



MICHAEL BEER

JAMES WEBER

Whitbread PLC (A)

In mid-2004, Chief Executive David Thomas was nearing retirement after leading a fundamental transformation of Whitbread PLC. Between its founding over two centuries ago and the early 1990s, Whitbread's main business had been beer: brewing and pubs. International competition and government imposed regulatory requirements, however, had increasingly made the industry less attractive for large British brewers such as Whitbread.

Thomas, more than any other Whitbread executive, could be credited with transforming Whitbread from a beer company to the leading leisure company in the United Kingdom with a number of attractive brands. The journey started with small steps to develop new businesses in the 1970s and 1980s. Thomas' recognition that the industry was evolving caused the pace of change at Whitbread to pick up in the 1990s and into 2004. He sold off the brewing and pub businesses while acquiring and growing several hotel, restaurant, and health club brands. Thomas also took steps to change Whitbread from an operations led company to a marketing and brand led company.

Recognizing that the new Whitbread strategy would require a transformation in the culture, behavior and leadership style of the company, Thomas began a process of organizational change in 2002. Inspired by the book *Good to Great*, the process began with the articulation of a new vision and was followed with the implementation the Strategic Fitness Process (SFP); a strategic leadership and learning process. Thomas believed SFP would help him engage key managers across the firm in an honest and necessarily painful dialogue about Whitbread's organizational and leadership effectiveness. Thomas launched this corporate change process because he wanted to leave a strong and effective organization upon his retirement in 2004. A business transformation of the magnitude Thomas undertook does not occur easily or smoothly. Thomas had received some heavy criticism along the way from both the investment community and his own employees; their primary concerns being an apparent lack of clarity in the strategic direction and questions about his leadership of the company. But as his departure date neared, these criticisms had diminished as Whitbread held some of the leading brands in their market segments, and was in the midst of a three year run of growing profits. (See Exhibits 1, 2 and 3 for financial and stock price data.)

Professor Michael Beer and Senior Researcher James Weber prepared this case. HBS cases are developed solely as the basis for class discussion. Certain details have been disguised. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

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Company History

Samuel Whitbread founded the company that bore his name in 1742 and by 1800 Whitbread was perhaps the largest brewer in Britain. Whitbread became a national brand in the 1860s when it began bottling beer and in the 1880s it began acquiring pubs. Growth continued through the mid-1900s through the acquisition of other brewers and their pubs. In the 1970's, Thomas' predecessors realized that demographic shifts meant there would be fewer young men in the coming decades while economic trends would reduce the number of blue collar jobs. Such changes would reduce the attractiveness of the beer industry and led Whitbread to explore opportunities in restaurant and hotel businesses. These new opportunities, however, were dwarfed by the brewing and pub businesses and the company's culture and systems were largely developed by and for the brewing business.

For most of its history, Whitbread was a vertically integrated brewer – it brewed beer, owned the trucks that distributed the beer, and owned many of the pubs that sold it. In 1992, anti-monopoly regulations known as the Beer Orders limited the number of pubs integrated brewers could own. Thomas recalled, "From a strategic point of view, what the Beer Orders meant was we lost the scale economies, we lost the expansion opportunity, and we were going to see increased competition. It was two years of management distraction."

Following the Beer Orders, Whitbread's board decided it needed to establish a third leg, besides beer and pubs, that would provide an expansion opportunity. It appointed Thomas to head a new leisure division charged with expanding the company's existing restaurant, hotel, and leisure activities. During the mid-1990s, Thomas made several key acquisitions. These included the rights to operate under the Marriott hotel brand in the U.K., and the leading health and fitness club chain; David Lloyd Leisure. Whitbread also developed its own brand of budget hotels, Travel Inn, and acquired or developed several restaurant brands. In June 1997, Thomas was named chief executive of Whitbread, partly as a result of the success of the division.

In mid 1999, Whitbread tried to acquire a large number of pubs and other assets from Allied Domecq for over £2 billion. To many observers, this move appeared to be a strategic contradiction given Whitbread's ambition to become a leisure company. One executive called it a "massive deal" for Whitbread; however, the deal fell apart when it was referred to the government's Competition Commission. The failure to complete the Allied deal caused Whitbread significant external and internal stress. Externally, Whitbread lost credibility with the investment community because the potential deal was seen as yet another example of Whitbread being willing to overpay for an acquisition. As a result, the stock price fell from £11 to £4 over the next six months and Whitbread, which had been ranked in the middle of the FTSE 100, fell out of the ranking. Internally, there were strong emotions about Whitbread's declining performance and reputation, and internal confusion over the strategy. One manager recalled, "This was a period of firefighting, with a short-term focus. We followed a protection strategy to avoid being sold or broken up." Adding to this stress, in January 2000 Whitbread moved its headquarters from its Chiswell Street brewery, where it had been since 1750, to a nearby modern skyscraper.

As Whitbread's retail interests expanded, the beer business became less relevant and it was sold in May 2000. Thomas recognized that selling the beer business was a significant and sensitive break with the past. He recalled:

After the Allied deal came apart, I went off and buried my head for a couple of weeks for a strategic rethink. I decided that after 250 years we had to get out of the beer business (brewing, drinks stores (off-license or package stores), and pubs). One complication was that I could not tell anyone. I could not tell the 30,000 people working in our pubs that they were next.

During that whole 18-month period (November 1999 to May 2001) it was like we were in a tunnel. I did not know whether that tunnel would collapse before we got to the end of it, or whether the light at the end was a train coming our way. Perhaps the most damaging to the people who worked in Whitbread was the press's view, and the market's view, of the company during this period. It was one of no strategy and no leadership.

A senior manager in one of the businesses saw a similar picture:

The failure to acquire Allied knocked our confidence and we appeared to do a lot of U-turns on our strategy. The biggest bashing we got in the press was one minute we were trying to expand our pub business and the next minute we were selling all our pubs. There were questions around whether we knew what we were doing. The executive committee did not explain this or when they did explain it was all puff and gloss.

By 2004, Whitbread was a multi-brand, multi-divisional organization focused in the leisure industry – hotels, restaurants, and health and fitness clubs. Approximately 96% of its £2 billion in revenues were earned in the United Kingdom. The company's approximately 360 hotels with 27,000 rooms, 1,500 food outlets, 56 fitness clubs, and 52,000 employees made it a leader in its industry.

Organization, Management and Culture

A legacy of its past, Whitbread maintained a large headquarters staff. Corporate staff groups directed and coordinated cross-business initiatives aimed at making Whitbread a whole greater than its parts. In these efforts they had to contend with powerful business unit (divisions) managing directors who were referred to as "barons" and tried to limit outside interference in divisional activities. Each division had its own functional departments. The heads of these functional departments reported primarily to the managing director but were also accountable to the functional head at corporate headquarters. Despite this reporting relationship and the efforts of corporate staff to integrate the functional activities of the divisions through initiatives and corporate-wide meetings, most key executives identified with their business unit more than the company. Some of the divisions contained more than one brand and the same issues existed between them and their brands. In the 1990s Whitbread struggled with the tension between the need for different brands to have their own unique brand identity and the fact that these brands were part of one financial entity; Whitbread. Increasingly concerned about the fact that financial markets placed a conglomerate discount on their stock, the company hired consultants to help them sort out how it might manage the relationships between the brands and corporate headquarters so that the value of the whole was more than the sum of the parts.

Aware that a large corporate staff was both costly and a bureaucratic drag, Thomas significantly reduced the size of Whitbread's headquarters organization in 1999 and 2000 from several hundred people to approximately 40. At the same time, he attempted to clarify the roles and responsibilities of the remaining corporate staff and their relationship to the divisions, though the new responsibilities of corporate staff remained unclear according to many. The reorganization meant increased autonomy for the divisions and reduced control from the center.

The corporate "Group Executive" team consisted of Thomas, the managing directors of the divisions, and the corporate functional heads. Thomas was seen as collaborative, approachable, a consensus manager and nice to work with and for. Thomas was a hard person not to like, explained one manager. He was also perceived as one not to confront his executives or push them to make needed changes. When deliberating an issue, Thomas felt it important to include all views; to a fault according to some.

The managing directors worked out of separate divisional headquarters offices. Thomas and his chief financial officer worked individually with each managing director in setting business goals and reviewing performance. The group executive team met once each month. Each executive reported on activities within his or her function or division, but they rarely worked on strategic issues as a team. As one divisional managing director stated, "I would not want to be dabbling in the affairs of another division."

Whitbread was described by its managers as having a "nice" culture, one in which business or people issues generally were not confronted. As a result, managers thought that the company was not particularly tough about performance and people were typically not confronted or fired for poor performance.

Below the executive group level, functional managers from the divisions and brands also came to corporate headquarters on a regular basis for meetings and reporting activities. Most of these managers belonged to a loosely defined "leadership group." This leadership group, which consisted of approximately 150 managers before the divestiture of the brewing and pubs businesses to less than 40 managers afterwards, was used primarily as a communications body for corporate executives to speak to the organization. Despite the cross-business nature of many of the managing activities of the company, few individuals ever left one division or brand to take a position in another. Further, most managers at the company, and nearly everyone working within a retail unit, considered themselves loyal first to the brand in which they worked.

Whitbread was foremost a financially driven company. When corporate executives conducted reviews of the divisions and their brands, financial and profit targets were the key measures. Managing directors managed their brands in the same manner. The only exception to this was the introduction of a balanced score card in two of Whitbread's businesses; Marriott and Pizza Hut. Though these were major departures, customer and employee outcomes still took a back seat to financial outcomes. One of Whitbread's core competences was operations; managing efficient retail units and growing them organically.

Future Whitbread

In October 2000, Thomas announced the strategy that he had developed during the strategic rethink that followed the collapse of the Allied Domecq deal. Called Future Whitbread, the strategy was to concentrate on lodging, eating out, and active leisure; areas of the business that were profitable and could be grown. Thomas recalled that his confidence in the strategy came from independent forecasts that projected growth rates for each of over of 30% between 2001 and 2006.

Focusing on the Future Whitbread segments meant getting out of businesses that did not fit. That same month Whitbread sold its stake in drinks stores for £225 million and in March 2001 sold its 3,000 pubs for £1.625 billion. (The majority of Whitbread pubs were unbranded – not part of a chain.) Whitbread returned £1.1 billion as a cash dividend to shareholders.

The businesses that Whitbread sold – brewing, off-license, and pubs – represented about half the company and half the workforce. Losing nearly 60,000 people, including many of the longest tenured staff, fundamentally changed the makeup of the company and cut its ties with the past. Even businesses within the core that were not growing were at risk. In late 2000, Whitbread announced it was selling over 140 poorly performing restaurants; approximately 10% of its total sites.

Financial Performance and Investor Confidence

To restore investor confidence, and clarify the company's goals and strategy, Thomas and Whitbread's Board of Directors formulated and announced a new direction. Whitbread's new chairman, Sir John Banham, who took over in June 2000, announced that Whitbread would not be pursuing any major acquisitions. Banham noted that Whitbread had a history of overpaying for its acquisitions. Thomas announced a new set of financial goals for Whitbread. In the future the company would achieve 5% like-for-like sales growth, 10% earnings growth, and 1% improvement in return on capital annually by growing its existing businesses organically. He told key executives that each brand would now be responsible for meeting them. Thomas also noted that Whitbread had a tendency to talk about the good and avoid talking about the bad with the investment community. Consequently, he committed himself to increasing the transparency of the company to financial markets with regard to the performance and returns of each brand. Thomas explained that to deliver on these aggressive new targets would require more than him standing up and announcing them:

Changing the company's portfolio was only a base point. I understood that I also had to change the behavior of the company because the company depended on having the right people with the right attitudes. If we carried on behaving as we had done previously, then we would not have realized the objectives that we set out. The behaviors were firstly, a real understanding that this company was being run for the benefit of shareholders and not for the indulgences of management. Second, that we were a brand management company. We had previously been an operations led company. Thirdly, if the leadership in the businesses was not the best in the industry then we were not going to have best in industry performance.

This helped create a sea change in management attitude in the businesses. Previously, presenting results was something that two or three people in corporate did. Corporate got all the heat and for the businesses it was just not that important of an event. Now they and their brands are individually exposed. When something is not doing well, they know they will have to answer because the market does not want to hear about a problem, it wants to hear why there is a problem and what you are going to do about it. The leaders in our businesses began to realize that if they did not get it right then they were not going to be a part of the business.

Good to Great

Having transformed Whitbread's corporate strategy by changing its portfolio of businesses Thomas set about transforming the organization in 2001 and 2002. He wanted to leave Whitbread in good condition financially and culturally when he retired in mid-2004. He needed a new vision for the company because he felt that since the collapse of the Allied deal, Whitbread had concentrated on getting "out of the tunnel" without being broken up as a company. Future Whitbread and the performance targets that he set addressed the financial question, but he needed something more.

In mid-2002, Thomas initiated a series of workshops with his executive team to work on developing the company's vision and values. Alan Parker, the managing director of the hotel group, suggested that they use the model described by the author Jim Collins in his book, "Good to Great." (Jim Collins, "Good to Great: Why Some Companies Make the Leap... and Others Don't," HarperCollins Publishers, New York, 2001.) The executive group then decided to include the top 40 managers at Whitbread, known as the leadership team, in their deliberations. This larger group held a two-day meeting to describe the core purpose of the organization, what they were passionate about, their values, the driver of its economic engine, and how they would measure success.

At the end of that meeting, Parker expressed support for the ideas being generated, but thought that senior management needed to find out what people throughout the organization were thinking and whether there were any barriers in the organization that might prevent the company from implementing the new direction. Having spoken previously with Thomas, Parker suggested to the group that they use the Strategic Fitness Process (SFP) that he had used twice before in the hotel group with great success.

Thomas' team did not immediately embrace Parker's recommendation. Parker recalled, "The politics in the company was that we were a pretty silo driven organization and because we were silo driven I think there was some reluctance to hear the unvarnished truth." Others wondered whether there were not more important things to be working on. After some discussion Thomas decided to go forward with the SFP. This required considerable courage since Thomas knew that SFP would uncover a number of organizational problems his team did not want to confront and that the process would undoubtedly raise questions about his own leadership.

The Strategic Fitness Process

The Strategic Fitness Process is a guided strategic leadership process by which senior teams develop consensus on their firm's strategic and organizational direction; get feedback from all parts of the organization in a safe and effective manner on the quality of the strategic direction as well as the organization's capacity to implement it; and based on the feedback change the organization to enable effective implementation.¹ This is done through a series of carefully designed meetings between the senior team and a Fitness Task Force of eight high-potential managers selected by the senior team. Task force members interview 100 key executives about the organization's effectiveness. (See **Exhibits 4** and **5** for additional details on the SFP process.) Consultants facilitated SFP at Whitbread.

At the heart of the SFP process were four ideas. First, organizations were complex social systems that cannot be changed by "technical" initiatives from the top. To improve effectiveness, leadership teams had to define crisply their business strategy and the values by which they wanted to run the organization. They then had to understand how attitudes and behaviors in the organization were affecting performance as well as how their own leadership and policies were affecting these attitudes and behaviors. Second, to achieve that understanding, leadership teams needed honest feedback, or "the unvarnished truth," from people across the organization about the senior management's strategic intent, their values, and the effectiveness of the organization and their leadership of it. This not only enabled the senior team to conduct a diagnosis, but it created dissatisfaction with the status quo and an urgency to change. Third, because fundamental change inevitably involved change in policies and behavior at the top, senior teams had to be directly involved in analyzing the system and changing it. Fourth, to ensure sustained high performance, the process of honest conversation about plans and needed improvements had to be continuous and had to occur at every level of the company; resulting in an increased sense of partnership with employees and an increase in their commitment to the mission of the firm.

Because strategic change requires senior management to reconsider their assumptions about strategy, values, and how to organize for success, SFP was designed to include a number of frameworks and heuristics that enabled senior teams to reframe how they thought about strategy, the best means to organize and manage the enterprise, and their own leadership behavior. SFP

¹ Two professors at the Harvard Business School developed the Strategic Fitness Process.

consultants presented senior teams with the appropriate framework to help them make choices. The consultants did not recommend a direction.

The SFP process specified a series of key meetings that brought the right people together to talk about the right things in the right way. Its specifications were based on years of experience and research. In initial discussions about SFP, Thomas chose to deviate from these specifications, despite concerns voiced by the consultants, because he was concerned about the time the leadership team was already spending in the Good to Great off-site workshops. The deviations consisted of eliminating a one-day meeting at which the senior team would craft their business and organizational intention (typically in a two page document), and shorting the three-day Strategic Fitness Meeting to two days, a meeting where the senior team would receive feedback from the task force, develop its own diagnoses of the organization, and plan changes.

Organizations had to learn and change continually. SFP was, therefore, a well-documented process so as to enable internal strategy and human resource professionals to implement the process in subsequent iterations with minimal external consulting support.

The Statement of Strategic and Organizational Intent

Thomas began the SFP process in June 2002 by crafting a two-page Statement of Strategic and Organizational Intent. Because Thomas had decided to eliminate the first day of the SFP process - a day intended for the group executives as a team to create a concise statement of strategic and organizational intent - the statement was drafted by one of the SFP consultants and Angie Risley, the company's human resources director. They based the statement on the output of the two-day leadership team work shop on Whitbread's vision, purpose and economic model, held as part of the Good to Great sessions. (The consultant had attended the meeting). The group executive team, in one to one meetings with Risley, subsequently vetted the statement. The statement described what the company was and where it was going. (See **Exhibit 6** for the Statement of Intent.)

One task force member described the statement:

Whitbread had found it easier to talk about what we were not than what we were - we were not a beer company anymore, we were not a pub company, we were not a conglomerate - but we did not hear what we were. The Statement of Intent looked like it was written by a committee after the Good to Great meeting. It was not the group executives as leaders of the business saying this is what we are going to be. It was more like they threw in whatever most people agreed with. The real positive though was the intent. At last we had got this group together and said we want to find out what Whitbread is.

The Fitness Task Force

The group executive team selected eight upper level managers, one to two levels below the group executive team, to serve on the Fitness Task Force. The task force members would each conduct 12 one-on-one interviews with key people and report back their findings to the executive group. The approximately 100 people interviewed represented a broad cross section of all businesses, functions, and management level. During the interviews, the task force members would ask each interview subject what they thought about the Statement of Intent and about organizational strengths and barriers that would prevent Whitbread from achieving it. Before starting, the task force met with Thomas who explained the Statement of Intent and answered their questions; were trained in how to conduct confidential interviews; selected the 100 key people across the company they thought should be interviewed; and interviewed each other for practice and to ensure that their own views would be

included in the overall report. From then on the task force would be researchers and act as reporters of overall themes emerging from the inquiry while keeping their own views out of the feedback. While the main source of data was the interviews, prospective interviewees were also sent a questionnaire in advance to obtain a quantitative assessment of their views as well.

One task force member described what it was like in the interviews:

No one refused to be interviewed and I really had to struggle to keep people to two hours per interview. Everyone was very passionate about Whitbread; there was a lot of emotional engagement. The word that struck me at the end of the interviews was disappointment. It felt like something that you loved was not working well as opposed to something that you did not like. There was negative feedback, but it was within the passion of people to really make this work. I came away thinking that if we can get this thing right there is a lot of energy that we can release.

Fitness Task Force Preparation for the Strategic Fitness Meeting

One day prior to the Strategic Fitness Meeting the task force met as a group with the SFP consultants to pool their data, and organize it into themes that occurred consistently across the majority of those interviewed. One task force member recalled:

The whole process was very cathartic and quite energizing. Most task force members knew at least a few of the other members and we came together and clicked into a sense of openness and trust. There was nothing held back when we were together as a group. We felt we had been handed an important responsibility and we wanted to do it justice. The process and the group seemed to be very good at encapsulating the essence of what we learned rather than getting caught up in any individual's hobbyhorse.

When we met to prepare (for the feedback session) we decided we would not hold anything back in our presentation to the executives, but also that it would not be a public appraisal of individuals. We would not feed back juicy quotes about people or issues unless it really added to the discussion. We did not, however, hold back the personal stuff on David (Thomas). People really like David. He is balanced and an easy person to like, but if you say Whitbread does not have a clear vision, that is personal to him.

The Strategic Fitness Process Meeting—Day 1

The SFP meeting started with ground rules intended to protect task force member's safety and avoid senior team defensiveness. For example, the perceptions of 100 key employees were fact. The senior team could not challenge the findings that were reported, though they could ask for clarification. Seated around a table facing each other with the senior team seated in an outer "U" (see the "fishbowl" arrangement in Exhibits 4 and 5), the task force members took turns each leading a discussion of a single theme. Other members chimed in on the theme with their own thoughts as appropriate. Though they were anxious about feeding back the truth about some long standing problems at Whitbread, task force members described the feedback session as very direct, professional and business like. It was not done in an emotional way. As one task force member stated, "We did feed back that people felt very strongly, both good and bad, but we did not show that emotion in the presentation."

Several executive group members recalled not being overly surprised at what they heard. Stewart Miller, managing director for David Lloyd Leisure, added:

At the time I do not recall thinking any of this was earth shattering, but what I did think it said was there was a great need to get on with the things we have to do. We were seen as a soft, slow moving organization and the task force wanted us to get on with some pace. They would like strong leadership and for us to be a bit bolder. I think what we heard also validated that it was right to [have arranged for the task force to] talk with the leadership group.

The feedback itself was given in a nice way (polite). I think we were expecting much worse. Outside of the meeting, however, our people were telling us individually, "don't think it is as gentle as it appears, people are really expecting much more from you."

The Feedback

The task force summarized the feedback into four main themes, plus a fifth that looked just at the Statement of Intent. The four themes were why Whitbread, brand management, culture, and leadership.

Why Whitbread The taskforce reported to the group executives that the people interviewed were concerned that the reason Whitbread existed was unclear. What value did the corporate grouping of these particular brands bring to those brands and would those brands be better off as independent companies? What was the role of the corporate center? There were structural concerns as well. Corporate conducted reviews of the divisions (primarily restaurants, but also hotels), and the divisions held reviews with the individual brands. There was confusion of the role of each, the measurements used, and the lack of consistency across the businesses. Cross-Whitbread initiatives were also an issue. Some examples included Project Wolf (an IT integration system) "took forever," Marriott based health clubs and David Lloyd Leisure health clubs were run separately, and Costa Coffee was not sold in all the hotels. One task force member explained:

Why didn't Marriott and David Lloyd collaborate on fitness centers? The perception of people was that Alan Parker (MD Hotels) and Stewart Miller (MD David Lloyd Leisure) each wanted something different out of it and it was not a priority for either of them. That is where we need a strong David Thomas to come in and say, "there will be David Lloyd branding in Marriott hotels, you sort it out, and if you don't I will find people who can." People saw David talk about cross-Whitbread synergies, but he did not force his managing directors to make it happen.

A second task force member further explained:

The big thing that came out was an underlying feeling that Whitbread does not have a clear view of what it is and what it is trying to be – in terms of strategy, financial metrics, structure, values, and culture. There is confusion and there is compromise. There were a lot of comments that we try to get value from being a part of Whitbread and then it does not work. People do not get behind the cross-Whitbread initiatives.

Another task force member explained that many people thought the cross-Whitbread initiatives were a waste of time. Not because they were a bad idea, but because the current executives could never make it work. The member stated:

There were so many examples given where people felt we ought to at least explore synergies across the businesses. But the view that came through the interviews was why

bother, the group exec is not interested and there is no way you will get Bill (Bill Shannon, Restaurant MD) and Alan (Alan Parker, Hotel MD) to work together. It would take too much of an effort. Those interviews strongly suggested that when the task force reports back to David Thomas that we say that the people don't think that synergies is a good idea at all. Let's be honest and say we are going to forget playing around with it and we are going to get on and do our own thing.

Brand Management There was confusion over what Whitbread was trying to do with brand management. Was Whitbread going to invent its own new brands, such as Out & Out, which people thought was a good idea, but without sufficient investment to build it to scale? Or was Whitbread going to acquire other people's brands despite a tendency to over pay for them? Did Whitbread know how to manage its existing brands – which to invest in and which should be divested? Finally, there were concerns that Whitbread was not investing in the people skills needed to be a brand focused company. A task force member recalled that people felt very passionate around this issue:

There is a feeling that we have some great brands and we don't know how to manage them. We have some good ideas, but we do not know how to develop them. I think people look back and ask, is this really the company that built up Travel Inn, the biggest budget hotel chain in the country? Is this really the company that got into coffee shops pretty much before any one else in the UK? Is this the company that bought David Lloyd at a time when active leisure was not a big thing? We used to do it pretty well, but we don't seem to be able to do it now.

Another member added, "We might be focused on customers, but it is from an operational perspective as opposed to getting deep insights from a brand perspective."

Culture One of the strongest catchphrases to come out of the SFP process was the term "institutionalized underperformance" used to describe the culture at Whitbread. The phrase was created by a task force member who wanted to sum up the strong feelings people had on the company's culture. It was OK to be second best. The culture was described positively as nice people, polite, and consensus oriented, but there were concerns that the culture did not address tough issues quickly, took the safe choice, and did not address performance issues. The company was also seen as too internally focused and that it did not look enough at competitors. A task force member explained:

We bring new people into the business for the ideas they have, but after they arrive and try something we tell them we don't do things like that around here. There was a desire for a tougher, performance oriented, winning culture. Hold people accountable, clearly define where we want to go, and really reward those who contribute to that success.

Another added:

The consensus culture came out again and again in the interviews. If Whitbread had a debate over whether to be a white horse or a black horse we would decide to be a zebra. No one wanted to be a zebra so we would end up not pleasing anyone. This came out again and again in the interviews. Yes, be nice, yes, be mindful of people's feelings, but at some point as leaders you have to make a call. That is what you get paid for.

Leadership There were many comments relating to Whitbread needing, but not having, a strong, clear focused leadership. As one task force member stated, "Yes take input, but tell us which direction we are going." There was talk about "New Whitbread, Old Executives" in terms of all members of the executive group except one having been with Whitbread for over ten years. There were also comments that while the individual members of the group executive might be great leaders of their individual part of the business; they did not function well together as a top team for

Whitbread. One task force member commented, "The group executive is so operational and spends so much time getting into the details that they don't step back and give us the overall direction and picture."

One significant area of concern the task force reported was that the structure of the restaurant division was not working. There was significant duplication of activities between the corporate group and the restaurant division and each made their own demands on the individual restaurant brands. Because approximately half of the leadership group members worked in restaurants, this issue was felt quite strongly. The task force considered this a leadership issue. Essentially, Thomas and Shannon did not agree on the proper solution so managers perceived this as an inability of company leadership, and particularly Thomas, to make a decision.

Another task force member added:

There were some big question marks around the leadership, how the leadership was culpable for a lot of things that had gone wrong in the past. People talked about the Allied deal, the halving of the stock price, the big price we paid for Pelican (restaurant chains) only to sell it a few years later for much less. They also talked about how these people survived at Whitbread even though they had made those mistakes. Then they look at the annual report and see these executives still got their bonuses. How can this be the leadership to take us forward?

Statement of Intent The general comments on the Statement of Intent were that it was "motherhood and apple pie." It was not specific enough, for example there were three passions when there should have been one. One task force member stated, "The statement was fine. There would not have been a riot if it were sent out (without first getting feedback). But it would have been ignored. It would not have fired anyone up. It would not have taken us where we wanted to be."

After completing their feedback around mid afternoon, the task force left with instructions to call those they interviewed to tell them that their message had been delivered and to describe how it was received. In late afternoon the consultants presented the results of their interviews with the group executives. The consultants had asked the executives the same questions the task force members used but also inquired into the senior team's effectiveness as a group. The day ended with the executive group discussing and "digesting" the feedback. One executive recalled that the issues that were raised generally did not surprise them, but that they heard a lot of "texture, depth, and intensity of message" that was very powerful.

The Strategic Fitness Process Meeting—Day 2

The second day of the meeting consisted of the executive group meeting with the SFP consultants. First they discussed the feedback in detail to be sure they understood it. Next they discussed what the feedback meant for Whitbread and at this stage they included their own thoughts and views on the issues. They also spent a short period of time discussing action that should be taken. One participant described the overall conversation as reflective and analytical, but one that did not lead to a clear action plan. Another added that the conversation did not include much about their own personal behaviors and whether they needed to manage differently.

The executive group spent a significant portion of the day discussing corporate strategy. To help the group executives make sense of the "why Whitbread" issue raised by the task force, the consultants presented a framework for understanding the role of the corporate center in a multi-brand corporation like Whitbread. The framework enabled Thomas and his executive group to

evaluate the value added by the center through coordinating similar functional activities across brands/divisions to increase excellence and efficiency (the historic role of the corporate center at Whitbread) versus strategic management of the brand portfolio and then overseeing the division managers' management of their brands through the life cycle from brand conception to renewal or exit. The executives came to the general agreement that the value of Whitbread's center was probably less about developing synergies across the businesses (a horizontal strategy) and more about selecting brands that should be in, or not in, the company's portfolio and then managing their life cycles (a vertical strategy). The executives felt that Whitbread's distinctive strength was in managing brands. One executive noted that in some industries there were many companies that were good at managing a portfolio of brands, but in the leisure industry it was unusual.

Developing the First Action Plan

In the weeks following the SFP meeting, Thomas and Risley wrote an action plan the company would follow to address the issues raised by the task force. The plan was based on the conversations held during the second day of the SFP meeting. While Thomas and Risley had occasional one-on-one conversations with some members of the executive group while writing the plan, the executive group never met to discuss the plan. Given the shortened length of the SFP meeting, two days and not three, there had not been enough time for the senior team to develop the action plan as a group.

The County Hall Meeting: Reviewing the Action Plan with the Task Force

In October, a few weeks after the SFP meeting, the group executive and the task force reconvened at the County Hall Marriott to review the action plan. Thomas, speaking alone, stood up and used overhead slides to talk through the actions while the rest of the executive group and the task force listened. After Thomas' presentation, the executives left the room and let the task force discuss how to respond.

While the task force was meeting to critique the plan, the executives began to share their own thoughts about the plan Thomas had just presented. Several executives explained that they knew right away that Thomas' presentation had missed the mark. One executive recalled:

A few of us said we had not been clear enough about what we were actually going to do. The plan was all about direction and it was mainly strategic and organizational stuff, not here is an action plan. It was a semi-academic presentation. That is what David presented, but what the task force wanted to hear was what we were going to do to move things forward. So while the task force was in one room preparing to blast us, we were in the next room writing a new action plan. (Thomas and his executives decided, however, they would not present their new ideas at this meeting no matter how the task force responded to the first plan.)

Meeting separately, the task force felt strongly that the executives had not listened to the fishbowl feedback and had misunderstood the depth of the problems. One task force member explained:

We felt we had delivered a bold message in the fishbowl session, and made clear that doing more of the same was not good enough. The group executive plan was just more of the same. This was not on one or two things, but on everything. We had a really tough discussion then as a team about what we should do. Do we simply give some feedback aimed at improving what they had already done or do we say this just does not do it and we are not prepared to put our

names to it? We also took a hard look at ourselves. Maybe we did not make ourselves clear enough. We decided as a group to push back.

When the task force and the executive group reconvened later in the day, one task force member gave a short, 15-minute emotion-packed response to the plan they had heard. The task force focused on the four key themes and included some bold messages. Some examples included: the need to restructure, particularly the restaurant group; the need for a radical overhaul of the leadership group by identifying who was "on the bus" and who was not; and the need to invest in brands and the skills needed to make them work. The task force's response made clear that there were real concerns about whether the group executives were the right leadership to lead the business.

Thomas and the executives listened to the sharp response from the task force in a polite manner while asking a few clarifying questions. One executive recalled, "There were no tensions beyond what you might expect. I think this was at least partly because many of us thought the task force was right." Thomas laughed when he recalled his first thoughts after the task force had finished its emotional critique of the plan.

A one-word description of what they thought about the plan was "crap." That was one of those defining moments for me where I thought, "I am the chief executive, you can't say that."

Seriously though, I heard from the task force that we were not seen to have been bold, not willing to take risks. Now me, sitting up here in the ivory tower, I had thought we had taken incredible risks, by transforming the company (selling and acquiring businesses), by setting out our financial targets to investors, and all that. But as far as the leadership group was concerned, they could see that we were still in our businesses being incremental and avoiding the brutal truth.

I think that we initially came up with a plan that they said was crap because in getting the group executive's agreement on what we were going to say we gravitated towards the lowest common denominator. There were defenders of sacred cows. There were people whose natural inclination was to look to why we should not do something rather than why we should. Now I am not knocking the group executive, we had a lot of strengths as well, but as we worked towards consensus, it tended to be the middle ground rather than the leading edge.

The 11 Point Plan

Following the Country Hall meeting, Thomas and his group executives began to feel a sense of urgency. The results of SFP were scheduled to be presented and discussed in November 2002 at a conference with the entire leadership group. That conference, titled Winning Brands 2010, was to discuss Whitbread's goal of doubling the business (share price and market capitalization) by 2010 through winning brands. Doubling the company would return Whitbread to the FTSE 50.

The group executive held numerous meetings to redesign the plan. Outside of those meetings, individual executives took responsibility for developing the details of those portions of the plan they would be responsible for implementing. Thomas recalled that the executives also reread the feedback carefully to get a better understanding of it. He recalled, "The strength of the feedback was useful because it really meant that the executives who had been the drivers of moving us back to the middle ground were almost sidelined. It was very clear that their solution was not acceptable."

About two weeks after the County Hall meeting the group executives again met with the task force to present their redesigned action plan. The plan, titled the 11 Point Plan, was designed to be

implemented by the time Thomas retired in mid-2004, and it laid the groundwork to enable his successor to meet the 2010 goals.

Unlike the first meeting with the task force when Thomas alone presented the action plan, each member of the executive group presented that part of the plan that he or she would be accountable for delivering. For example, Bill Shannon, the restaurant managing director, talked about the restaurant piece, Stewart Miller, the David Lloyd Leisure MD, talked about implementing a performance management piece, and Angie Risley, HR head, discussed employee development and incentives. One task force member recalled:

This presentation was done in a really impactful and edgy way. It was such a massive shift from where they were before that the task force gave them a spontaneous applause. The bold steps were things like restructuring to eliminate the divisions and have the MD's report directly to the chief executive.

Another member added, "There was some real emotion and passion apparent."

Overall, the task force felt that the 11 Point Plan, while not perfect, was likely to be as close as they would get. (See **Exhibit 7** for the 11 Point Plan) The action plan included the following key components:

Restructuring The plan called for restructuring the company to eliminate the large multi-brand divisions, restaurants and hotels, and have the MDs of the big brands report directly to the chief executive. Part of the issue was size – the hotel division was nearly 30% of the business while restaurants accounted for nearly 55%. By breaking up the divisions, brand heads would play a larger role in managing the business. Another part of the issue was efficiency and effectiveness. This was of particular concern in the restaurant division that had developed a rather complex structure that many managers did not understand. This was less of an issue in the hotel business where Marriott and Travel Inn had mostly separate management structures reporting to Parker.

Master Class and the Brand Template The plan recognized that for Whitbread to be a leading brand company, it needed to have the people and tools to manage them. Master Class was a five day program of classes spread over a two month period during which each brand team, the senior managers of each brand, examined customer research data and created a brand proposition capable of delivering valued customer experiences. The Brand Template was a tool used to define the brand and how it should be delivered.

Personal Development (YSC) The plan included a personal development review process that was created in conjunction with an outside consulting firm, YSC. The process started with creating profiles of what world class managers looked like for each of the leadership group (top 100) management positions. This benchmarking was done by YSC, which had significant experience working with other world-class companies. Next, each leadership group member went through a rigorous evaluation by YSC consultants that included benchmarking against the profile, in-depth interviews, 360 degree evaluations, and psychometric testing. Each person received his or her development report that was then used to create a personal development plan. The managers that went through this YSC process were also assigned coaches to help them work through the development process. Before sending executives through the YSC process, Thomas and his executive group, together with brand heads, had reviewed each of the top 100 people in the leadership group to decide who was "on the bus" and "off the bus." In this way, the YSC program was clearly seen as a development process and not as a way to get people out of the business.

A few weeks after the Fitness Task Force had accepted the 11 Point Plan, Thomas and the executive group presented the plan again, this time to the top leadership group at the Winning Brands 2010 conference. This larger group also embraced the plan.

A New Conception of the Corporation

The searching reexamination that the Strategic Fitness Process had triggered, and the changes planned, had begun to change top management's conception of Whitbread's corporate strategy, the brands to which Whitbread could add value (the portfolio of brands they should strive to develop), the key value adding tasks of the corporate center, and how the corporate center would add value. The SFP consultants developed a one-page slide to remind senior management of the agreements they had come to regarding corporate strategy during the two day SFP meeting (see **Exhibit 8**). What remained was for top management to transform the corporate center and their management behavior so it would "fit," or be aligned with, this new conception. After completing the SFP and communicating the results, David Thomas wondered whether the plan would be implemented quickly and effectively. He also wondered whether he had articulated a clear corporate strategy and a clear vision of the role of the corporate center that would ensure that the value of the company would be greater than the sum of its parts. Or, as some analysts had suggested, was Whitbread simply a conglomerate of businesses and brands that would accrue more value to shareholders if it was broken up? Had Thomas done enough to really transform the company into a brand led organization? Finally, what should be the priorities of his successor?

Exhibit 1 Whitbread PLC Summary Financial Data (£ millions except %s and employee counts)

	1997 ^a	1998	1999	2000	2001	2002	2003	2004
Turnover (group & share of JVs)	3,131	3,313	3,399	3,739	3,095	2,172	1,965	1,977
Turnover (group)	3,027	3,198	2,941	2,951	2,955	2,014	1,794	1,788
Operating profit before exceptional items	356	404	395	412	428	280	274	293
Operating profit as % of turnover (group & JV)	11.4	12.2	11.6	11.0	13.8	12.9	14.0	14.8
Total fixed assets	3,353	3,667	3,779	4,613	4,392	3,249	3,286	3,251
Net current liabilities ^b	(282)	(405)	(461)	(920)	(421)	(219)	(244)	(165)
Gearing (%) ^c	35.1	32.3	34.8	67.7	51.8	51.9	47.4	37.8
Average # of employees ^d	80,074	81,375	76,100	73,058	79,209	61,470	55,315	52,437

Source: Company Annual Reports.

^aFiscal years end in early March. Fiscal 2004 ended March 4, 2004.

^bNet current liabilities = current assets less current liabilities.

^cGearing represents net debt expressed as a percentage of shareholder's funds and minority interests.

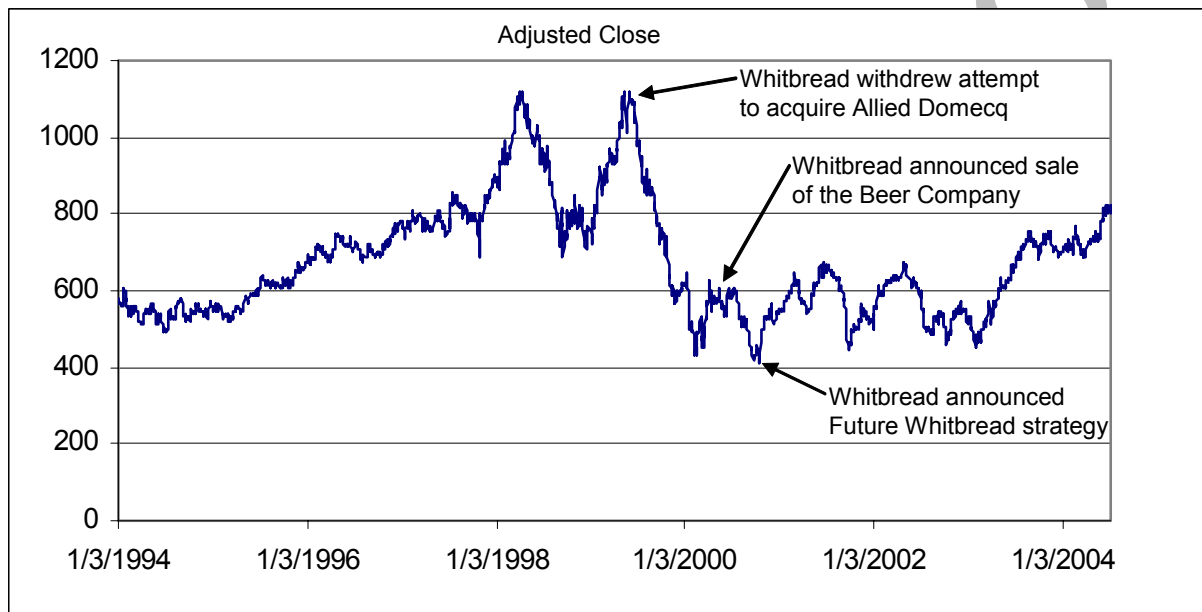
^dEmployee count included full- and part-time workers. It did not include employees of joint ventures. In 2000, full- and part-time joint venture employees, not pro-rated to reflect percentage owned, totaled 31,661.

Exhibit 2 Business Segments Data (£ millions)

	2001	2002	2003	2004
Marriott				
Turnover	402.7	404.5	391.9	390.9
Operating profit	78.6	71.6	71.6	63.5
Travel Inn				
Turnover	158.1	177.3	204.3	229.8
Operating profit	56.4	60.2	66.7	74.0
Hotel Total				
Turnover	560.8	581.8	596.2	620.7
Operating profit	135.0	131.8	138.3	137.5
Pub restaurants				
Turnover	542.9	576.1	582.9	590.4
Operating profit	67.6	71.3	76.6	84.1
High-street restaurants				
Turnover	466.8	498.3	418.0	453.3
Operating profit	10.3	16.9	21.4	28.5
Restaurant total				
Turnover	1,009.7	1,074.4	1,024.2 ^a	1,043.7
Operating profit	77.9	88.2	98.7 ^a	112.6
David Lloyd Leisure				
Turnover	138.7	165.6	183.0	201.8
Operating profit	28.1	34.4	43.3	48.7
Other				
Turnover	1,386.0	349.8	161.7	111.2
Operating profit	187.2	25.6	(5.7)	(5.8)
Total				
Turnover (Group and share of JVs)	3095.2	2,171.6	1,965.1	1,977.4
Operating profit	428.2	280.0	274.6	293.0

Source: Company Annual Reports.

^aTotal includes £23.3 million in turnover and £0.7 million in operating profits of discontinued sites.

Exhibit 3 Stock Price History

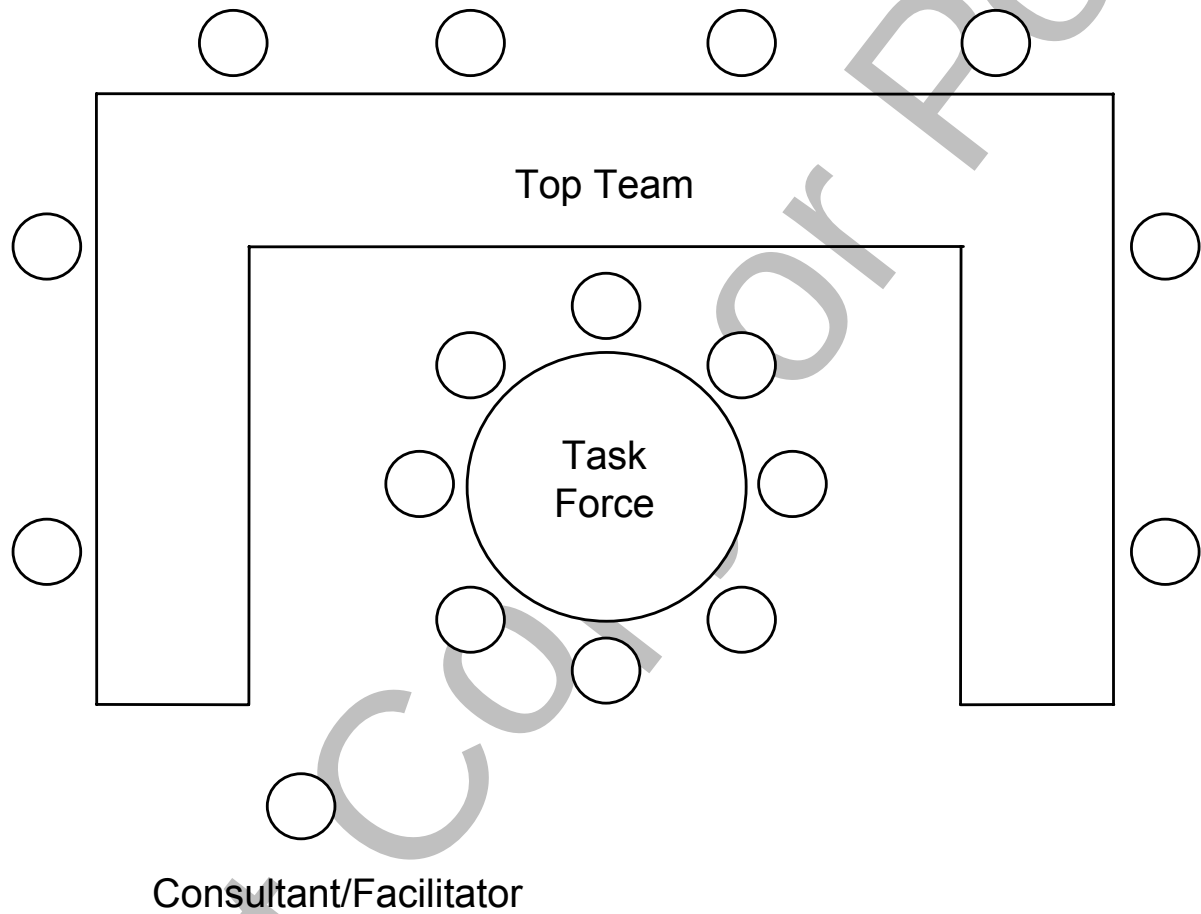
Source: Thomson Datastream, accessed September 20, 2005.

Exhibit 4 Steps in the Strategic Fitness Process (SFP)

A skilled consultant facilitated the SFP process. His or her role was to ensure the integrity of the process; that it produced “the unvarnished truth” about the functioning of the organization and its leaders; that top management listened non-defensively and discussed honestly what was blocking their organization from implementing its strategy and living to its values, and finally that an action plan was developed and tested with the employee task force. The consultant also served as a knowledgeable resource in top team deliberations by framing choices they faced as they confronted questions about how to organize and manage the enterprise. Though external consultants were typically employed for corporate level SFPs, the goal envisioned by the developers of the process was that company HR and line managers would be trained to guide SFPs below the top.

1. Top team receives orientation to the process and decides whether they want to proceed.
2. The top team meets for 1 day to develop a consensus statement of their strategy and values. They appoint an Employee Task Force (ETF) made up of approximately eight of their best and most credible and trusted people to collect information to answer whether the organization is aligned with its strategy and values.
3. The ETF interviews approximately 100 employees and customers over a 2 to 3 week period of time. They ask about strengths and barriers in the organization that support or prevent alignment. An internal or external consultant interviews the top team about how effectively they work as a group and are led by the general manager. The ETF consolidates its findings into themes (1 day meeting) with the guidance of a facilitator.
4. A 3 day Strategic Fitness Process meeting is held. It follows the following agenda:
 - Day 1:** Task force reports their findings using a “fishbowl” method. The task force sits in the middle of the room discussing their findings among themselves while the general manager and his staff sit in an outer circle listening under ground rules of non-defensive behavior. (See **Exhibit 5**.) A dialogue between the two groups is encouraged between themes. After the task force leaves, the facilitator feeds back and leads a discussion of findings regarding the top team’s effectiveness.
 - Day 2:** Top team conducts a diagnosis of the organization using a Strategic Fitness model as a framework.
 - Day 3:** Top team develops a broad vision of how the organization and their own behavior as a top team ought to change.
5. Plans for change are reviewed with the Employee Task Force after the SFP meeting to test whether the top team understood the feedback, accepted it, and has crafted a new organizational design that is aligned with the strategy and values, and can and will be implemented.
6. The top team commissions a number of task forces to redesign various aspects of the new organization. The top team reviews and ultimately approves recommendations for change developed by the task forces. Implementation follows with leadership from the top team.
7. The Strategic Fitness Process is recycled periodically to measure progress and continue the honest conversations needed to check progress and continue improvements.

Source: Center for Organizational Fitness

Exhibit 5 The Fishbowl Arrangement Used in the Strategic Fitness Process

Source: Center for Organizational Fitness

Exhibit 6 Statement of Intent

Our core and enduring purpose is to create experiences that enrich people's lives/enable people to get more out of life:

Our passion is:

- **For our customers** – we want to give people a great time – every time they visit, creating a hospitality experience that people come back for.
- **For our people** – we want our people to give their best, to make work fun and to have our people succeed.
- **For winning** – we want to win, to deliver excellence through great spirited teams, to have a passion for success, to feel proud about who we work for.

Our ambition is to serve a million happy customers a day by 2010.

Our success will be clear and measurable:

- **To our customers** – we will be the number one brand in terms of share and guest satisfaction in every market we serve.
- **To our people** – we will be employer of choice because of the way people feel about us, as defined by....
- (e.g. in the top 50 of the Sunday Times Best Companies to work for.)
- **To our shareholders** – our performance will make us a FTSE 50 company in 5 years/four times in value in 10 years.

Achieving these goals will be demanding. We do business within an industry that is distinctive in its volatility and competitiveness. Yet our formula for victory is compelling.

We will win because of our world class capabilities in:

- **Understanding consumers:** anticipating and exploiting emerging customer needs and lifestyle changes.
- **Having the right brands at the right time.**
- **Constantly delivering a great brand experience across our multi-site operations.**
- **Employing and engaging the right people.**
- **Managing complex businesses simply and profitably.**

The driver of our economic engine will be greater utilization of our asset base. This will be achieved by generating increased profits from "Scarce Resources." These are our customers, our employees, and our properties.

Source: Company Document

Exhibit 6 Continued

We will earn our success customer by customer, location by location and brand by brand. Yet we are far more than the sum of our parts. We are united in a common group because we see significant opportunities to:

- Share best practices and skills.
- Develop people across our businesses.
- Take advantage of economies of scale.
- Capitalize on cross-business partnering opportunities.
- Exploit our consumer knowledge.

Above all we are united by our values:

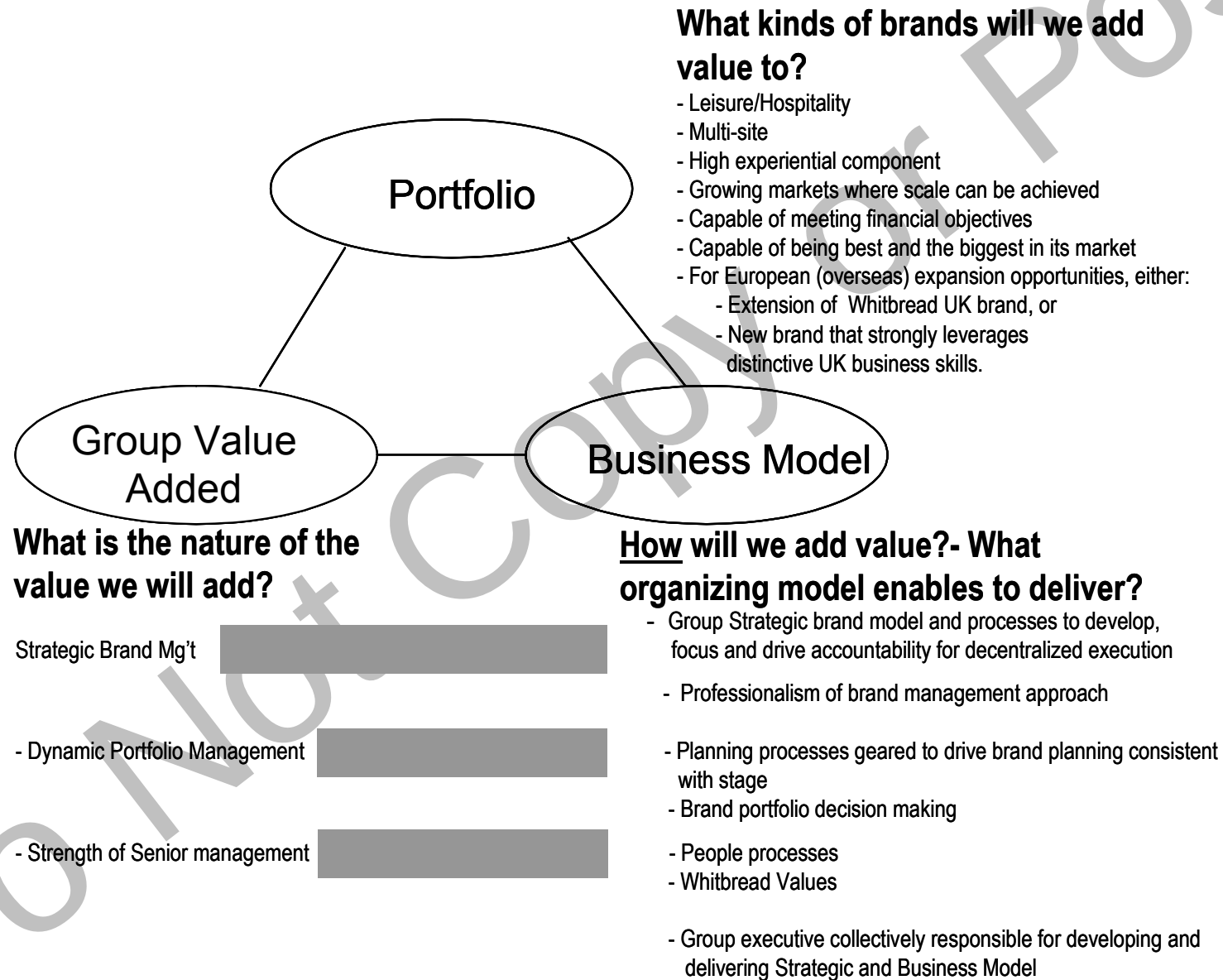
- **Trust (colleagues and customers)** "I shall not let you down." Dedication to doing the right things and delivering on our promise.
- **Challenge (the status quo)** "There is always a better way." Determination to continually improve.
- **Engage (with others)** "I care what people think and say." Actively seek to better understand and help each other and customers.
- **Win (passion)** "Second best is not an option." Enthusiastic single-minded commitment to be the best.

Exhibit 7 The 11 Point Plan

1. The introduction and mandatory application from quarter one of next year of the Brand Template.
2. The creation in 2003/04 of a Brand Opportunity Fund that will encourage innovation and development ideas for our longer term growth.
3. The Strategic Portfolio Management of our brands on the basis of their Lifecycle Stage – people will know which stage their brand is in and what the rules of the game are.
4. Clarity as to the added value Role of the Center.
5. Re-structuring the company from being division based to a Brand Management organization with “big” brand MDs reporting to the CEO.
6. Empowerment and accountability of the brand management team and its relationship with the center to be defined through a Performance Contract.
7. High performing senior leaders will become part of a Leadership group “owned” by Whitbread PLC as well as the businesses in which they are employed.
8. Every member of this team will undertake a Personal Development Review, bench marked against best in class leadership profiles, to assist us in achieving our high performance goals.
9. In order to raise our brand management skills we will develop a unique Master Class education experience for our leadership group.
10. It is critical that personal awards are aligned to these changes. From 2003/04 financial year brand team Incentives will be 100% based on brand performance.
11. In order to encourage people to take a stake in Whitbread, share the benefits of our future success and “get rich” as a result, a new Equity Scheme will be created.

Source: Company Document

Exhibit 8 Group Strategic and Business Model



Source: Center for Organizational Fitness