions within each group. These had once been a source of strength and were effective, particularly in supporting M&A activities and expanding the company as a whole.

For example, Ladbroke's original business was gaming and it expanded into hotels from the 1970s. The Group's strategy from the early 1980s was one of balancing cash flow with asset-based business. This was particularly highlighted via its focus on four divisions (gaming, hotels, property, DIY) in 1986. Ladbroke expanded its hotel division mainly through management contracts, following the purchase of Hilton International, to reduce the ownership of assets and increase cash flow for the company. In the case of THF, it had its catering business to bring in cash flow for its hotels from the 1970s. Generally, THF used its retained profits and loans for hotel expansion and growth, although its expansion mode shifted slightly in 1990, as it used sale and leaseback as a means to finance its purchase of Crest. Similarly, Bass shifted its dependence on cash flow generated by its brewing division, and reduced its ownership of assets; instead, it expanded through franchising after purchasing the Holiday Inn group in 1987.

The companies' modes of expansion via conglomerate strategies changed from the early 1990s, in response to changes in the macro environment. The UK and world economy went through a major recession between 1989 and 1992, which reduced demand for hotel rooms and heralded sales and revenue declines for many hotel companies. At the same time, hotel companies were challenged with a rise in interest rates in addition to the reduction in demand for rooms from leisure and business visitors. This led to restructuring programmes among the four companies. Non-core businesses, which had previously been core and provided the means, in terms of financial support, for expansion were disposed of. Corporate strategies returned to focus on a few core businesses. For example, THF changed its strategy to focus on its hotel and restaurant businesses and sold its catering business, Gardner Merchant (AR / THF, 1993). In 1994, THF expanded its hotel division via the purchase of Le Meridien, which consisted mainly of management contracted hotels. This was obviously a move away from ownership and management of hotel properties, towards asset-light hotel management. Similarly, Ladbroke narrowed down its strategy to concentrate on developing hotel and gaming businesses, and sold its property and DIY divisions to reduce interest costs. In the case of Whitbread, it decided to concentrate on its more profitable four-star (CCH) and budget (Travel Inns) market sectors and re-structured its hotel division by selling off its three-star Lansbury hotels.

On the other hand, Bass was not as badly affected as the other three companies, because the group had already re-structured its company by selling off Crest hotels, expanding its hotel division via franchising the Holiday Inn brand from the late 1980s and holding fewer hotel assets. This crisis reveals how four companies re-structured by concentrating their resources on lesser hotel assets and more recognised brand names to achieve better financial performance. This in turn shows the change in the UK hotel industry, adopting the US's mode of expansion by investing less equity, and expanding through franchising and management contracting. More importantly, it reveals the separation of ownership and management control in the UK hotel industry, which also reflects on the availability of funds outside hotel companies for re-investment, as well as the growing importance of the hotel business.

In the late 1990s, corporate strategies continued to focus on core businesses, as the UK and world economic slump emerged, in addition to threats of terrorism, epidemics and wars. All companies (except THF, which was taken over in 1996) were challenged and this led to a continuous rationalisation of hotel assets, to achieve cost cutting and profit maximisation. For example, Ladbroke sold off 11 hotel properties in a sale-and-leaseback deal. Likewise, Whitbread and Bass sold their brewing divisions in 2000. Whitbread also changed its strategy to concentrate on its group of budget hotels, positioned in a market that was growing, and sold its four-star hotel sector (Marriott hotels and brand name) in 2004, which was seen as not performing as well. On the other hand, Bass started its re-structuring in 1998 and sold its non-core businesses and focused on two businesses - hotel and soft drinks - in 2003.

The discussion of strategy change in the context of cash flow generation reveals the fact that companies used unrelated businesses to finance business and corporate growth. More importantly, it shows how macro environmental factors greatly influenced the strategies of all four hotel groups, particularly reflected in a change from looking to maximise profits through diversification to more focussed strategies. Different hotel companies have different objectives, and thus had different ways of responding to changes under different industry- and general environmental circumstances.

This is particularly revealed through the case of Ladbroke and its hotel development in the four-star market sector. In 1987, after the acquisition of Hilton International, Ladbroke decided to stall its budget hotel development and leave this market level to other hotel companies. The strategy adopted by Ladbroke then was to concentrate on developing its four-star Hilton brand, through management contracting, which requires less equity and debt investment, and also delivers higher margins compared to the budget sector. In the early 2000s, the perception of four-star hotel businesses changed, as demand for this market sector was badly affected by economic slow down and other world events. Ladbroke found this particular business to be less lucrative than it was in the 1980s, which no doubt can be attributed to present increasing competition between international hotel companies within the UK and worldwide, which was not as intensive in the 1980s. Moreover, Ladbroke's original business – gaming – was becoming a growing industry at the same time, because of technology advancement and increased participation in remote gaming. Similarly, Whitbread decided to sell its four-star Marriott brand rights and focus on its budget hotels in

2004. Whitbread's plan was also brand dependent, namely to expand its Premier Travel Inn brand, then the biggest UK budget hotel group. This change of strategy reinforced the motive of brand and brand right acquisition in the hotel industry.

The adoption of different strategies, due to interactions of company-, industry- and general environmental factors, was also seen in the cases of THF and Bass. These are two diversified hotel companies, in terms of the range of market levels they own and operate at, from one-star to five-star. THF had been operating at different market levels since the beginning of its hotel operation, for example, operating five-star hotels such as London Waldorf from 1958 and three-star Post House from 1969. The Group continued to expand its hotel division by building up its strength at different market level, including its budget range (Travelodge) which was in high demand since the mid 1980s, and the acquisition of Le Meridien, an international five-star hotel company, in recognition of the benefits to be derived from a recognised international brand name. Moreover, THF also acknowledged that hotel business was moving towards expansion at minimum and / or non-equity investment through management contracting and franchising. Bass, the first amongst all three to acquire a big international hotel company had also been developing its hotel division at different market levels. The focus strategy Bass had taken up was more evident when the Group de-merged its hotel and soft drink division in 2003 to concentrate on its core hotel business.

These strategy changes also brought to light the vulnerability of this particular industry and showed organisational capabilities in terms of how management was able to identify opportunities and threats and engaged in M&A activities, in conjunction with balancing different business portfolios to maximise profit, leading to the emergence of big business in the hotel industry. In addition, these changes also show management concern for increasing shareholders' value, reflecting the increasing power of shareholders, in terms of monitoring and intervening with companies' strategies and their resulting financial performance. However, this emphasis on shareholder value has not changed the hotel industry totally into one that is totally driven by short-term financial gains rather than concentrating on a long-term business strategy. Unlike companies whose approach to M&A is based on acquiring to create value through breaking-up underperforming or undervalued companies, it is observed that several asset disposals that took place after M&A activities among these hotel companies reflected long term strategic planning. They took place for a variety of reasons: to reduce overlap in locations of hotel units, to lower high costs incurred for hotel units that were too expensive and time consuming to refurbish, and to adhere to company's objective of selling hotel units that did not meet the criteria of the brand quality.

10.5. Summary

This chapter sums up the research findings for this thesis, and demonstrates that M&A activities enabled hotel companies to grow, leading to the emergence of big business in the UK hotel industry between the years 1979 and 2004. Motives for M&A activities in the hotel industry are generally value maximising with a small degree of non-value maximising motive. The analysis, via the examination of interactions between motives on an organisational level and the macro environment, provides a comprehensive view of how and why companies expanded through the use of M&A. It is also found that the investigation of M&A activities using a small sample and through longitudinal study of four hotel companies, provides a holistic understanding of how companies make decisions and change strategies.

As shown in the four case studies, it is also found that the motive to acquire brand and brand rights is prominent among hotel companies; however, this motive has not been widely discussed in the general motivations for M&A literature. The lack of study into this particular motive is ascribed to the lack of research into M&A activities in the hotel industry in particular. Moreover, previous study has also concentrated on a mix of industries, a large sample size and / or a cross-examination across national borders. In the hotel industry, a well- recognised brand name attracts customers and investors alike, which has enabled hotel companies that own recognised brand names to develop and extend their brands. Although the hotel industry is still dominated by many independent hotels, companies affiliated to a corporate hotel name, or recognised brand name are able to generate better revenues than the independent hotels. The spill-over effect of the increasing emphasis on branded hotels by customers and investors alike, was to draw in more financial investors, beside hotel companies. In addition, hotel companies were motivated to engage in the use of management contracting, franchising, sale-and-leaseback and sale-and-manage back methods to expand hotel divisions, and reduce capital expenditure. These means of expansion enhance value for companies; however, these types of financing methods will only be possible if the economy is stable enough to generate demand for accommodation and if good brand names are available to boost the trust of investors.

These interactions between company-specific and industry- and general environmental factors shed light on strategy changes among four hotel companies. Companies reveal their organisational capabilities via their strategy changes, from 'conglomeration' to 'focus' over a period of 26 years, in response to external macro environmental changes. These changes, presented through the use of M&A activities to grow their hotel divisions, in turn show companies' increasing emphasis on shareholder value. This was mainly due to the nature of this industry, which requires high investment costs and faces difficulties in obtaining financial support for investment via internal means, which led to increasing requirement for support from investors such as financial institutions and banks.

Based on the above discussion, the next chapter presents the contributions to knowledge of this study, provides recommendations for further research and reflects on the learning outcomes from this research process.

Chapter 11:
Conclusion

The previous chapters provided the rationale and context for this study and evaluated the literature on M&A activities to form a theoretical framework. This was followed by the research design chapter, which explained the methodology and method used in carrying out this study. Each of the four cases was then examined by using comparative historical analysis; this was followed by the discussion chapter highlighting the findings, with particular attention to comparing and contrasting them with M&A literature. The purpose of this chapter is to conclude this study, by answering the research question, highlighting the contribution made, identifying areas for further research and reflecting upon the learning process. This chapter begins with an account of the contributions to knowledge this study makes. The second part presents implications from this study. The third part provides recommendations for further research and the final part reflects on learning outcomes from this research process.

11.1. Contributions to knowledge

The research aim at the outset was to:

> 'explore and understand the development of big business in the UK hotel industry by examining the motives for M&A activity, the major expansion tool used in the creation of big business'.

The contribution to knowledge is presented in four points, and the achievement of the five objectives set out in the first chapter will be highlighted.

(i) The first contribution concerns the question of the UK hotel industry's emergence as big business. The findings from this thesis confirm the existing literature on what encompasses big business, underpinned by the description of big business as an enterprise that owns huge fixed capital assets and integrates production and sales of a diverse number of products and / or has a wide geographic spread; big business is characterised by large scale operations and a limited number of large companies dominating the market in terms of sales figures and production output (Cassis1997; Schmitz, 1993). Equally important is the confirmation that M&A activity was the major tool used in the creation of big business, supporting well-established works (Channon 1978; Cassis, 1997; Hannah, 1983; Hannah and Kay, 1977) conducted in this area of research. At the same time, this thesis also added several new dimensions to big business concepts, through illuminating the role of brand and brand right acquisition in the context of the UK hotel industry.

The relevance of this thesis goes beyond the examination of UK hotel industry emerging as big business. The consolidation and explanation of four companies and their past experiences over time have broadened the research agenda into the study of hotel business, business history and business management theory. Current studies in business history have neglected the historical development of the hotel industry. At the same time, existing studies of the historical development of hotel companies provide a general view of the evolution of the hotel industry from the A.D. 400 to 1989, but with little analytical study into why this happened. Although M&A activities were mentioned in some of these previous works, as a mode for growth, there was a lack of in-depth discussion of how and why these activities were used. Similarly, existing studies of M&A activities in relation to hotel companies covered the period 1945 to 1989; however, they displayed an organisational view, with little investigation of external influences from the macro environment. Thus, this first contribution also fulfilled objective Five, namely that of contributing to the study of M&A and business history through historical analysis of the leading hotel companies in the UK.

(ii) The second contribution concerns the new empirical data this study has constructed. This is the first scholarly attempt to study historical development of UK hotel companies, based on the theoretical framework of M&A theory, and integrating two levels – organisational and general external environment - as a means to evaluate the growth of companies and the emergence of big business in this industry. As highlighted in chapter three, most studies of motives for M&A are based on one level or the other. Although there have been a limited number of studies integrating both levels, these researchers have also acknowledged a lack of affirmative outcomes, attributable to company-specific reasons and the aggregated data used in a multi-industry setting. Therefore, a big sample size no doubt added robustness to the study, but could not elicit in-depth understanding of why companies took this expansion route.

Part of the originality of this research is that it integrates the two levels of literature and reconciles them with a new set of data on UK hotel companies; and that it extends what was previously known about growth and M&A to the circumstances of the hotel industry in particular. Moreover, this thesis used a small sample and a longitudinal approach to examine the how and why companies engaged in M&A activities. The findings confirmed the company motives and industry shock concepts drawn for M&A in the generic studies. In addition, the use of two levels to analyse the data also added insights into why and how companies made these decisions (M&A) under different macro environmental factors and within the same historical period.

For instance, in the 1980s, hotel companies acquired other hotel units or companies to increase their size and meet the rising demand for conference rooms and accommodation. This was a result of a combination of a company's intent to expand into a growing industry and the macro environmental factors such as increasing disposable income in the UK, rising numbers of overseas visitors, deregulation in the UK financial sectors and a general global economy boom. However, a further examination also revealed that M&A activities are particularly critical for a hotel company to increase its size in the UK because of land scarcity, difficulty in obtaining new building permits, particularly in London and the high investment cost requiring companies to use a huge amount of internally generated funds or external finance for financial support. Similarly, the external driver for hotel companies to engage in M&A activities in the 1990s, could be prompted by the improvement in IT, particularly the Internet. The Internet has enabled companies to benefit from economies of scale as more sophisticated management and reservation systems are developed in the hotel industry. This speeds up information dissemination and improves marketing and sales operations. Along with this technological advancement, competition also intensified in relation to technology, particularly among those hotel companies owning recognised brand names.

In addition, the historical comparative analysis also provides a more accurate picture of the motives for and results of M&A activities in the context of each company's growth over time, and in turn reinforces the proposition that there are company-specific reasons interacting with industry and general shocks. For example, Ladbroke bought Hilton International in the 1980s, when competition with other local hotel and foreign hotel companies intensified in the UK. Ladbroke also wanted to attract the major visitors who were the Americans to its group of UK hotels. The recognition of owning an international brand name had partly driven the purchase of Hilton International. In the same way, the Marriot brand rights served its purpose of increasing Whitbread's number of hotel rooms in the mid 1990s, as well as obtaining the exclusive rights to an international hotel brand in the UK, in a period when operating with an international hotel brand in the UK serves as a significant competitive advantage. Although these hotel companies were sold off in 2005 and 2004 respectively, the historical comparative analysis provided the understanding on why and how these was purchased and sold, as both decisions were made depending on changes in macro environment. These two deals in question are considered value maximising for both companies, in the context of the timing of their purchases.

Therefore, this contribution has addressed objective Three by analysing and adding insights into 'how' and 'why' hotel companies expand through M&A activities, in relation to organisational motives and external influences from the macro environment.

(iii) The third contribution relates to brand name and / or brand right acquisitions as a M&A motive, in the context of hotel industry. In the generic M&A theory, acquisition motives have commonly been assumed to be value maximising, including economies of scale and scope, market power, strategic fit and speed and / or non-value maximising motive, such as growth in sales and size of company and managerial welfare. This thesis has also made used of these generic theories to form the theoretical framework for facilitating the discussion. This thesis argues that brand motive has been widely cited in the hotel industry specifically, and that brand motive as a variable has been found to be an important variable in the value maximising concept, but that it has been neglected as a variable in discussion of organisational and environmental interactions. In particular, the understanding, through a comparative historical analysis, of hotel companies' expansion through M&A activities, explicitly presented why and how hotel companies acquired brand names to grow, and in turn illuminates branding as a specific motive in acquisition, based on the company intention to use it as a tool for expansion purposes.

The structure of the UK hotel industry is fragmented, in terms of the ownership pattern being made up of many small owners. However, this structure in part, was altered by factors such as consumers' demand for branded hotels and individual hotel owners facing disadvantages for not deriving as much from economies of scale and scope as branded hotel operators. Increasingly, a number of small owners became affiliated to corporate hotels owning an international brand name, through management contracting or franchising methods. This in turn highlights the importance of owning a recognised brand name and declining fragmentation in this industry.

The acquisition of brand names and rights had also altered the industry structure in terms of the separation of ownership and management control. The bigger UK hotel companies have gone beyond their traditional expansion methods, which had previously emphasised holding assets and / or a strong balance sheet, to adopting franchising and management contracting which require minimum to no equity investment from the 1980s. This type of growth strategy helped the companies to maintain more cash flow for re-investment such as M&A activities. Since this mode of expansion also needs the ownership of a recognised brand for rapid expansion and to maintain competitive advantage, the notion of brand acquisition became the driver for M&A amongst hotel companies, leading to major changes in the industry structure.

The UK hotel structure was also changed, in terms of owning and operating hotels worldwide through the acquisition of international branded hotel companies. The apparent examples were those of Bass's acquisition of Holiday Inn and Ladbroke's of Hilton, which saw these UK companies beginning to take the route of the US hotel industry's expansion via franchising and management contract, based on a reputable brand name. Moreover, these purchases contributed to the sudden increase in size and pushed UK hotel companies up the world ranking to become two of the largest hotel companies worldwide.

This contribution has thus accomplished the task set in objective Two by analysing the use of M&A activity as a mode of expansion among the hotel companies and in turn has also fulfilled objective Four in understanding the structural change of hotel companies and the impact thereof on the hotel industry in the UK, and vice versa.

(iv) The fourth contribution lies in using a wide range and large quantity of secondary information available publicly, but rarely used. Business history studies use a variety of research methods, particularly study of archival data. Similarly, management research makes use of a range of research methods, particularly primary data collection through interviews, surveys and questionnaires. In addition, management research tends to use secondary data as a complementary source of data collection. In contrast, this thesis made use of secondary data as its main source material. It also used primary material gathered in semi-structured interviews with industry analysts. The extensive use of historical secondary data such as company annual reports, newspapers and trade journals as main sources for investigation has not previously been used to this extent in a PhD thesis, particularly not in management studies of the hotel industry. Against the general data limitations that this information was originally collected for other purposes, the use of it consequently not only achieved the aim of this study, but also contributed to the broader area of research methodology in terms of putting the concept of secondary data collection into empirical research. In other words, the use of secondary data in this thesis is itself new. In addition, this approach has also addressed all the objectives, particularly objective One – that of setting out to use existing historical data to achieve the aim.

11.2. The implications for managers and academics

In this thesis, the aim is to understand the growth of the UK hotel industry and its emergence as big business. Equally important is an aspiration to suggest a number of learning points for management practice, as well as highlighting their relevance to academia. These points are built upon a few areas of interest that emerged from examining four case studies.

(i) For managers

Business strategies and company developments as well as the macro environment are dynamic phenomena: market demand changes, the rules of competition change, technology changes and, therefore, companies' growth and success are not uninterrupted. There is no prescription as to how managers can maintain that growth and success, but this study will provide insights that may be helpful.

Managerial skills and knowledge are also considered company specific resources, in particular those that provide a positive association with company performance. The identification of areas where the company is lacking or excelling at can provide important guidance as to how to make important investment decisions. In these four cases, the managers appeared to have been well aware of the importance of acquiring resources that are scarce and valuable to customers, as displayed by the motives of acquiring brand and strategic locations. Since these are more likely to become underlying sources of competitive advantage, when faced with strategic investment decisions, it is imperative for managers to develop an understanding of their company's portfolio of resources and those of competitors.

This leads to the important managerial implication of this study, which is that of market sensitivity and its positive effect on company performance. The outcome of a company's M&A activities, as this study has shown, is highly dependent on the characteristics of the macro environment, particularly economic boom or slump. It has been shown that awareness of how the economy is performing generally led to an understanding of consumers' spending behaviour and competitors' performances, as well as of the company's own organisational capabilities. This might not be new knowledge, but it is worth reinforcing because developing learning capabilities within a company is also highly dependent on accumulated knowledge. Organisational capabilities are shown in the aftermath of the late 1980s economic slump which saw companies re-structuring, as a result of incurring high cost because of high interest rates and reduced demand for rooms, leading to lower sales and profit level. Property divisions and businesses which were considered core businesses previously were sold as non-core business sectors, in comparison to more profitable hotel businesses, which were retained. Managerial skills in these case studies were particularly displayed by the way in which companies adjusted their cash flow, by channelling it from one business division to another (to support hotel expansion), and the various restructuring exercises also revealed acumen for business, particularly in response to market demand, such as the sale of declining business divisions (brewing for Bass and Whitbread) or those with less growth potential (Bass-Crest, Whitbread-Marriott).

Harvey (1999, pp.17) argued that 'at a very practical level, history does inform strategic decision-making, not so much in a systematic way, but through a complex of processes informed by historically devised corporate consciousness'. In a similar vein, Jones (1997, pp. 298) posited that in regard to 'a country like Britain whose economy has become deeply embedded in the international economy, nation-based explanations of what is going on can be misleading'. Therefore, understanding of the various factors (political, economical and social and cultural) by which the company or industry and their external environment interact is important for enhancing the knowledge of change and development of companies or industries.

(ii) For academia

This thesis illustrates that shareholder value is becoming increasingly important in companies' decision making for investment and strategy. Relating this to decision making in teaching and learning in an academic setting, stakeholders such as students and their learning outcomes become an important issue in business schools and the industry. There is an increasing pedagogic concern for teaching and learning processes in the preparation of under-graduates and graduates for management practices (Kransdorff, 2006; Lynch, 1999; Pfeffer and Fong, 2002; Ulrich, 2005).

According to Kransdorff (2006), Kolb (1976) had already highlighted the lack of experiential learning amongst business students in the 1970s. Thirty years, later, Pfeffer and Fong (2002) highlighted the chronic problems of teaching and learning for business school students. Lynch (1999, pp. 128) examined the learning process in the preparation of graduates for management practice, and identified business history as a teaching method that stimulates students to ask questions. He posited that business history is a practical way for students to 'gain an understanding of change, its creation and consequences, ... (by questioning) why it happened in the lives of real organisations and real people over time', and in turn, imparting to students some degree of 'practical wisdom' (pp. 129). By the same token, Ulrich (2005) researched the relationship between different pedagogical strategies and specific business-major curricula, aiming to enhance the facilitation of student learning. His study found that management and marketing students perceived experiential learning as more helpful in their learning. Thus, his finding also supports the proposition regarding experiential learning of Kolb (1976), which is similar to the use of business history as a tool to develop and prepare business students with the necessary professional skills (Kransdorff, 2006; Lynch, 1999).

This thesis supports the proposition of teaching business history (Kransdorff, 2006; Lynch, 1999) and alternative ways to explore management issues by integrating history into management studies, in the context of a small sample size and longitudinal approach (Jones and Khanna, 2006; Jones and Miskell, 2007). This study supports Warren and Tweedale's position (2002) that business history is useful as a practical way of learning about a business, via a multidisciplinary study of long-term changes. 'Business history also provides instructive contrasts between past and current business practice' (Warren and Tweedale, 2002, pp. 210). During research for this thesis, the in-depth study of the business history and actions of the four companies cited as case studies showed that each company had to actively respond to the dynamic changes in the macro environment and sometimes even had to reverse changes when the evolving business environment renders current practises irrelevant. For example, Bass and Whitbread expanded their brewing businesses in the 1980s but sold these same businesses in 2000 when they were no longer meeting the changing lifestyles of the British, which saw a lower consumption of beer. Similarly, Ladbroke's and Whitbread's strategies in the 1980s and 1990s were to grow their four-star hotel groups. However, both companies sold these acquisitions subsequently in 2005 and 2004 respectively, due to adverse economic growth and several world events which changed the preferences of consumers for four-star hotels. On the industry level, the study of company history vis-à-vis their practises also supports Warren and Tweedale's view that business history provides instructive contrasts between past and current business practice. For instance, UK hotel companies started out by owning hotel assets while operating them, however, at an industry level from the 1980s, there was a marked change to adopting expansion methods that required minimum to no equity investment. These have all demonstrated the contrasting moves made by companies between the past and present. This in turn reflects their organisational capabilities, in terms of making pragmatic moves to adapt their strategies to opportunities and threats in the macro environment, whilst endeavouring to maximise value for their companies.

By the same token, the increasing use of brands to expand, in terms of management contracting and franchising, reveals the acknowledgement of brands and their market power, and implicitly, represents a move to reduce risks taken amongst management. Thus, the study of business history provides the opportunity for reflection on the experience of business people and strategic changes in companies and industries. This in turn presents the essential tool to bridge the gap in teaching and learning for business school students, and provides students with the practical insights in business.

11.3. Recommendations for further research

The findings are highly suggestive for both theory and concepts of the UK hotel industry. However, owing to the limitations of this study, particularly time constraints, the case study research method, and the research framework, any conclusion should be regarded with caution. As with any doctoral thesis, there are several areas that could be examined to complement the research undertaken in this thesis, which are discussed below.

(i) This study of how and why companies expanded has contributed to knowledge through its concentration on four critical cases and a longitudinal approach to elicit more understanding of M&A activities. It is important to note that this study is based on four biggest UK hotel companies, during the period 1979 – 2004. This study could be applied to other domestic hotel companies in another country, to further develop understanding of hotel expansion through brands in particular, and hotel industry growth in general. This would either confirm these findings, particularly regarding brand acquisition, or discover new motives to enhance knowledge in this area.

(ii) With regard to M&A theory, this thesis shows how important brand acquisition is and demonstrates its importance in enhancing value and reducing costs for the combined companies and shareholders. It provides generalisations and issues that can be extended to other industries where brand acquisition has similar importance. Therefore, similar studies could be carried out in other service industries. In particular, the use of comparative historical analysis and theoretical framework - motives for M&A activities - have been explicitly explained and should be easy to formulate for generic research. A replica study could confirm whether these findings are generalisable to a wider context within the tourism and hospitality industry, such as restaurants, catering, airlines and other travel companies. Alternatively, they could add new insights with regard to brand acquisition, since it is expected that some subtle differences would result because different companies and industries would be used.

(iii) Brand acquisition in the hotel industry, as found in this study, also shows how companies' strategic positions change over time, as local brands gave way to fewer 'global' brands, supported by investors outside the hotel companies, consumers' behaviour and technology advancement. Although this study can be generalised to theory, it cannot be generalised to what is happening in the world.

This is because only one country has been used for this study. At present, much effort has gone into understanding the motives for M&A activities through interactions between organisational and macro environmental levels. However, it is impossible to enumerate all possible motives and environmental factors in this study, due to time and scope constraints. Moreover, every company has its own reasons and is made up of a different business mix. Different countries also possess different environmental factors, such as political ideology, legislation, economic performances and cultural perspectives: thus, country-specific industry shocks emerged differently. Therefore, future research may include more motives and environmental factors to extend knowledge. This thesis provides a platform to extend the study of the development of the UK hotel industry specifically, and of the hotel industry in other countries in general. A further agenda of extending the historical period studied to trace developments back and forward in time, could also add insights into strategy and structural changes in this particular industry.

(iv) One area for further research is how hotel branding has grown. The role of brand in the acquisition of brand name and brand rights is explicitly linked to the intangible value of brand, which lies in its reputation of reliability and consistency, built up over time, involving high cost and market saturation (Jones, 2005; Lopes, 2002). All these add up to the acquisition of brand name and brand rights, expecting long-term returns from the brand investment. Therefore, it will be useful to study how some hotel brands have stood the test of time since its creation such as Hilton (1925), Intercontinental (1946) and Holiday Inn (1952) worldwide, while brands such as Crest, which was built up from 1967, and Ladbroke from the 1970s, were unable to survive and were abandoned. A comparison with more international hotel brand names which had established themselves, namely, Marriott (Marriott International); Westin (Starwood Hotels & Resorts); Sofitel (Accor Group) and so on would also shine light on the study of brand building in the hotel industry.

(v) In this study, the aim of rapid expansion and better long-term investment returns by the four biggest hotel companies in UK were the main motives that underpinned the move to purchase established brands as a way to grow. This is evidenced by their various re-branding exercises, and reflected clearly through investors' recognition of the value of brand name and its potential to derive profits. This study so far projected the views of brand value from the companies' and investors' perspectives. It is recommended that other perspectives be sought, particularly those of the consumers'. For example, the study of the changing structure of consumer demand specifically in the hotel industry could add insights to this finding and enhance the understanding of the incremental emphasis on owning brand name and rights in the hotel industry.

(vi) The advancement of technology, particularly IT and Internet, has had a major impact on the hotel industry as it improved the effectiveness and efficiency of property management and operation, as well as marketing and distribution. The case hotel companies enjoyed significant economies of scale, especially with regard to post-merger activities, since they could use the same IT systems to manage a bigger pool of rooms. However, it is noted that even before the advent of the Internet as a tool to manage room reservation functions within the hotel industry, several other technologies such as telecommunications, facsimile and the booking system (modified from the airline electronic system - GDS) had served as a major means of reservations and communications. Thus, further research could explore in retrospect the impact of these technologies of that time, to review how these pre-Internet reservation systems have reduced the per-unit cost for hotel development and contributed to the market growth in this specific industry.

(vii) The study of UK hotel expansion through M&A mechanism reveals the acquisition of brand and brand rights as a major motive for growth. Concurrently, it was also revealed that management contract served as a tool of expansion, particularly in conjunction with the ownership of a recognised brand name. This mode of expansion became commonly adopted in the UK hotel industry only in the past two decades, although it was already widely adopted by major hotel companies that originated in the US before that period.

Management contracts are an attractive means of expansion for the capital intensive hotel business as the separation of ownership and operations results in lower investment demands required for growth. This mode of expansion is generally applied to upscale properties as the expectation of quality and consistency in service provision is critical for hotels in the higher end of the market. However, the fact that management contracts took off as a popular means of expansion in the UK relatively recently, provoke some re-thinking as to why they were not used earlier compared to the USA. Moreover, Bass' management contract agreement for the three-star Candlewood Suites from HPT, in 2003, also highlighted a change in the way management contracts are now being used for expansion in different market levels. Therefore, further research would be worthwhile to investigate the historical development of management contracts as a method of expansion, particularly in terms of understanding the recent change in character of management contracts within the UK hotel industry. This will serve to add new insights into the growth of hotel management contracts and their relationship with M&A activities in general.

(viii) There is, it seems, an emerging business history literature on M&A activities which sets the agenda for further exploration in this particular area. Lopes' (2002) work on the growth and survival of alcoholic beverages industry between the 1960 and 2000 shows that M&A activities which took place in this industry from the 1960s were ascribed partly to the need to own successful brands. A recent longitudinal study based on a small sample size, and evaluating M&A activities in relation to their success and failure, is found in Jones and Miskell (2007). Jones and Miskell (2007) provide insights into M&A activities in particular, and the integration of historical analysis and management theory in general. In addition, there is an increasing emphasis in business history studies on integrating the use of historical data, management theory and a qualitative approach to business history research proposed by distinguished business historian, Geoffrey Jones (in Jones and Khanna, 2006).

The studies conducted by Lopes (2002) and Jones and Miskell (2007) lie in the consumer products area while this thesis contributed in terms of extending M&A study and historical analysis to the services sector. Although M&A activities have been studied widely, the combination of single industry and longitudinal approach could be explored further, in order to understand company or industry growth. This thesis takes a small step in the direction of examining M&A activities in the study of historical hotel expansion, and contributes to business history studies as well as to the study of the hotel industry, an industry whose growing contribution to the economy has been largely ignored. It is hoped that this work could lead on to further business history studies in other service industries, as well as stimulating arguments for further contribution to historical studies of the hotel industry.

11.4. Reflections on research process

Reflecting on the research process, three major outcomes have been achieved and these are outlined below:

(i) Research is an iterative process, and it was found that the literature review was one of the most demanding tasks in this research process. M&A literature was sought and research questions were established at the beginning of the research process. Although a theoretical framework was established for preliminary data collection and analysis, the literature needed to be revisited during this initial stage of analysis. It was found to be extremely useful to revisit literature during data collection, particularly in this study which uses secondary data to establish cases. The first hurdle encountered was difficulties in analysis without a sturdy theoretical framework. The initial analysis was conducted without the industry shocks concept, and the argument was weak with only the organisational points of view, i.e. motives for M&A activities. It became increasingly clear that the motives explored in the M&A literature provide a useful basis to understand how companies expand through these activities, but offer much less insight into why they expand. Consequently, the industry shocks concept was incorporated to fill this gap and draw out the robustness of this study.

After the first revisit, the literature was consulted, the industry shocks concept established and data was collected specifically about the macro environment.
Data collection for this area was a particularly massive undertaking. Therefore, revisiting the literature became pivotal in maintaining focus on this study. During the final analysis, the literature review was visited again to ensure the accuracy of synthesis between data and literature. Moreover, the concern of omitting any essential literature, or new development of the literature was the prime motivation for revisits. Therefore, it is realised that although a sturdy framework is important

from the beginning of the study, a constant review of existing and current literature is necessary in order to stay focused on the research, and to be aware of any changes and new developments in that particular area of study.

(ii) Analysing the interaction between motives for M&A activities and the general environment by using secondary data has its advantage and disadvantages. The advantage is that there is a wide variety and volume of sources to retrieve information from, and the disadvantages are time constraint and financial limitation. The large amount of information obtainable from secondary sources, in conjunction with time and financial constraints, offers the opportunity to learn to select sources, particularly in developing the skills of selecting and rejecting information, which in turn becomes a transferable skill of analytical thinking. The need to collect information from credible sources improves knowledge of research methods, in terms of how to use reputable sources to improve the validity of results. For instance, newspaper collection has to be based on credible newspapers and not those that cater to wider audiences, which reduces the quality of news and information.

Moreover, skill in analytical thinking is sharpened in retrieving and deciding which information in articles retrieved is more important and pertinent to the research question; and learning to reject those that are of secondary importance, in view of the quality of end product and word limit. For example, information pertinent to each deal, such as why a company acquires, is very important in this study. Equally important are reasons cited by other companies which were competing to close the same deal. Information on M&A activities within each company, in other business divisions, might be pertinent to this research question, or might not be, and require decisions to be made as to whether to accept or reject information for this study. For instance, the M&A deal between THF and Hanson was included, although it was not a pure hotel acquisition because the transaction involved another business division (catering). However, this deal had been considered as part of the analysis in understanding the growth of THF, because Anchor hotels played a major role in its hotel expansion in the early 1980s. In the same way, acquisition of brewers is not investigated extensively in the case of Bass and Whitbread. Although these M&A activities serve to increase the size of supplier of drinks to hotel units which might enhance the hotel's financial performance and the company's financial performance on the whole, they do not play a major role in expanding the hotel division, in terms of adding number of rooms or brand to the hotels.

(iii) The whole process of researching one topic for more than four years is a challenging journey. The challenges started at the beginning with literature review, decision-making with regard to a research topic, the data collection and analysis process, and writing up. The learning outcome is not confined to the acquisition of academic knowledge, but also the attainment of several transferable skills, relating to critical and analytical thinking, interacting with people from all walks of life, presenting one's work in public and public speaking, and so on. Several activities undertaken and events attended during this research journey have provided me with a rounded and fruitful experience (see Appendices P and Q).

Appendices

Appendix A: Hotel grading in the UK

In 1999, the English Tourism Council (ETC), the Automobile Association (AA) and the Royal Automobile Club (RAC) created a new overall rating scheme for serviced accommodation. Following a review involving five bodies - VisitBritain, VisitScotland, the Wales Tourist Board, the AA and the RAC and input from the industry, the scheme started in 2006. This uses stars to represent hotels and diamonds for guest accommodation (guesthouses, farmhouses, inns). This new initiative has the support of (Euromonitor 2006; VisitBritain, 2006).

Classification for Hotels

One-Star Hotels
One-star hotels offer practical accommodation with a limited range of facilities and services but a high standard of cleanliness throughout. They include a restaurant or eating area. 75% of bedrooms will have en-suite or private facilities.

Two-Star Hotels
Two-star hotels have better-equipped bedrooms, all with an en-suite/private bathroom and a colour television. A lift is normally available.

Three-Star Hotels
Three-star hotels have a higher standard of services and facilities, including larger public areas and bedrooms, a receptionist, room service and laundry.

Four-Star Hotels
Four-star accommodation offers superior comfort and quality. All bedrooms have an en-suite bath, fitted overhead shower and WC. There are spacious and well-appointed public areas and a greater emphasis on food and drink. There is room service for all meals, with 24-hour availability for drinks, refreshments and snacks. A dry-cleaning service is available and overall customer service is excellent.

Five-Star Hotels
Five-star hotels are spacious, luxurious establishments offering the highest international quality of accommodation, facilities, services and cuisine. There is a range of extra facilities. Guests should feel very well cared for by professional, attentive staff providing a flawless service.

Classification for Guest Accommodation

This includes seaside guesthouses, bed-and-breakfast accommodation, country farmhouses and inns. Good customer care and quality of service are emphasised, rather than facilities.

One Diamond — clean and comfortable accommodation, providing breakfast and a helpful service.

Two Diamonds — an increased level of quality and comfort, with greater emphasis on guest care.

Three Diamond — well maintained, practical decor, a good choice of breakfast dishes, a higher degree of customer care and at least 40% of the bedrooms will have private or en-suite bathrooms.

Four Diamond — an even higher level of quality and comfort, with a good level of customer care.

Five Diamond — excellent levels of customer care.

Source: Euromonitor 2006; VisitBritain, 2006

Appendix B: Largest UK hotel companies (most number of hotel rooms) 1983 – 2004[1]

Rank	1983/4	1984/5	1986	1987	1988	1989	1990	1991	1992	1993	1994
1	THF 207 21,128	THF 191 20,798	THF 190 20,382	THF 235 22,596	THF 262 24,157	THF 265 23,843	THF 241 21,883	THF 241 25,853	THF 338 29,530	THF 344 30,343	THF 344 30,362
2	Crest 55 6,261	Ladbroke 48 6,105	Ladbroke 50 6,410	Mt. Charlotte 68 8,900	Mt. Charlotte 68 9,053	Mt. Charlotte 102 13,787	Mt. Charlotte 102 13,783	Mt. Charlotte Thistle[3] 102 13,830	Mt. Charlotte Thistle 109 14,263	Mt. Charlotte Thistle 109 14,071	Mt. Charlotte Thistle 112 14,288
3	Thistle 35 4,511	Crest 52 6,023	Mt. Charlotte 51 6,200	Hilton[2] 41 7,288	QMH 75 6,948	QMH 94 9,061	QMH 97 9,061	QMH 97 9,714	QMH 102 10,434	QMH 102 10,407	QMH 100 10,322
4	Mt. Charlotte 51 6,200	Mt. Charlotte 45 4,657	QMH 65 5,542	QMH 73 6,520	Hilton 32 6,455	Hilton 33 6,658	Hilton 35 6,658	Hilton 35 7,137	Hilton 35 7,199	Hilton 40 8,501	Hilton 40 8,440
5	QMH 58 4,612	QMH 55 4,432	Crest 46 5,254	Crest 50 5,289	Crest 48 5,581	Crest 49 5,641	- was Crest	HIW 34 6,096	HIW 34 6,377	Whitbread 94 4,438	Swallow 35 4,379
6	Ladbroke 35 3,478	Thistle 39 5,114	Thistle 30 4,217	Thistle 30 4,078	Thistle 33 4,416	-	HIW 34 4,242	Swallow 31 3,838	Swallow 34 4,288	Swallow 35 4,397	Accor 29 4,338
7	Swallow 31 3,190	Swallow 33 3,383	Swallow 32 3,189	Holiday Inns 16 3,872	Holiday Inns 17 4,042	Holiday Inns 20 4,242	Swallow 31 3,856	Stakis 27 3,255	Whitbread 85 4,067	Accor 28 4,120	HIW 24 4,210
8	-	GW Hotels 35 2,947	Embassy 46 3,107	Swallow 32 3,346	Swallow 33 3,696	Swallow 34 3,856	Mecca Leisure Hotels -	Rank Org. 22 3,175	Stakis 30 3,718	HIW 23 4,052	Stakis 33 4,056
9	Imperial 7 2,778	Imperial 7 2,778	Stakis 31 2,873	Pleasurable 44 3,289	Mecca Leisure 48 3,411	Mecca Leisure 52 3,788	Stakis 27 3,257	Jarvis 33 3,104	Accor 25 3,639	Stakis 30 3,668	CCHG 78 4,000
10	Embassy 42 2,652	Embassy 39 2,558	Imperial 7 2,778	Embassy 43 3,175	Embassy 42 3,140	Stakis 27 3,257	Imperial 7 2,803	De Vere 26 2,936	Rank Org. 22 3,175	Jarvis 43 3,522	Jarvis 46 3,680
	Rank: 11 Stakis 25 2,102	Rank: 11 Stakis 27 2,408	Rank: 13 CHIC 9 2,116	Rank: 11 Stakis 31 3,111	Rank: 11 Stakis 28 3,293	Rank: 19 ICH 4 1,438	Rank: 22 ICH 4 1,438	Rank: 21 Lansbury 38 1,469		Rank: 11 Marriott 17 3,225	Rank: 11 Marriott 18 3,469

Source: Goymour (1987 – 1994); Goymour and Chitty (1986); British Hotel Association (2000; 2001; 2003; 2004)

Appendix B: Largest UK hotel companies (most number of hotel rooms) 1983 – 2004

Rank	1983/4	1984/5	1986	1987	1988	1989	1990	1991	1992	1993	1994
	Rank: 13 CHIC 9 2,052	Rank: 13 CHIC 9 2,034	Rank: 15 Holiday Inns 7 1,750	Rank: 17 Kennedy Brookes 22 1,642	Rank: 17 ICH 4 1,446	Rank: 24 Toby Hotels 48 1,444	Rank: 24 Toby Hotels 45 1,444	Rank: 23 ICH 4 1,438	Rank: 25 Toby Hotels 42 1,349	Rank: 22 ICH 5 1,717	Rank: 22 ICH 5 1,714
	Rank: 16 Holiday Inns 8 1,781	Rank: 15 Holiday Inns 8 1,891	Rank: 17 ICH 4 1,442	Rank: 17 ICH 4 1,451	Rank: 27 Toby Hotels 47 1,389	Rank: 31 Forum 3 1,402	Rank: 25 Lansbury 38 1,423	Rank: 24 Toby Hotels 45 1,428	Rank: 28 ICH 4 1,275	Rank: 24 Toby Hotels 45 1,457	Rank: 24 Toby Hotels 45 1,425
	Rank: 16 ICH 4 1,598	Rank: 15 ICH 4 1,461	Rank: 18 Hilton 3 1,440	Rank: 33 WCI 35 1,090	Rank: 31 Forum 2 1,103	Rank: 27 Lansbury 37 1,423	Rank: 31 Forum 2 1,402	Rank: 32 Forum 2 1,102	Rank: 34 Forum 1 907	Rank: 35 Forum 1 910	Rank: 35 Forum 1 910
	Rank: 22 Hilton 3 1,438	Rank: 19 Hilton 3 1,440	Rank: 19 Anchor 29 1,367	Rank: 43 CCH 35 1,090	Rank: 33 WCI 37 1,279	Rank: 39 CCH 10 964	Rank: 39 CCH 10 964	Rank: 33 CCH 10 1,085			
	Rank: 20 Anchor 34 1,476	Rank: 20 Anchor 29 1,333	Rank: 29 Whitbread 37 1,059		Rank: 43 CCH 10 798		Rank: 41 Travel Inns 21 747	Rank: 43 Travel Inns 21 829			
	Rank: 24 Forum 3 1,299	Rank: 21 Forum 3 1,303									
	Rank: 54 Whitbread 23 521	Rank: 37 Whitbread 35 942									

Source: Goymour (1987 – 1994); Goymour and Chitty (1986); British Hotel Association (2000; 2001; 2003; 2004)

Appendix B: Largest UK hotel companies (most number of hotel rooms) 1983 – 2004

Rank	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
1	THF 350 30,687	THF 326 28,298	Granada 284 24,937	Granada (Forte) 323 30,057	Granada (Forte) 335 30,723	Granada (Forte) 337 30,754	SCG 187 28,809	SCG 189 27,333	IHG 188 25,300	Whitbread 505 37,148
2	Mt. Charlotte Thistle 105 13,834	Thistle 101 13,595	Thistle 96 13,535	Whitbread 240 15,497	Whitbread 262 17,397	Whitbread 323 24,022	Whitbread 333 24,036	Whitbread 357 26,235	Whitbread 364 26,821	IHG 204 29,053
3	Whitbread 155 10,023	Whitbread 190 11,727	Whitbread 199 12,106	Thistle 61 11,069	Hilton 82 15,378	Hilton 81 15,869	Hilton 78 15,411	Hilton 77 15,998	Travelodge 231 12,596	Hilton 78 16,044
4	QMH 86 9,716	QMH 76 8,767	Hilton 41 8,589	BH&R 70 10,546	BH&R 84 13,231	BH&R 97 14,074	Travelodge 207 11,000	Travelodge[6] 235 12,600	Hilton 75 14,794	Travelodge 255 13,300
5	Hilton 42 8,684	Hilton 41 8,589	Stakis 55 8,400	Stakis 54 8,485	Thistle 59 10,900	Thistle 56 10,718	Thistle 56 10,708	Thistle 56 10,708	Accor 79 10,003	Accor 84 11,321
6	Stakis 42 4,991	Stakis 51 7,764	MHH 51 7,035	Hilton 38 8,153	Corus 113 7,666	CHE 91 7,428	Accor 69 7,882	Accor 78 9,814	Swallow 14 1,275	Thistle 54 10,122
7	Jarvis 61 4,549	Holiday Inn 37 5,804	BH&R 45 6,363	Coral 117 7,785	Jarvis 72 7,183	Corus 97 6,764	Premier Lodge 120 7,234	Premier Lodge 134 8,364	Thistle 56 10,761	CHE 88 7,000
8	Macdonald 52 3,124	Jarvis 64 5,137	Jarvis 68 5,078	QMH 50 7,091	QMH 45 6,601	Jarvis 65 6,635	Macdonald 97 7,080	CHE 92 7,274	Macdonald 79 6,500	Javis 60 6,745
9	Accor 29 4,413	Accor 31 4,658	Coral[4] 100 5,404	Choice 72 5,675	CHE 81 6,401	S&N Retail 123 6,427	CHE 88 6,856	Jarvis 68 7,100	Ramada Jarvis 66 6,701	Britainnia 24 5,175
10	Swallow 35 4,379	Regal 83 4,480	Choice[5] 61 5,000	Jarvis 63 5,520	Jarvis 63 5,520	QMH 43 6,208	Jarvis 66 6,838	Macdonald 94 6,802	Corus Hotels 95 7,000	Macdonald 63 5,022

Source: Goymour (1987 – 1994); Goymour and Chitty (1986); British Hotel Association (2000; 2001; 2003; 2004)

Appendix B: Largest UK hotel companies (most number of hotel rooms) 1983 – 2004

Rank	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
		Rank: 11 Swallow 35 4,440						Rank: 15 Le Meridien 14 4,363		

Source: Goymour (1987 – 1994); Goymour and Chitty (1986); British Hotel Association (2000; 2001; 2003; 2004)

Notes:

1. The main purpose of this table is to present the largest UK hotel companies between 1983 and 2004. More specifically, it illuminates the rapid increase in size, through M&A activities, for the four companies selected as case studies in this thesis. The colours used in this table represent each of these four companies (Green: THF; Pink: Ladbroke; Orange: Bass and Blue: Whitbread). The colours used are consistent with those used during data collecting stage (see 5.4 (i)). Other companies highlighted in the same colours represent groups of hotels that were bought and subsequently merged into one of these four hotel companies
2. 1987: Including Ladbroke Hotels
3 1991: Mt. Charlotte acquired Thistle
4. 1997: Regal Hotel adopted new name – Coral
5 1997: Choice Hotels Europe bought over Friendly Hotel Group
6. 2002: Permira bought Travelodge

Appendix B: Abbreviations

Accor
Accor (France)

BH&R
Bass Hotels & Resorts (UK); Subsidiary of Bass Group plc

CCHG
Country Club Hotel Group (UK)
Subsidiary of Whitbread Group plc (UK)

CHE
Choice Hotels Europe

CHIC
Commonwealth Hospitality Ltd. (Canada)

Choice (Friendly)
Choice (Friendly); bought by Choice Hotels Europe

Coral
Coral (Regal Hotels)

Crest
Crest Hotels (UK), Subsidiary of Bass plc

De Vere
De Vere

Embassy
Embassy (UK)

Forte
Forte Hotels (UK)

Forum
Forum Group; Subsidiary of Bass

Granada (Forte)
Granada Group plc; bought THF in 1996

GW Hotels
Greenall Whitley

Hilton
Hilton Group plc (UK); Ladbroke bought it in 1987

HII
Holiday Inn International

HIW
Holiday Inn Worldwide

ICH
InterContinental Hotels

IHG
InterContinental Hotels Group (UK)

Imperial
Imperial London Hotels

Jarvis
Jarvis Hotels plc

Ladbroke
Ladbroke Group plc (UK)

Lansbury
Lansbury Hotels; Subsidiary of Whitbread Group plc (UK)

Macdonald
Macdonald Hotels

Marriott
Marriott International (USA)

Mt. Charlotte
Mt. Charlotte Hotels

Pleasurable
Norscot, Smith's Shearings and Associated Leisure Hotels

Premier Lodge
Premier Lodge

QMH
Queens Moat House

Rank Org.
Rank Organisation

S&N
S&N Retail

SCG
Six Continentals Group

Swallow
Swallow Hotel Group

Stakis
Stakis Group plc

THF
Trust House Forte

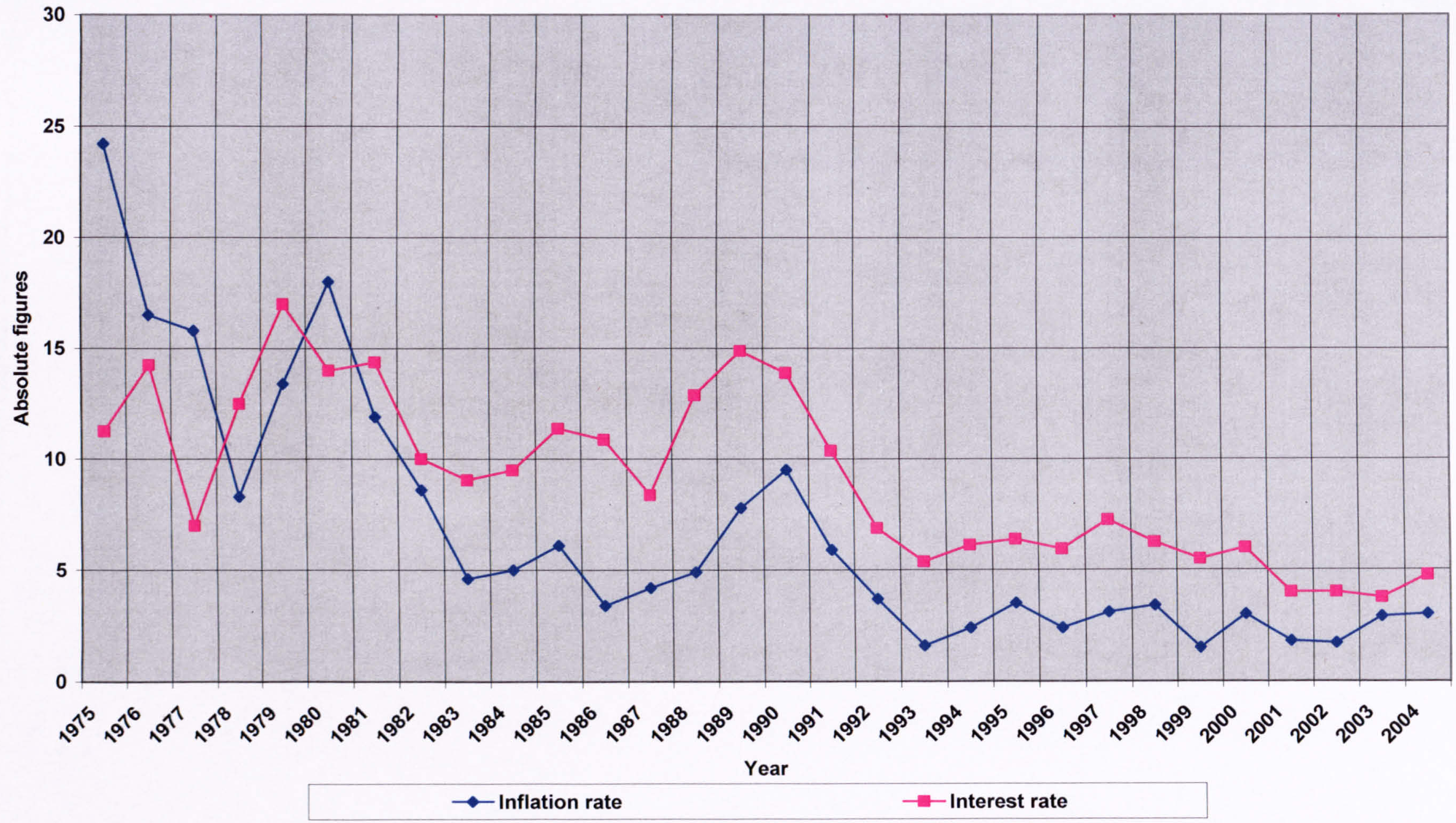
Thistle
Thistle Hotels

Travel Inn
Subsidiary of Whitbread Group plc (UK)

Travelodge
Travelodge (UK)

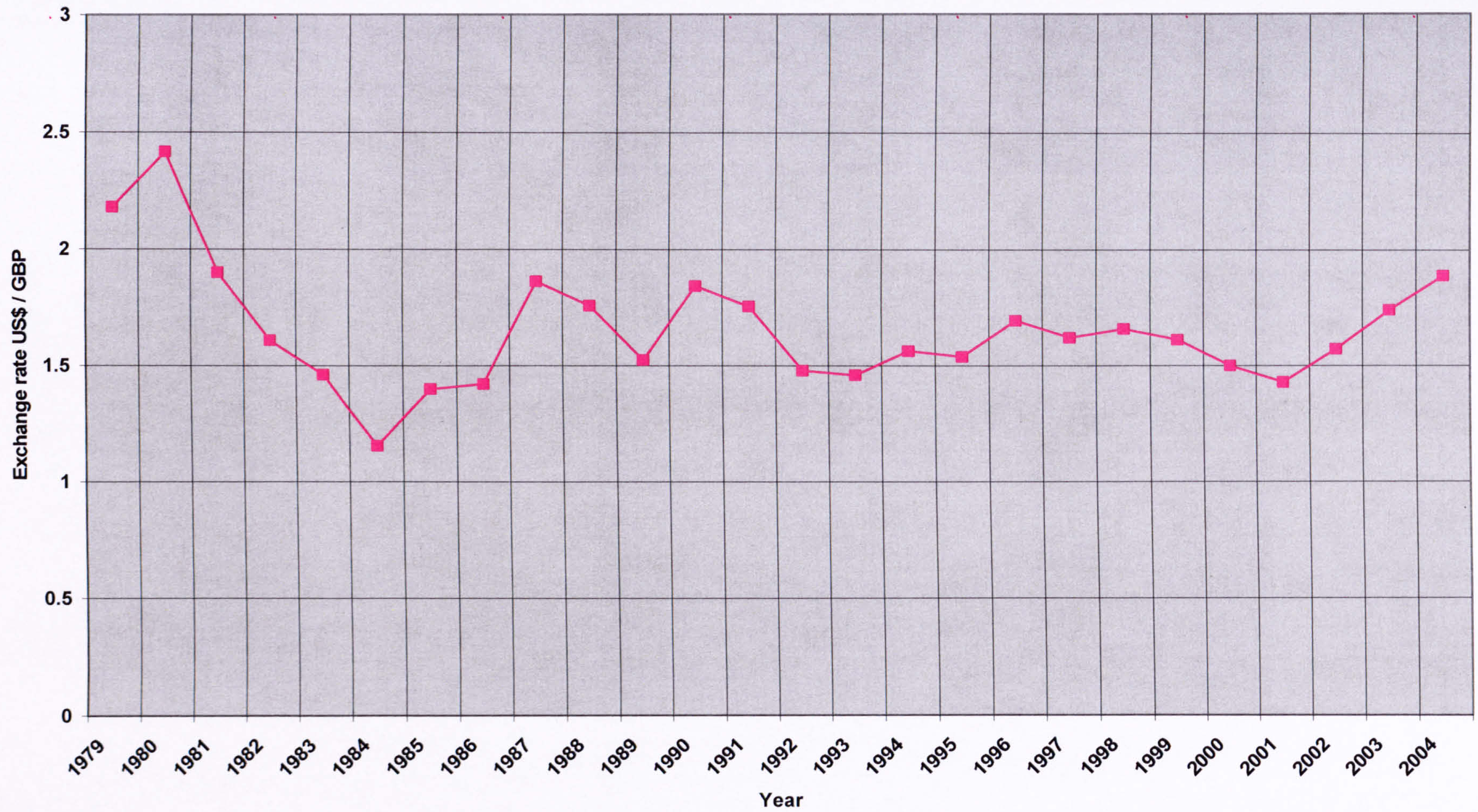
Whitbread
Whitbread Group plc (UK)

Appendix C: Inflation and Interest rates in the UK (1975 -2004)



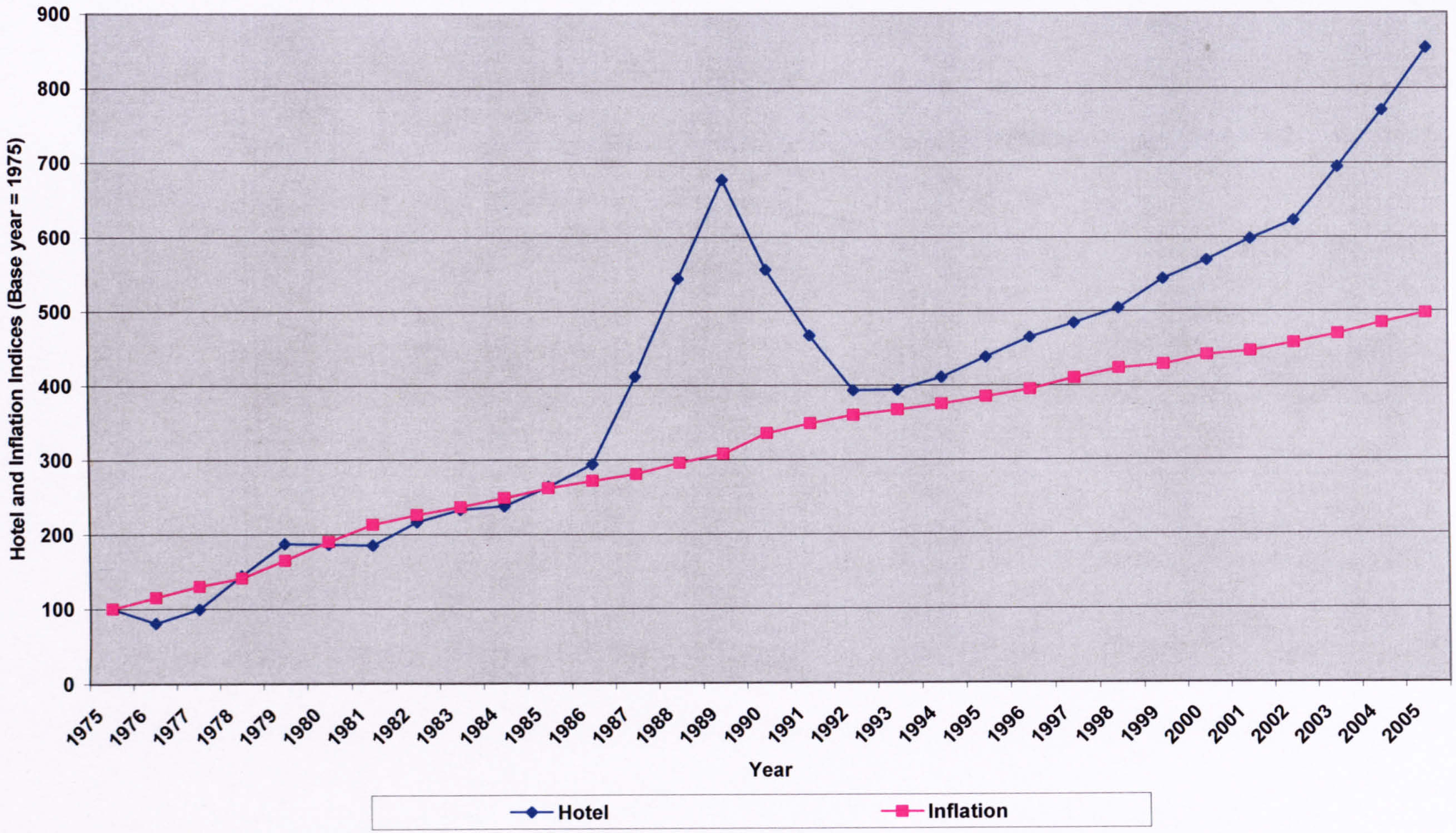
Source: Bank of England (2007a) and Office for National Statistics (2006a)

Appendix D: Exchange rates US$ / GBP (1979 – 2004)



Source: Bank of England (2007b)

Appendix E: Indices for hotel sales and inflation rates, 1975 - 2005



Source: Provided by Christie & Co. (2007)

Appendix F: Largest hotel companies worldwide (most number of hotel rooms) 1983 – 2005[1]

Rank	1983	1984	1985	1986	1987	1988	1989	1990
1	Holiday Corp. (USA) 310,337	Holiday Corp. (USA) 314,998	Holiday Corp. (USA) 341,715	Holiday Corp. (USA) 357,614	Holiday Corp. (USA) 352,614	Holiday Corp. (USA) 360,958	HIW (UK)[2] 370,081	HIW (UK) 320,599
2	ITT (USA) 124,046	ITT (USA) 128,565	ITT (USA) 134,455	ITT (USA) 142,000	ITT (USA) 136,495	ITT (USA) 135,000	Best (USA) 259,870	Best (USA) 268,140
3	Ramada (USA) 95,563	Ramada (USA) 94,040	HHC (USA) 96,101	Ramada (USA) 100,000	Ramada (USA) 123,915	Ramada (USA) 130,932	Marriott (USA) 135,901	Choice (USA) 201,048
4	HHC (USA) 88,864	HHC (USA) 92,614	Ramada (USA) 96,000	HHC (USA) 97,535	Marriott (USA) 103,000	Marriott (USA) 118,000	ITT (USA) 134,400	Accor (France) 159,877
5	Quality (USA) 73,463	Quality (USA) 81,939	Quality (USA) 91,000	Quality (USA) 95,393	Quality (USA) 102,428	Quality (USA) 112,810	Days Inns (USA) 120,725	HFS (USA) 138,122
6	Forte (UK) 72,000	Forte (UK) 72,000	Forte (UK) 73,381	Days Inns (USA) 79,000	HHC (USA) 97,000	Days Inns (USA) 104,625	Choice (USA) 120,352	Marriott (USA) 150,000
7	Imperial (UK) 61,329	Imperial (UK) 61,323	Marriott (USA) 65,072	Marriott (USA) 75,277	Days Inns (USA) 84,832	HHC (USA) 95,862	New World (HK) 108,134	ITT (USA) 130,862
8	Balkantourist (Bulgaria) 61,299	Balkantourist (Bulgaria) 61,299	Accor (France) 64,495	Forte (UK) 74,800	Accor (France) 84,800	Forte (UK) 89,546	HHC (USA) 94,653	HHC (USA) 94,232
9	Accor (France) 56,768	Marriott (USA) 61,000	-	Accor (France) 62,410	Forte (UK) 84,371	Accor (France) 80,034	HFS (USA) 73,850	HHC (USA) 94,232
10	Marriott (USA) 53,846	Accor (France) 59,438	Balkantourist (Bulgaria) 60,000	Prime (USA) 60,000	Prime (USA) 74,006	Club Med (France) 61,860	Hyatt (USA) 71,047	Hyatt (USA) 76,794
	Rank: 17 TWA (USA) 34,003	Rank: 17 TWA (USA) 33,832	Rank: 17 TWA (USA) 34,774	Rank: 17 Allegis (USA) 35,391	Rank: 17 Hilton (UK) 44,127	Rank: 16 Hilton (UK) 45,630	Rank: 11 Forte (UK) 67,065	Rank 11: Forte (UK) 75,830
	Rank: 40 Crest (UK) 10,699	Rank: 41 Crest (UK) 10,347	Rank: 46 Crest (UK) 10,000	Rank: 23 Ladbroke (UK) 26,379	Rank: 13 Bass (UK) 52,436	Rank: 54 Bass (UK) 8,299[1]	Rank: 17 Hilton (UK) 47,350	Rank: 15 Hilton (UK) 49,031
	Rank: 111 Ladbroke (UK) 3,500	Rank: 63 Ladbroke (UK) 7,120	Rank: 62 Ladbroke (UK) 7,120	Rank: 50 Crest (UK) 9,758		Whitbread (UK) not ranked	Rank: 122 W & Co. (UK) 3,587	Rank: 122 W & Co. (UK) 3,587
		Rank: 199 Whitbread (UK) 942	Whitbread (UK) not ranked	Whitbread (UK) not ranked				

Source: Hotel & Restaurant International (1985 - 1989) and Hotel (1990 – 2005)

Appendix F: Largest hotel companies worldwide (most number of hotel rooms) 1983 - 2005

Rank	1991	1992	1993	1994	1995	1996	1997	1998
1	HIW (UK) 327,059	HFS (USA) 354,997	HFS (USA) 384,452	HFS (USA) 424,352	HFS (USA) 509,500	HFS / Cendent (USA) 499,000	Cendent (USA) 499,056	Cendent (USA) 528,896
2	HFS (USA) 288,990	HIW (UK) 328,679	HIW (UK) 340,881	HIW (UK) 356,000	HIW (UK) 369,738	HIW (UK) 386,323	BH&R (UK) 465,643	BH&R (UK) 461,434
3	Best (USA) 266,123	Best (USA) 273,804	Best (USA) 272,743	Best (USA) 280,144	Best (USA) 282,062	Best (USA) 295,305	Best (USA) 300,000	Marriott (USA) 328,300
4	Choice (USA) 214,411	Accor (France) 238,990	Accor (France) 250,319	Accor (France) 256,607	Accor (France) 268,256	Accor (France) 279,145	Choice (USA) 292,289	Choice (USA) 305,171
5	Accor (France) 212,500	Choice (USA) 230,430	Choice (USA) 229,784	Choice (USA) 247,069	Choice (USA) 249,926	Choice (USA) 271,812	Marriott (USA) 289,357	Best (USA) 301,899
6	Marriott (USA) 160,968	Marriott (USA) 166,919	Marriott (USA) 173,048	Marriott (USA) 180,500	Marriott (USA) 198,000	Marriott (USA) 251,425	Accor (France) 288,269	Accor (France) 291,770
7	ITT (USA) 131,348	ITT (USA) 132,361	ITT (USA) 129,714	ITT (USA) 132,477	ITT (USA) 129,201	ITT (USA) 130,528	Starwood (USA) 213,238	Starwood (USA) 225,014
8	HHC (USA) 94,452	HHC (USA) 94,653	HHC (USA) 94,952	HHC (USA) 92,452	HHC (USA) 90,879	Promus (USA) 105,930	Promus (USA) 178,802	Promus (USA) 192,043
9	Forte (UK) 76,330	Forte (UK) 79,309	Forte (UK) 78,691	Forte (UK) 88,153	Promus (USA) 88,117	HHC (USA) 101,000	HHC (USA) 101,891	Carlson (USA) 106,244
10	Hyatt (USA) 74,801	Hyatt (USA) 77,579	Promus (USA) 78,309	Carlson (USA) 79,482	Carlson (USA) 84,607	Carlson (USA) 91,177	Carlson (USA) 106,244	PAH (USA) 100,989
	Rank: 15 Hilton (UK) 50,799	Rank: 14 Hilton (UK) 52,979	Rank: 15 Hilton (UK) 52,930	Rank: 13 Hilton (UK) 53,052	Rank: 13 Hilton (UK) 52,063	Rank: 13 Hilton (UK) 51,305	Rank: 13 Hilton (UK) 54,052	Rank: 14 Hilton (UK) 54,117
	Rank: 111 W & Co. (UK) 3,978	Rank: 108 CCHG (UK) 4,354	Rank: 116 CCHG (UK) 4,000	Rank: 89 CCHG (UK) 5,430	Rank: 14 Forte (UK) 49,183	Rank: 15 Forte (UK) 46,847	Rank: 47 Whitbread (UK) 13,539	Rank: 46 Whitbread (UK) 16,313
					Rank: 87 Whitbread (UK) 5,709	Rank: 74 Whitbread (UK) 7,246		

Source: Hotel & Restaurant International (1985 - 1989) and Hotel (1990 – 2005)

Appendix F: Largest hotel companies worldwide (most number of hotel rooms) 1983 - 2005

Rank	1999	2000	2001	2002	2003	2004	2005
1	Cendent (USA) 542,630	Cendent (USA) 541,313	Cendent (USA) 553,771	Cendent (USA) 536,097	ICH (UK) 536,318	ICH (UK) 534,202	ICH (UK) 537,533
2	BH&R (UK) 471,680	BH&R (UK) 490,531	SC (UK) 511,072	SC (UK) 514,318	Cendent (USA) 518,747	Cendent (USA) 520,860	Wyndham (USA) 532,284
3	Marriott (USA) 355,900	Marriott (USA) 390,469	Marriott (USA) 435,983	Marriott (USA) 463,429	Marriott (USA) 490,564	Marriott (USA) 482,186	Marriott (USA) 499,165
4	Accor (France) 354,652	Accor (France) 389,437	Accor (France) 415,774	Accor (France) 440,807	Accor (France) 453,403	Accor (France) 463,427	HHC (USA) 485,356
5	Choice (USA) 338,254	Choice (USA) 350,351	Choice (USA) 362,549	Choice (USA) 373,722	Choice (USA) 388,618	Choice (USA) 403,806	Choice (USA) 481,131
6	HHC (USA) 290,000	HHC (USA) 317,823	HHC (USA) 327,487	HHC (USA) 337,116	HHC (USA) 348,483	HHC (USA) 358,408	Accor (France) 475,433
7	Best (USA) 313,247	Best (USA) 307,737	Best (USA) 306,851	Best (USA) 308,911	Best (USA) 310,245	Best (USA) 309,236	Best (USA) 315,875
8	Starwood (USA) 217,651	Starwood (USA) 227,042	Starwood (USA) 221,467	Starwood (USA) 226,970	Starwood (USA) 229,247	Starwood (USA) 229,247	Starwood (USA) 257,889
9	Carlson (USA) 114,161	Carlson (USA) 129,234	Carlson (USA) 135,066	Carlson (USA) 141,923	Carlson (USA) 147,624	GHyatt (USA) 147,157	Carlson (USA) 147,129
10	Wyndham (USA) 100,989	Hyatt (USA) 86,711	Hilton (UK) 92,778	Hilton (UK) 96,380	Hilton (UK) 98,689	Carlson (USA) 147,093	GHyatt (USA) 134,296
	Rank: 14 Hilton (UK) 61,889	Rank: 12 Hilton (UK) 64,647	Rank: 32 Whitbread (UK) 26,572	Rank: 32 Whitbread (UK) 27,319	Rank: 33 Whitbread (UK) 27,558	Rank: 11 Hilton (UK) 102,636	Rank 31: Whitbread (UK) 30,000
	Rank: 36 Whitbread (UK) 23,190	Rank: 32 Whitbread (UK) 24,591				Rank 23: Whitbread (UK) 36,803	

Source: Hotel & Restaurant International (1985 - 1989) and Hotel (1990 – 2005)

Note:

1. The main purpose of this table is to present the position of UK hotel companies in the context of world ranking, in turn, to illustrate how these UK companies had employed M&A as the expanding mechanism to grow, particularly through the acquisition of well recognised brand names. The colours used in this table represent each of the companies singled out as case studies in this thesis (Green: THF; Pink: Ladbroke; Orange: Bass and Blue: Whitbread). The colours used are consistent with those used during data collecting stage (see 5.4 (i)).

2. 1989: Bass took over all Holiday Inns outside the US, including 13 US-based hotels from Holiday Corporation.

Appendix F: Abbreviations

Accor
Accor (France)

Allegis
United Airline (Hilton International)

Balkantourist
Balkantourist (Bulgaria)

Best
Best Western International (USA)

Bass
Bass Hotels Division (UK);
Subsidiary of Bass plc

BH&R
Bass Hotels & Resorts (UK)

Carlson
Carlson Hospitality Worldwide (USA)

CCHG
Country Club Hotel Group (UK)
Whitbread Group plc (UK): parent company

Cendant
Cendant Corporation (USA)

Choice
Choice Hotel International (USA)

Club Med
Club Mediterranee (France)

Crest
Crest Hotels (UK), Subsidiary of Bass plc

Days Inns
Days Inns of American Inc. (USA)

Forte
Forte Hotels (UK)

GHyatt
Global Hyatt Corporation (USA)

HFS:
Hospitality Franchise System (USA)

HHC
Hilton Hotels Corporation (USA)

HI Inc.
Holiday Inns Inc. (UK)

Hilton
Hilton International (UK); Subsidiary of Ladbroke (UK)

HIW
Holiday Inn Worldwide (UK)

Holiday Corp.
Holiday Corporation (USA)

Hyatt
Hyatt Hotels/ Hyatt International (USA)

ICH
InterContinental Hotels Group (UK)

Imperial
Imperial Group (UK)

ITT
ITT Sheraton Corp. (USA)

Ladbroke
Ladbroke Group plc (UK)

Marriott
Marriott International (USA)
Marriott Corporation (USA)

New World
New World / Ramada International (HK)

PAH
Patriot American Hospitality Inc.

Prime
Prime Motor Inns (USA)

Promus
Promus Hotel Corp. (USA)

Quality
Quality International (USA)

Ramada
Ramada Inc. (USA)

SC
Six Continents Hotels (UK)

Sol Melia
Sol Melia SA (Spain)

Starwood
Starwood Hotels & Resorts Worldwide (USA)

TWA
Trans World Airline (owner of Hilton International)

W & Co.
Whitbread & Company (UK);
Subsidiary of Whitbread Group plc (UK)

Whitbread
Whitbread Hotel Company (UK); Subsidiary of
Whitbread Group plc (UK)

Wyndham
Wyndham International (USA)

Appendix G: Semi structured interview questions:

1. In general, what do you think were the motives behind M&A activity in the UK hotel industry, between 1979 and 2004?

This was meant to be an open question, aiming to find out what industry analysts saw as motives for M&A activity in the UK hotel industry, leading to an understanding of motives for M&A activities – value maximising or non-value maximising and the industry shocks concept. The purpose was to collect contextual data about the external environment, e.g. hotel industry and the general economy. This question is related to the literature in terms of understanding the motives behind the M&A activities that took place and a reflection of the hotel industry in specific and the economy in general. This question is able to achieve all the objectives (1 – 5).

2. What are your views on the reasons for these particular acquisitions in the period between the late 1970s and 2004? (A table of all the M&A activities engaged by four hotel companies between 1979 and 2004 was shown to remind and help respondents in their recollection and discussions).

This question is related to the literature in terms of understanding the motives for M&A activities that took place among four hotel companies on an organisational level and in the hotel industry on an industry and general level. These understandings will also provide the insight to the general economy. Moreover, it is able to find out any emerging pattern amongst M&A activities. This question is able to achieve all the objectives (1 – 5).

Appendix H: Sample Letter to respondent

Mary Quek
Address

31st January 2006

Mr Respondent
Company name
Address

Dear Mr Respondent

Re: Request for an appointment to discuss the development of the UK hotel industry

I am currently pursuing a PhD at the Department of Hospitality, Leisure and Tourism Management, Business School, Oxford Brookes University, UK. I am investigating the development of the UK Hotel Industry, 1979-2004, through an in-depth study of four companies.

The period between 1979 and 2004 saw an exponential growth amongst hotel companies, especially through the use of merger and acquisition as a growth mechanism. In this study, I am investigating the motives behind the major deals undertaken by the four largest hotel companies in the UK between 1979 and 2004. Your views on these deals and the role that merger and acquisition have played in the development of the UK Hotel Industry would be most illuminating. Please see the attached Information Sheet for more details.

With this in mind, I am writing to ask for your participation in this study. I will be happy to furnish you with a summary of my findings on completion of the study. I would very much like to arrange an interview with you; I envisage that this would take an estimated 1-1.5 hours.

I do hope that it will be convenient for me to telephone you in the next couple of weeks when you can let me know if you will be happy to participate. If so, we will then be able to arrange an interview date and time that is convenient to you.

Thank you very much for your kind attention and I look forward to talking with you soon.

Yours sincerely,

Mary Quek
Doctoral Researcher
Oxford Brookes University
Tel: 44-(0)07952752650; 44-(0)1865-483858
Email: nhmquek@brookes.ac.uk

Appendix I: Participant information sheet

Study title
The development of four hotel companies in the UK, 1979-2004

Introduction
I would like to invite you to take part in a research study to provide information about the development of the UK hotel industry between 1979-2004, particularly through the use of mergers and acquisitions. I have already carried out extensive research of secondary data sources and have identified the following deals that I would like to discuss with you:

Table 1: Major Merger and Acquisition activities, 1979-2004

	THF/ Forte	Ladbroke/ Hilton	Bass/ IHG	Whitbread
1979		Myddleton Hotels		
1980			Centre Hotels	
1981	Savoy			
1984		Comfort Hotels		
1985		Rodeway (USA)		
1986	Anchor Hotels			
1987		Hilton Hotels	Holiday Inn	
1988	Kennedy Brookes		Holiday Inn	
1989			Holiday Inn	
1990	Crest Hotels			
1994	Le Meridien			
1995				Marriott
1998			InterContinental Hotels	
1999		Stakis Hotels		Swallow Hotels
2000			Southern Pacific Hotels Corporation SPHC (Australia) Bristol Hotels & Resorts	
2001		Scandic (North Europe)	Post House	
2003			Candlewood Suites (USA)	
2004				Premier Lodge

Before you agree to take part, it is important for you to understand why the research is being done and what it will involve. Please take time to read the following information. Thanking you in advance for the time and trouble taken to read this.

Purpose of the study
The aim of the study is to explore and analyse the development of hotel companies and the hotel industry in the UK. This research seeks to broaden an area of business history research where no extensive analysis has been carried out on the development of these types of firms.

As part of my PhD studies at Oxford Brookes University, I am trying to develop a better understanding of the historical expansion of hotel companies in the UK. Particular attention is being given to merger and acquisition activities, which were widely used as a method of growth during this period.

The project is now in its final year. The first stage of the project involved the analysis of secondary data such as companies' annual reports, analyst reports, newspapers, trade journals, scholarly journals, and books. In the second stage, interviews will be undertaken with a number of industry analysts, as well as gaining the views of senior company executives who had been directly involved with these merger and acquisition activities.

Why have you been invited?
As this project aims to investigate the expansion of a sample of hotel companies, the views from industry analysts can provide vital evidence for this project. You have been invited to take part in this study because you have many years of experience, both as an analyst in this industry and/ or as an executive in these leading hotel companies. Moreover, your experience and involvement falls in the period of this study and will be invaluable for this project.

Deciding to take part?
Your participation in the research is entirely voluntary. It is up to you to decide whether or not to take part. If you do decide to take part you will be given this information sheet to keep and be asked to sign a consent form. If you decide to take part you are still free to withdraw at any time, without giving a reason. You may also withdraw any unprocessed data in any case of withdrawing from participating in this project.

What will happen to you if you take part?
Before meeting you, I will send you a page of detailed explanation of the data and time needed. It is estimated that the interviews will last for 1-1.5 hours. I will take notes during the interview and I would also like, with your permission, to record our discussion purely as an aide memoir for my research project. Following the interview you will receive a transcript of my notes so that you can check they are an accurate representation of what you said. A report summarising the findings for your personal reference will be sent to you on completion of the project, estimated to be the end of 2006.

The advantages and possible disadvantage in taking part
Your contribution will be invaluable to this study, which is the first of its kind. In addition, through taking part you will help to increase the awareness of hotel companies and the industry as 'big' business and the value that historical knowledge can bring to our understanding of business practices. The possible disadvantage to you is that this will take about 1-1.5 hours of your time, but I will arrange my visit to suit your convenience.

Confidentiality and Ethics
All information that you give will be kept strictly confidential, subjecting to legal limitation. In the case where you prefer to remain anonymous in any published research, your identification will be coded as 'senior executive involved directly with merger and acquisition activities in the period 1979-2004'. The only person who will have access to the interview records is Ms Mary Quek. The interview notes will be stored securely in my cabinets in the research office. Data generated in the course of the research will be kept securely in paper or electronic form for a period of five years after the completion of a research project.

The results of the research study
You will receive a report, which will comprise a summary of the results of this study. The results of the research will also appear in my PhD thesis. If this research is published in any scholarly journal, a copy of the published research will be sent to you promptly.

Organisation and funding of the research
I am conducting the research as a self-funded PhD student at Oxford Brookes University.

Who has reviewed the study?
The research has been approved by the University Research Ethics Committee, Oxford Brookes University. If you have any concerns about the conduct of this research project you can contact the Chair of the University Ethics Committee, contact email: **ethics@brookes.ac.uk**.

Further Information
If you need to contact the researcher about any aspect of the project, my details are below:

Mary Quek, Doctoral Researcher
Department of Hospitality, Leisure and Tourism Management, Business School,
Oxford Brookes University, Gipsy Lane Campus, Headington, Oxford, OX3 0BP, UK
Email: nhmquek@brookes.ac.uk
Tel: 44-(0)1865-483858, Fax: 44-(0)1865-483878, Mobile: 44-(0)7952752650

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Oxford Brookes University
Tel: jaslinn@brookes.ac.uk
Email: 01865-485655

Thank you very much for taking time to read this information sheet.

Mary Quek, Date

Appendix J: Informed consent form

OXFORD BROOKES UNIVERSITY

CONSENT FORM

The Development of four hotel companies in the UK, 1979-2004

Name, PhD Researcher, Address

Please Initial Box

1. I confirm that I have read and understand the information sheet for the above study and have had the opportunity to ask questions. ☐
2. I understand that my participation is voluntary and that I am free to withdraw at any time, without giving reason. ☐
3. I understand that confidentiality is subject to legal limitation. ☐
4. I agree to take part in the above study. ☐
5. I agree to the interview being audio recorded ☐
6. I agree to the use of anonymised quotes in publications ☐

______________________	______________	______________________
Name of Participant	Date	Signature
______________________	______________	______________________
Name of Researcher	Date	Signature

Research ethics consent form / Last updated: October 2005

Appendix K: Disposal of THF's assets after the 1996 takeover by Granada Group plc

Year	Asset disposal
1996	White Hart hotel chain (£121.7 million) 21-strong Welcome Break (£1.2 billion) George V Hotel in Paris (£104 million) Hyde Park Hotel (£86 million) Alpha Airports (25% stakes) (£52.3 million)
1997	Brown's Hotel (£45 million) Westbury hotels sold (£90 million) Plaza Athenee hotel sold to Sultan of Brunei's brother (not disclosed) New York Plaza Athenee hotel (£42.5 million)
1998	Cavendish, the Russell and The Saint-George's hotels in London (£140 million) 50% shares in a joint venture company with Italian Oil and Gas Company ENI was sold back to ENI (not disclosed) Savoy 68% shares ($310 million)
2000	Cavendish hotel (£60 million)
2001	Cumberland Hotel (£150 million) Regent Palace Hotel (£105 million) 79 Post House Hotels (£810 million) 48 Heritage Hotels (£235 million) 146 Le Meridien Hotels (£1.9 billion)
2002	368 Little Chef and 220 Travelodge (£712 million)

Source: Compass, 2001b; 2001c; 2001d; 2001e; 2001f; 2002; 2003; Daneshkhu, 1997; Granada Group Hotel, 2003; Walsh, 1998

Appendix L: THF's sales and profits by activities (£ million)

	Total			Hotel				Catering				Miscellaneous				Leisure				Property disposal			
	Sales	Profit	% (1)	Sales	% (2)	Profit	% (3)	Sales	% (2)	Profit	% (3)	Sales	% (2)	Profit	% (3)	Sales	% (2)	Profit	% (3)	Sales	% (2)	Profit	% (3)
1978	613.80	55.50	9.04	302.60	49.30	53.80	96.94	250.90	40.88	12.40	22.34	35.70	5.82	3.70	6.67	24.60	4.01	3.60	6.49				
1979	721.00	68.20	9.46	339.20	47.05	63.10	92.52	313.50	43.48	14.20	20.82	38.20	5.30	4.50	6.60	30.10	4.17	4.10	6.01				
1980	772.40	66.00	8.54	387.20	50.13	61.60	93.33	353.10	45.71	15.20	23.03	33.80	4.38	3.90	5.91	33.90	4.39	4.00	6.06				
1981	833.10	52.30	6.28	376.70	45.22	51.90	99.24	373.20	44.80	13.00	24.86	30.60	3.67	5.40	10.33	52.60	6.31	4.30	8.22	11.60	1.39	7.20	13.77
1982	915.40	57.10	6.24	404.50	44.19	56.40	98.77	419.90	45.87	17.50	30.65	35.60	3.89	2.00	3.50	46.80	5.11	4.20	7.36	8.60	0.94	4.00	7.01
1983	1,012.00	82.10	8.11	457.30	45.19	73.00	88.92	471.10	46.55	17.70	21.56	34.70	3.43	2.40	2.92					48.90	4.83	8.60	10.48
1984	1,131.00	95.40	8.44	512.80	45.34	88.50	92.77	556.10	49.17	23.10	24.21	37.60	3.32	4.20	4.40								
1985	1,266.10	115.10	9.09	599.70	47.37	117.10	101.74	623.40	49.24	28.10	24.41	43.00	3.40	5.10	4.43								
1986	1,477.00	114.50	7.75	603.00	40.83	109.00	95.20	794.00	53.76	41.00	35.81	43.00	2.91	4.00	3.49								
1987	1,778.00	156.00	8.77	679.00	38.19	133.00	85.26	1,027.00	57.76	64.00	41.03	58.00	3.26	4.00	2.56								
1988	2,044.00	190.00	9.30	780.00	38.16	155.00	81.58	1,240.00	60.67	88.00	46.32	60.00	2.94	5.00	2.63								
1989																							
1990	2,470.00	206.00	8.34	853.00	34.53	169.00	82.04	1,535.00	62.15	109.00	52.91	56.00	2.27	3.00	1.46								
																Restaurants							
1991	2,641.00	180.00	6.82	912.00	34.53	159.00	88.33	1,026.00	38.85	40.00	22.22	58.00	2.20	1.00	0.56	644.00	24.38	74.00	41.11				
																				Discontinued operations			
1992	2,662.00	59.00	2.22	846.00	31.78	76.00	128.81	349.00	13.11	14.00	4.01	55.00	2.07	-1.00	-1.69	608.00	22.84	63.00	106.78	817.00	30.69	33.00	55.93
1993	2,721.00	164.00	6.03	875.00	32.16	94.00	57.32					54.00	1.98	nil	nil	543.00	19.96	51.00	31.10	1,246.00	45.79	54.00	32.93
1994	2,106.00	77.00	3.66	942.00	44.73	136.00	176.62					74.00	3.51	nil	nil	622.00	29.53	67.00	87.01	468.00	22.22	22.00	28.57
1995	1,944.00	171.00	8.80	1,131.00	58.18	228.00	133.33					4.00	0.21	5.00	2.92	604.00	31.07	60.00	35.09	205.00	10.55	20.00	11.70
1996	1,019.00	116.00	14.72	619.00	60.75	101.00	87.07					9.00	0.88	5.00	4.31	391.00	38.37	57.00	49.14				

Source: THF's annual reports 1979 -1996

(1) Profit as percentage of Total Sales
(2) Divisional sales as percentage of Total Sales
(3) Divisional profit as percentage of Total Profit

Notes:

1989: No company annual report is available for 1989 because of a change in financial year end, from 31st October to 31st January.
1994: Total profits fell to £77 million due to the acquistion of Le Meridien Hotels and discontinued operations (Airport Services Division and Kentucky Fried Chicken).
1996: Period ended 22 August 1996; the company was taken over by Granada Group plc

Appendix M: Ladbroke's sales and profits by activities (£ million)

	Total			Social Clubs				Betting & Race course management			
	Sales (£m)	Profit (£m)	% (1)	Sales (£m)	% (2)	Profit (£m)	% (3)	Sales (£m)	% (2)	Profit (£m)	% (3)
1978	469.10	39.95	8.52	14.25	3.04	2.23	5.58	360.23	76.79	10.50	26.28
1979	579.00	46.80	8.08	15.30	2.64	1.80	3.85	427.89	73.90	11.18	23.89
1980	665.10	30.00	4.51	18.60	2.80	1.80	6.00	514.20	77.31	14.80	49.33
1981	705.20	32.80	4.65	17.10	2.42	1.50	4.57	553.50	78.49	14.30	43.60
1982	762.00	32.10	4.21	16.00	2.1	1.50	4.67	597.20	78.37	17.80	55.45
				Hotel							
1983	846.90	41.80	4.94	36.80	4.35	7.40	17.70	637.40	75.26	20.60	49.28
1984	1,115.90	50.20	4.50	42.90	3.84	12.60	25.10	787.30	70.55	21.70	43.23
				Hotel and Holiday				Racing			
1985	1,342.60	75.10	5.59	86.50	6.44	20.10	26.76	984.40	73.32	35.20	46.87
				Hotel							
1986	1,765.60	101.30	5.74	87.20	4.94	21.80	21.52	1,190.50	67.43	49.50	48.86
1987	2,135.40	160.20	7.50	223.40	10.46	47.20	29.46	1,322.70	61.94	62.00	38.70
1988	2,848.00	252.30	8.86	688.80	24.19	118.90	47.13	1,608.80	56.49	77.50	30.72
1989	3,659.50	302.20	8.26	830.10	22.68	167.80	55.53	2,170.30	59.31	91.10	30.15
1990	3,800.50	296.50	7.80	780.10	20.53	174.30	58.79	2,304.50	60.64	91.70	30.93
1991	3,785.70	210.40	5.56	758.10	20.03	163.80	77.85	2,252.90	59.51	64.50	30.66
								Betting & Racing			
1992	4,167.00	5.20	0.12	901.80	21.64	123.40	2,298.08	2,410.70	57.85	67.60	1,300.00
1993	4,268.70	51.40	1.20	894.10	20.95	124.80	242.80	2,539.40	59.49	79.40	154.47
1994	4,414.00	-229.80	-5.21	905.30	20.51	198.50	-86.38	2,690.30	60.95	-8.40	3.66
1995	3,847.60	95.40	2.48	997.10	25.91	149.10	156.29	2,668.10	69.34	40.30	42.24
1996	3,824.60	59.20	1.55	1,010.20	26.41	142.30	240.37	2,756.20	72.07	84.90	143.41
1997	3,816.20	203.30	5.33	960.70	25.17	176.10	86.62	2,855.50	74.83	82.90	40.78
1998	4,680.50	264.20	5.64	952.50	20.35	178.20	67.45	3,728.00	79.65	163.10	61.73
1999	4,299.40	163.10	3.79	1,159.00	26.96	226.30	138.75	3,140.40	73.04	57.10	35.01
2000	3,951.50	196.40	4.97	1,319.50	33.39	231.10	117.67	2,632.00	66.61	71.50	36.41
2001	4,161.80	198.20	4.76	1,540.70	37.02	167.90	84.71	2,621.10	62.98	117.80	59.43
2002	5,479.00	156.10	2.85	1,666.00	30.41	103.10	66.05	3,813.00	69.59	149.30	95.64
2003	8,930.50	171.20	1.92	1,663.40	18.63	45.30	26.46	7,267.10	81.37	214.10	125.06
2004	11,893.40	224.60	1.89	1,771.20	14.89	99.50	44.30	10,125.90	85.14	273.40	121.73

	Property (UK)				Property (overseas)				Hotels, Holidays, Taverns & Machine Hire			
	Sales (£m)	% (2)	Profit (£m)	% (3)	Sales (£m)	% (2)	Profit (£m)	% (3)	Sales (£m)	% (2)	Profit (£m)	% (3)
1978	6.30	1.34	1.42	3.55	2.85	0.61	-3.54	-8.86	35.20	7.50	5.17	12.94
1979	16.10	2.78	4.00	8.55	2.81	0.49	-0.90	-1.92	51.80	8.95	7.30	15.60
1980	17.40	2.62	5.30	17.67	2.70	0.41	-0.80	-2.67	66.90	10.06	10.30	34.33
1981	19.10	2.71	6.80	20.73	2.90	0.41	-0.70	-2.13	72.30	10.25	11.80	35.98
1982	13.30	1.75	3.80	11.84	3.00	0.39	-0.30	-0.93	74.00	9.71	12.50	38.94
	Property											
1983	33.30	3.93	8.40	20.10								
1984	148.00	13.26	17.20	34.26								
									Retailing			
1985	111.10	8.27	18.00	23.97					132.20	9.85	7.80	10.39
					Media							
1986	121.60	6.89	21.40	21.13	7.20	0.41	0.60	0.59	213.20	12.08	13.80	13.62
1987	152.60	7.15	22.30	13.92	7.20	0.34	0.60	0.37	351.60	16.47	26.00	16.23
1988	110.10	3.87	32.20	12.76					440.30	15.46	34.50	13.67
1989	130.10	3.56	35.90	11.88					529.00	14.46	40.10	13.27
1990	155.20	4.08	45.20	15.24					560.70	14.75	39.70	13.39
1991	121.80	3.22	-12.40	-5.89					652.90	17.25	47.50	22.58
1992	160.20	3.84	-106.70	-2,051.92					693.80	16.65	45.60	876.92
1993	143.70	3.37	9.20	17.90								
1994	160.70	3.64	21.40	-9.31								

	Retail Hi-fi/ Consumer electronics, video & electronic communications				Casinos and lottery management				Discontinued operations			
	Sales (£m)	% (2)	Profit (£m)	% (3)	Sales (£m)	% (2)	Profit (£m)	% (3)	Sales (£m)	% (2)	Profit (£m)	% (3)
1978	3.44	0.73	0.18	0.45	45.28	9.65	22.27	55.74				
1979	10.79	1.86	0.39	0.83	49.50	8.55	25.20	53.85				
1980	23.5	3.53	0.80	2.67	13.00	1.95	2.60	8.67				
									Discontinued operations			
1981	28.4	4.03	1.10	3.35					1.10	0.16	1.80	5.49
					Other group properties							
1982	45.7	6.00	2.80	8.72	6.80	0.89	4.50	14.02				
	Entertainment											
1983	134.30	15.86	11.80	28.2								
1984	134.20	12.03	9.10	18.1								
1985	157.60	11.74	12.30	16.4								
1986									144.10	8.16	12.90	12.73
1987									85.10	3.99	11.80	7.37
1993									691.50	16.20	-10.70	-20.82
1994									657.70	14.90	-285.40	124.19
1995									182.40	4.74	23.60	24.74
1996									58.20	1.52	0.50	0.84

Source: Ladbroke annual reports 1979 - 2005

(1) Profit as percentage of Total Sales
(2) Divisional sales as percentage of Total Sales
(3) Divisional profit as percentage of Total Profit

Appendix M: Notes

1987: Hotel profit included a first time, 11 week contribution of £13.8 million from Hilton International and a 37 week contribution from Texas Homecare.
1994: Loss was due to the termination of Hong Kong management contract; re-organisation of head office; other disposals and re-organisational costs for Texas Homecare (DIY) and Vernon (betting shops) and increased competition from National Lottery.
2003: Profit for hotel was affected by difficult trading conditions. There were also the goodwill amortisation of £72.2 million related to hotel division.

Appendix N: Bass's sales and profits by activities (£ million)

	Total												Leisure																		
	Sales	Profit	% (1)	Sales	% (2)	Profit	% (3)	Sales	% (2)	Profit	% (3)	Sales	% (2)	Profit	% (3)	Sales	% (2)	Profit	% (3)	Sales	% (2)	Profit	% (3)	Sales	% (2)	Profit	% (3)	Sales	% (2)	Profit	% (3)
(1)1978	1,014.40	84.00	8.28																												
1979	1,134.30	111.60	9.84																												
								Brewing and drinks																							
1980	1,262.80	113.50	8.99					1,184.00	93.76	122.30	107.75	78.80	6.24	10.20	8.99																
1981	1,712.60	133.20	7.78					1,331.70	77.76	128.70	96.62	380.90	22.24	24.70	18.54																
1982	1,860.80	136.70	7.35					1,379.60	74.14	136.10	99.56	481.20	25.86	25.90	18.95																
								Brewing, drinks and pub retailing																							
1983	1,988.40	175.00	8.80					1,493.60	75.12	164.80	94.17	494.80	24.88	32.40	18.51																
1984	2,252.30	218.40	9.70					1,681.00	74.63	199.30	91.25	571.30	25.37	36.00	16.48																
1985	2,410.80	255.10	10.58					1,796.60	74.52	225.10	88.24	641.20	26.60	43.30	16.97																
1986	2,709.70	310.40	11.46					1,966.90	72.59	265.80	85.63	742.80	27.41	61.80	19.91																
1987	3,213.40	365.00	11.36					2,228.10	69.34	317.90	87.10	985.30	30.66	68.50	18.77																
				Hotels an d Restaurants				Brewing and pub retailing												Soft Drinks & Other Activities								Discontinued operations			
1988	3,734.30	449.00	12.02	350.00	9.37	52.00	11.58	1,885.00	50.48	300.00	66.82	722.00	19.33	43.00	9.58					751.00	20.11	41.00	9.13					309.00	37.34	3.00	0.67
								Pub Retailing								Brewing				Soft Drinks				Other Activities							
1989	4,036.00	465.00	11.52	498.00	12.34	79.00	16.99	1,050.00	26.02	214.00	46.02	869.00	21.53	55.00	11.83	1,418.00	35.13	121.00	26.02	422.00	10.46	36.00	7.74	460.00	11.40	21.00	4.52				
				Hotels																											
1990	4,461.00	535.00	11.99	630.00	14.12	110.00	20.56	1,233.00	27.64	277.00	51.78	1,019.00	22.84	72.00	13.46	1,514.00	33.94	168.00	31.40	451.00	10.11	39.00	7.29	269.00	6.03	7.00	1.31				
								Retailing: Pubs				Retailing: Leisure				Drinks: Brewing				Drinks: Soft drinks											
1991	4,383.00	430.00	9.81	570.00	13.00	20.00	4.65	1,173.00	26.76	238.00	55.35	1,017.00	23.20	59.00	13.72	1,546.00	35.27	148.00	34.42	440.00	10.04	40.00	9.30	239.00	5.45	33.00	7.67				
1992	4,307.00	473.00	10.98	510.00	11.84	98.00	20.72	1,091.00	25.33	192.00	40.59	974.00	22.61	57.00	12.05	1,554.00	36.08	121.00	25.58	442.00	10.26	41.00	8.67	241.00	5.60	10.00	2.11				
1993	4,451.00	508.00	11.41	602.00	13.53	129.00	25.39	1,078.00	24.22	206.00	40.55	1,027.00	23.07	71.00	13.98	1,598.00	35.90	155.00	30.51	412.00	9.26	35.00	6.89	206.00	4.63	-6.00	-1.18				
								Leisure retailing: Bass Taverns				Leisure retailing: Bass Leisure				Branded drinks: Bass brewers				Branded drinks: Britvic soft drinks											
1994	4,452.00	552.00	12.40	626.00	14.06	153.00	27.72	1,079.00	24.24	220.00	39.86	1,048.00	23.54	72.00	13.04	1,592.00	35.76	138.00	25.00	447.00	10.04	40.00	7.25	15.00	0.34	7.00	1.27				
1995	4,541.00	599.00	13.19	641.00	14.12	164.00	27.38	1,121.00	24.69	240.00	40.07	1,036.00	22.81	73.00	12.19	1,554.00	34.22	138.00	23.04	526.00	11.58	46.00	7.68	21.00	0.46	11.00	1.84				
1996	5,109.00	671.00	13.13	709.00	13.88	190.00	28.32	1,278.00	25.01	284.00	42.32	1,142.00	22.35	64.00	9.54	1,749.00	34.23	159.00	23.70	586.00	11.47	49.00	7.30	22.00	0.43	3.00	0.45				
1997	5,254.00	477.00	9.08	620.00	11.80	188.00	39.41					1,292.00	24.59	258.00	54.09	1,818.00	34.60	145.00	30.40	574.00	10.93	53.00	11.11	24.00	0.46	-35.00	-7.34	1,316.00	25.05	-45.00	-9.43
1998	4,609.00	834.00	18.10	853.00	18.51	216.00	25.90					1,368.00	29.68	237.00	28.42	1,787.00	38.77	149.00	17.87	527.00	11.43	38.00	4.56	27.00	0.59	5.00	0.60	401.00	8.70	286.00	34.29
1999	4,686.00	572.00	12.21	1,162.00	24.80	214.00	37.41					1,428.00	30.47	298.00	52.10					543.00	11.59	44.00	7.69	27.00	0.58	3.00	0.52	1,840.00	39.27	153.00	26.75
								Retail: Pubs & Bars				Retail: Restaurants				Retail: Inns & other															
2000	5,158.00	1,987.00	38.52	1,581.00	30.65	372.00	18.72	1,674.00	32.45	186.00	9.36	520.00	10.08	85.00	4.28	336.00	6.51	75.00	3.77	539.00	10.45	47.00	2.37	24.00	0.47	13.00	0.65	1,620.00	31.41	1,361.00	68.50
2001	4,033.00	690.00	17.11	1,896.00	47.01	384.00	55.65	832.00	20.63	187.00	27.10	564.00	13.98	87.00	12.61	124.00	3.07	-12.00	-1.74	571.00	14.16	58.00	8.41	16.00	0.40	0.00	0.00	nil		38.00	5.51
2002	3,615.00	534.00	14.77	1,870.00	51.73	251.00	47.00													602.00	16.65	63.00	11.80					1,481.00	40.97	289.00	54.12
2003	3,483.00	432.00	12.40	4,870.00	139.82	251.00	58.10													820.00	23.54	95.00	21.99					793.00	22.77	137.00	31.71
2004	2,204.00	264.00	11.98	1,498.00	67.97	269.00	101.89													706.00	32.03	77.00	29.17								

Source: AR / Bass 1979 - 2005

(1) Profit as percentage of Total Sales
(2) Divisional sales as percentage of Total Sales
(3) Divisional profit as percentage of Total Profit

Appendix N: Notes

1978 and 1979: There are no figure available by activity.
1997: Loss in other activities were due to the re-structuring of Hotel and Leisure divisions and loss incurred from discontinued operations (Gala, Coral, Barcrest, BLMS and the leased pub business).
1998: Profit was high because of ICH and other disposal.
2003: 15 months statement; due to a change in financial year end, from 30th September to 31st December.

Appendix O: Whitbread's sales and profits by activities (£ million)

	Total																																		
	Sales	Profit	% (1)	Sales	% (2)	Profit	% (3)	Sales	% (2)	Profit	% (3)	Sales	% (2)	Profit	% (3)	Sales	% (2)	Profit	% (3)	Sales	% (2)	Profit	% (3)	Sales	% (2)	Profit	% (3)	Sales	% (2)	Profit	% (3)	Sales	% (2)	Profit	% (3)
1978	573.37	43.52	7.59																																
1979	659.89	54.35	8.24																																
1980	720.26	61.81	8.58																																
1981	873.60	50.80	5.82																																
1982	905.70	56.50	6.24																																
				Retailing				**Beer**				**Wine and spirit**																							
1983	1,001.90	81.00	8.08	422.80	42.20	44.20	54.57	468.30	46.74	50.30	62.10	439.90	43.91	23.30	28.77																				
1984	1,185.70	95.10	8.02	422.80	35.66	39.30	41.32	468.30	39.50	55.20	58.04	439.90	37.10	23.30	24.50																				
1985	1,444.00	110.10	7.62	560.10	38.79	47.20	42.87	510.50	35.35	70.50	64.03	524.10	36.30	26.30	23.89																				
												Wine, spirit and soft drinks																							
1986	1,533.00	136.80	8.92	633.20	41.30	55.90	40.86	586.30	38.25	83.10	60.75	499.10	32.56	35.60	26.02																				
1987	1,553.90	158.90	10.23	732.50	47.14	69.40	43.68	622.80	40.08	92.40	58.15	337.50	21.72	26.50	16.68																				
1988	2,059.90	187.20	9.09	859.60	41.73	83.10	44.39	644.50	31.29	100.40	53.63	333.00	16.17	31.70	16.93																				
1989	2,259.80	223.20	9.88	990.50	43.83	100.10	44.85	692.00	30.62	108.70	48.70	315.50	13.96	35.40	15.86																				
				Managed retail estate				**Beer and other drinks**								**Pub and partnership**																**Discontinued business**			
1990	2,248.20	291.50	12.97	1,238.40	55.08	130.60	44.80	856.50	38.10	66.40	22.78					273.60	12.17	65.70	22.54													62.80	2.79	2.80	0.96
1991	2,191.20	118.60	5.41	1,377.70	62.87	119.90	101.10	887.60	40.51	67.20	56.66					241.30	11.01	63.90	53.88													32.50	1.48	-4.90	-4.13
				Inns																				**Restaurant and Leisure**											
1992	2,346.40	177.00	7.54	509.50	21.71	86.80	49.04	896.40	38.20	70.40	39.77					200.10	8.53	57.10	32.26					1,050.80	44.78	48.90	27.63					27.60	1.18	-3.20	-1.81
								Beer																											
1993	2,360.40	234.00	9.91	538.30	22.81	102.60	43.85	858.50	36.37	37.40	15.98					174.80	7.41	56.70	24.23					1,087.80	46.09	58.60	25.04								
1994	2,471.80	275.40	11.14	586.20	23.72	114.00	41.39	882.60	35.71	40.40	14.67					166.50	6.74	58.10	21.10					1,133.40	45.85	66.00	23.97								
1995	2,749.90	285.70	10.39	660.50	24.02	128.90	45.12	943.90	34.32	44.90	15.72					167.50	6.09	59.20	20.72					1,290.60	46.93	88.30	30.91								
												Other drinks								**Hotel**								**Sports, health & fitness**							
1996	3,027.20	302.80	10.00	729.90	24.11	149.50	49.37	998.60	32.99	39.80	13.14	640.10	21.14	19.50	6.44	160.20	5.29	61.20	20.21	191.70	6.33	34.10	11.26	573.00	18.93	58.20	19.22	47.00	1.55	15.40	5.09				
								Beer								**Pub partnership**								**Restaurant**											
1997	3,313.30	380.90	11.50	806.80	24.35	171.90	45.13	995.90	30.06	44.60	11.71	632.20	19.08	25.20	6.62	154.80	4.67	61.30	16.09	195.40	5.90	36.70	9.64	731.30	22.07	69.80	18.33	62.60	1.89	19.00	4.99				
1998	3,398.90	353.00	10.39	819.10	24.10	161.90	45.86	1,053.50	31.00	51.60	14.62	647.70	19.06	18.60	5.27	144.80	4.26	54.30	15.38	222.80	6.56	44.00	12.46	692.80	20.38	55.40	15.69	78.00	2.29	17.50	4.96				
				Pubs & Bars																												**Awaiting disposal**			
1999	3,738.90	256.00	6.85	668.50	17.88	173.30	67.70	1,116.00	29.85	46.50	18.16	656.70	17.56	14.40	5.63					287.50	7.69	54.60	21.33	1,071.60	28.66	121.10	47.30	103.60	2.77	22.70	8.87	10.80	0.29	1.30	0.51
								Beer and other drinks																											
2000	3,095.20	291.90	9.43	677.70	21.90	177.00	60.64	683.80	22.09	25.90	8.87									560.80	18.12	135.00	46.25	1,009.70	32.62	77.90	26.69	138.70	6.39	28.10	9.63	16.30	0.53	1.70	0.58
2001	2,171.60	7.00	0.32	125.90	5.80	30.50	435.71	78.30	3.61	15.80	225.71									581.80	26.79	131.80	1,882.86	1,074.40	49.48	86.50	1,235.71	165.60	8.43	34.40	491.43				
2002	1,965.10	202.40	10.30					65.90	3.35	16.60	8.20									596.20	30.34	138.30	68.33	1,024.20	52.12	98.70	48.76	183.00	9.25	43.30	21.39				
2003	1,977.40	211.70	10.71					10.10	0.51	21.50	10.16									620.70	31.39	137.50	64.95	1,043.70	52.78	112.60	53.19	201.80	10.21	47.40	22.39				
												Soft Drinks																							
2004	1,450.50	143.20	9.87											17.40	12.15					711.80	49.07	168.10	117.39	1,073.00	73.97	113.50	79.26	218.50	15.06	49.60	34.64				

Source: Whitbread annual reports 1979 - 2005

(1) Profit as percentage of Total Sales
(2) Divisional sales as percentage of Total Sales
(3) Divisional profit as percentage of Total Profit

Appendix O: Notes

1998 / 1999: Cost incurred included those for integrating Swallow Group plc; abortive costs for the lapsed Allied Domecq Retailing offer; rationalising cost from the sales of two breweries and a regional distribution depot, and a customer service centre.

2001: Low profit was due to fundamental re-organisational cost: de-merger of the acquisitions of the Pelican and BrightReasons businesses; re-structuring costs related to the planned disposal of the Pelican High Street Restaurants businesses. Re-organisational cost also incurred by the de-merger of Pubs and Bars; principally from advisers' fees and legal costs relating to the discontinued businesses.

Appendix P: Research related-activities and learning outcome

Activities	Learning Outcome
Sep 2003 – Nov 2006 Attended research student training courses offered by Brookes Graduate Office: Library training, Literature and Database search; PhD Oral examinations; Tackling the writing up stage of PhD; etc.	The training events conducted by the university were useful. These sessions provided the basic, but essential, knowledge to enhance my skills.
Sep 2003 – Nov 2006 Attended research seminars and public lectures within OBU and at other universities	Irrespective of the direct relevance of the topics to this thesis, attending these seminars and lectures gave me a more well-rounded perspective from academics and practitioners from other disciplines. Moreover, they are a quick way to stay in touch with topical areas and current developments in the world, instead of being confined only to the research question and area of the thesis.
Dec 2003 – Jan 2004 Attended Graduate Students' Research Conference in Hospitality and Tourism, Houston, USA	The purpose of attending the Graduate Students Research Conference in Hospitality and Tourism, USA, was a first step to 'initiating' myself into the academic world. Moreover it was useful, to find out what conferences are about, to see what other students are researching in the hospitality and tourism industry and to network.
March 2004 Visits to Hotel and Catering International Management Association	To find out what kind of information they hold and to collect data related to the hotel industry and hotel companies I am researching.
Jun 2004 Attended Business History Conference (BHC) Attend Association of Business History (ABH) conference	The purpose of attending the BHC and ABH business history conferences was to find out what other researchers are researching on, to learn presentation skills, to network and to prepare myself mentally for a conference paper presentation at the European Business History Association conference. The experience and insights gained from these conferences were extremely useful and satisfactory.
Jan – Sep 2004 Wrote and presented a conference paper at European Business History Association (EBHA) conference	The main aim of writing a conference paper was to measure my achievement at the end of my first year. The other reasons were to set a deadline towards which to motivate myself, to find a focus for my research and to get feedback from other academics. Feedback and questions posted to me during Question & Answer time: Feedback: the overall feedback was positive and the point that made the most impact was the suggestion to look at the political area in relation to my area of research. This remark

	coincided with my second supervisor who had suggested to me to look at the historical context when she read my paper. Other questions: Why was Bass selling its brewing business? Will you be looking into branding and how they market their products?
Oct – Nov 2004 Visits to City Business Library	At the London City Library in October and November 2004, I went through the Stock Exchange Yearbooks 1979-2004 to look for information about the four hotel companies, hoping to get to know these companies better. However, the most useful information would have been the way the companies financed their businesses, their five years financial data, and the list of subsidiaries.
Feb – Mar 2005 Assisted with two research projects, involving interviews and focus group	The first project provided practical experience of interviewing and transcribing, which were valuable in helping me to prepare for my own research later. Assisted with recording and observation of four focus group discussions for an employability project. This project provided me with practical experience in terms of facilitating focus group discussion.
Oct 2004 – Jun 2005 Collected data and wrote four cases and a literature review	Data collection process was particularly challenging because of the wide variety and amount of secondary data available. Other than information gained to answer the research question, transferable skills such as analytical thinking and information selection were also acquired.
Jun 2005 Presented a work-in-progress paper at Brookes Business School Research Conference	Questions during question & answer time: What is your theoretical framework? Have you thought of the economy during this period? What about divestment? These are questions that I might not have given much thought on my own. However, these questions provoked some thoughts and helped me to sit down and think more deeply about them in relation to my area of research.
Sep 2004 Attended EBHA research summer school Attended Brookes Business School Research Methods summer school	To acquire knowledge of research methods for business history in specific. One of the important outcomes was to get the assurance that the secondary data that I was using, rather than the traditional archival research, is still as valid for the business history research. Secondly, several provoking questions and suggestions posted helped to tighten my thoughts and focus: 'Have you thought of your audience, if your topic and discussion will intrigue your reader?' 'Maybe you can try to buy 1% of each company's share, and they will send you the company information'. 'You can put your deals in a timeline and connect the events that took place during this period'. Brookes research summer school took the role of a reminder and refresher course for research methods learning. Several students' presentations and discussions helped me to understand several 'technical' terms in research methods, and how to defend my work by observing how others do so.

Sep 2005 Attended British Academy of Management (BAM) PhD student Symposium Attend BAM conference	The purpose of attending BAM conference was to gain more knowledge in the area of business management and interdisciplinary studies. More importantly, this was the first year that BAM incorporated Management and Business History as a Special Interest Group. It was also valuable to network with graduates and academics from other universities.
Dec 2005 Visited the New York Public Library	To find out what kind of information hold in relation to the hotel industry and UK hotel companies. Also, to collect news concerning the four hotel companies in particular and the UK hotel industry in general from US newspapers. It was found that news items available for the four hotel companies were fewer than those found in the UK, which is not surprising, in view of the fact that this study concerns UK companies. On the other hand, newspapers, such as the Wall Street Journal, in electronic format, are available in Proquest from 1984 as compared to The Financial Times, which is made available from the mid-1990s.
Sep 2006 Attend British Academy of Management (BAM) PhD student Symposium Attend BAM conference	The BAM PhD Symposium provided me with continuous training in the area of research, in addition to what OBU provide. The purpose of attending the BAM conference again is to update information on current business and management research, and gain more knowledge in the area of business history, management and interdisciplinary studies.

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