

1 . 0 & C o m p a n y

Case Study: InterContinental Hotels

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“Our first priority is focusing on driving returns and improving the overall operational performance of this business. We have already taken action to realign the organization, make the business more efficient and ensure the right people are in the right roles. We have plans for taking costs out of the business and making our assets work harder. All of this goes hand in hand with changing our culture to reflect that we are a new business, focused wholly on hotels and service.

“We are in a difficult and uncertain economic environment, much of which we can't control. But we also have a number of exciting opportunities that we can control and I'm confident that, with our people and our plans, we can improve and grow this business without depending on an economic recovery.” – Richard North, Chief Executive, InterContinental Hotels

Summary

In early 2003, InterContinental Hotels was faced with several challenging issues. The company was being divested from its parent company and was under threat of a hostile takeover. Profits were down by thirty percent, costs were out of line, the stock was losing money and the company was suffering financially. Shareholders and financial analysis were very critical of the company's performance. A bureaucratic culture stifled innovation and in the face of the aftermath of 9/11 economic downturn there were serious questions as to whether the company could stand on its own.

Realizing the dire situation the company was in, Richard North, Chief Executive of InterContinental Hotels, initiated a plan to overhaul the company through the leadership and direction provided by 1.0 & Company—a management consulting firm. The program directed by 1.0 was/is based on “results-based-leadership” to initiate change. A massive overhaul of the global organization began with senior management redefining and aligning itself with a new strategy and integrated top-line structure. Units within the organization redesigned all of their major functions in alliance with the new strategy while taking great measures to reduce or eliminate costs that did not support the new strategy. Training was provided for all employees on planning, implementing, and building on change.

The result of the results-based-leadership program directed by 1.0 is a strategically refocused company that has survived and is now thriving. The company successfully defeated the de-merger and hostile takeover. Employee's roles, responsibilities are better defined and decision-making processes are now streamlined rather than being ambiguous. Company culture has changed and is now energized by significant improvements in the work environment and newly inspired leaders. The company has improved its financial situation as costs are down by thirty percent while the stock price

has nearly doubled. Shareholders and analysts are now bullish on InterContinental Hotels.

Who is 1.0 & Company anyway? Why were they selected?

After consider all options available, CEO North settled on a direction. The company had neither the time nor inclination to “chip away” at individual symptoms of InterContinental’s problems. The central problem was lack of strategic clarity and efficient operational alignment with the strategy on a global basis.

Several large management consulting firms were invited to present proposals to assist in the turnaround, but it soon became clear that those firms had predetermined solutions (cookie-cutter solutions), which would simply be imposed on the company. Instead, the company identified a consulting consortium whose approach would enable the company to devise and apply its own self-prescribed solution. The consultant’s expertise was channeled into a custom-designed series of facilitations that allowed the company to understand and resolve its own issues. The practice effectively linked technical/financial/process issues with cultural/employee engagement/morale issues.

Who is 1.0? 1.0 & Company is a management consulting firm who help clients develop innovative growth strategies to meet aggressive financial objectives. The company offers an integrated set of capabilities to address the areas of business strategy and organization design, mergers, acquisitions and alliances, and new product strategies. The company has a highly specialized research facility.

1.0’s consultants work together with client teams to find the most relevant facts and realistic opportunities. Then, works with companies to turn ideas into measurable, financial results. 1.0’s unique approach and strategy process enables companies of all sizes to invest in the most viable growth opportunities and mitigate business risks early on the process.

This is exactly what 1.0 did for InterContinental Hotels.

Situation

The Problem

Threatened Identity – A de-merger from its parent company left the potential for a hostile takeover. The company was not prepared to stand on its own as a public entity. Strategic direction was unclear and widely questioned by employees, shareholders and industry analysts. New management had not yet jelled into a true team.

Deteriorating Finances – The global business environment was turbulent. The aftermath of the 9-11 terrorist attack on the United States left the travel industry in shambles. Margins were down by thirty percent and the company’s return on its capital was insufficient. Overhead costs were comparatively out of line due to inefficient processes, lack of communication and poor execution throughout the company. The company’s stock was substantially depressed.

Dissipative Company Culture – As described by the new CEO, Richard North, “clogged arteries, bloated bureaucracy and broken processes everywhere” existed in the company. There was complete lack of vision, direction and communication throughout the company. “The company was drifting and deteriorating in a downward spiral that threatened its very survival.

Solution

After considering many proposals from several management consulting firms, the Intercontinental Hotels Group selected 1.0 to help them set a new course of redefining the global organization and its way of doing business. The company identified four key areas of focus:

| Strategies & Tactics | |
|------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------|
| Tactic | Strategy / Outcome |
| Redesigning the Organization | Align the company behind communicated strategic priorities in order to speed up decision making |
| Overhaul the Management Team | Ensure the right people are in the right positions at a strategic level—drive this practice downward throughout the entire organization |
| Reduce Costs | Through process reengineering and the implementation of better communication and defined roles eliminate unnecessary work while streamlining processes |
| Optimize Capital | Undertake a rigorous evaluation at the very hotel level to determine appropriate levels of ownership and capital expenditures |

In additions the identifying tactics and strategies for redefining the global organization, 1.0 recommended a four-phased execution strategy to that would result in changing the way the company was doing business.

- Senior management aligned itself around a re-defined strategy and an integrated, top-line structure
- Business units re-designed all of their major functions and processes in alignment with the new strategy

- Teams identified and reduced or eliminated any costs that did not support the strategy
- Workshops for ALL employees focused on planning, implementing, and building on change

1.0's Four Phased Approach

Scope

The undertaking was massive. InterContinental Hotels operates in three global regions, 122 countries and serves its markets with five core brands. Operationally, the company either wholly owns its businesses, leases or franchises. The turnaround addressed numerous deficiencies including lack of clear strategy, poor execution, operational deficiency, organization integration, financial performance, poor employee morale, shareholder and analyst disapproval.

The Practice and Methodology – “Rebuild Our Brand”

There was no one single area that needed to be addressed. An overhaul of the company was needed. To accomplish this, 1.0 recommended an integrated, multi-phased process of strategy clarifications, structural and economic realignment and cultural transformation driven by the overarching theme of “Rebuild Our Brand”. A four-phased methodology described below was developed, approved and set in motion.

Phase I – Strategy Clarification & Top-Level Global Structure

A full-time Design Team of 15 senior executives consisting of senior Vice Presidents, Vice Presidents and Directors representing all global functions in conjunctions with a part-time team consisting of 10 Senior Executives. These two teams collaborated over a sixty-day period to along with 1.0 to define a new corporate strategy and organization structure needed to address the issues outlined above.

Phase II – Regional & Global Support Realignment

Based on the recommendations from Phase I, a redesign and realignment of three regional operations and five global business units was completed. This involved the Design team, senior executives and 100 full-time employees to complete.

Phase III – Implementation and Transformation

Implementation and transformation included several tactical sub-phases including:

- Review and report on monthly progress from all eight teams on a global basis

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- Conducted an in-depth implementation assessment by conducting a global employee survey, audit of team recommendations and employee focus groups to ensure that the strategy and recommendations were producing positive change results
- Sponsored a Leadership Conference for the top 100 leaders in the organization to celebrate progress made and to solidify the foundation for Phase IV strategies and tactics—to ensure that proper monitoring was taking place and that the organization had the right tools and practices in place to achieve continuous improvement for the two-year period expected to achieve Phase III
- Extend the strategy, practice and progress into other operational areas including partly owned franchises, the supply-chain and service organizations to further reduce costs by an additional 15%

Phase IV – Monitoring & Continuous Improvement

Through monthly meetings, progress was monitored and the practice tweaked so that the company could fine-tune improvement down to the slightest of details.

With the Build Our Brand mantra in place workgroups accomplished a highly structured and facilitated alignment process to reshape the organization and its processes. Everything was done in the name of brand building which meant motivating and organizing work in terms of customer needs and perceptions. The customer focus enabled the company to build, shed or adapt processes and practices that didn't serve the customer and build the brand. Action learning teams were put into place and assigned to ring costs out of business necessity by outsourcing, consolidating or streamlining processes. New processes were either designed or acquired where capability gaps existed. Based on the new process design, detailed organizational roles and responsibilities were finalized and resourcing decisions made. A balanced scorecard was designed to measure desired results and to align leadership competencies needed to generate desired results. To augment the entire process and help support the cultural transformation, a series of Leader and Associate Workshops were created and rolled out on a worldwide basis. These workshops assisted employees in understanding, implementing and supporting the massive effort to which they were involved. From the CEO down to the lowest level employee, each understood the undertaking and to each was defined his/her role in the transformation.

Results

The turnaround of InterContinental hotels has been phenomenal. Key results highlights are outlined below:

- Strategically refocused company
- New global organization, aligned and streamlined
- Defeated a hostile takeover
- Successful de-merger
- Resized company and cost structure (30% reduction),
- Streamlined role clarity and decision making processes

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- Newly energized culture
- Significant improvement in work environment and confidence in leaders
- Share price turnaround by +20%,
- Won over the investment analysts – now with bullish recommendations

Specific progress against key transition measures and milestones include the following:

Financial

- Identified well over \$100 million in annual savings. Already, more than half has actually been taken out of the system—a long-term improvement that directly contributes to the practice's ultimate objective
- Identified multiple balance sheet restructuring opportunities, representing more a significant portion of the company's asset base. This also represents major long-term improvement
- Overhead cost reduction commitments for current year and 2004 – ahead of schedule as reported in the latest interim financial results
- Recommended position reductions or changes, 700 out of 800 positions notified of redundancy and in process of leaving
- Implementation costs for both current year and forecast 2004 implementation costs, are coming in lower than targeted.
- Changes in stock price and investment analysts recommendations and relationships – stock price up +20 % since demerger date, analyst views transformed from critical / frustrated to complimentary and bullish about prospects

Organizational

- Completion of macro design recommendations – business alignment teams to complete required cross-structure linkages, work and decision processes, and service level agreements / metrics where required – targeted macro designs are 95% complete.
- Completion of sub-team micro design (all teams to meet and address the eight-step methodology within their work units) – transition managers report over 80% completion within the units, targeted to be 100% complete by November.
- Change management workshops – all employee teams required to attend two change management workshops – By end of September 100% of teams will have attended the requisite workshops

To get a feel for employee perceptions of the new direction, a 5,000 mile checkup was recommended six months into the changeover. Employee surveys and focus groups have been conducted. Below are samples of the positive groundswell among the employee rank and file regarding their confidence in the future.

Evidence from surveys, focus groups and anecdotal observation indicates that the CEO and his team:

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- Communicate more frequently about the company's vision, direction, and why change was needed.
- Demonstrate their commitment to change as the key to regaining a premier position in the industry.
- Are more open to listening and taking action on the basis of what others say.
- Keep others more regularly and more substantively informed of the company's progress
- Delegate decisions to lower levels more frequently—a visible evidence of trust that has led to a less bureaucratic, more efficient organization

Among employees globally, there is strong evidence that behaviors have changed in support of the "new way of working" initiated by the practice. Hundreds of jobs have been redefined, and new working relationships have been established through a thorough review of operational processes. In response to the early-read pilot survey, employees are reporting significant improvement over past year.

- 4.81 (on a five-point scale) agreeing with the statement "I am personally committed" to change and greater confidence in senior leadership.
- 4.58 on the item, "I understand the company's vision & direction"
- 4.56 on the question eliciting their "level of excitement" about the company's new direction
- 4.75 on the item asking them to assess their level of confidence in the company's ability to be "more competitive in the marketplace" as a result of their changes
- 4.5 on the item "I am confident in our work team's ability to successfully achieve our implementation targets."

Further, many employee comments about the practice support both the direction and the changes needed to achieve it. Typical of these are:

- "[There is] total commitment—everyone is working together." (Previously, there was much turf-fighting and lack of collaboration.)
- "The team is focused on one goal in unity." (Previously, there was no shared purpose or common goal.)
- "[We have a] very clear target." (Previously, measurement systems were ambiguous or out of alignment with what was expected.)
- "There is good communication at all levels." (Previously, there wasn't.)
- "What's most impressive is that employees kept their eye on the ball in the midst of all these changes. We could have gone south at any time, but we didn't. We actually come out a much stronger organization."

In response to the magnitude of this accomplishment, the CEO has said, "The depth of effort and commitment shown in recent months absolutely saved this company. I don't think any of us imagined how magnificent our people could be under pressure."

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Another Senior Executive commented, "This process has given us a new confidence in the capability of our people to accomplish the impossible."