

# Management buy outs in the hospitality (hotel) industry

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The Management Buyouts in Hospitality (Hotel) Industry The Management Buyouts in Hospitality (Hotel) Industry Introduction Bruining, Verwaal and Wright (2013) define management buyouts as arrangements involving sale of controlling stakes by the managers, who control a substantial part of the equity, to buyout associations. Management buyout (MBO) is the financial acquisition that leads to potential and substantial returns to equity investors. The management can purchase a business, which they work with in acquiring funds from financiers who are mainly individuals or groups. In most buyouts, the sole reason is to acquire finance to improve the company's management. Consequently, the management lobbies for buyout associates to share controlling stakes and money to purchase the company. Most managers need additional financial support from leveraged buyout (LBO) (Ledger, 2015). There are current developments in the hospitality industry involving management buyouts (Wei & Hudson, 2008). This paper examines management buyouts in the hospitality industry, with particular emphasis on hotels, its financial benefits, and possible risks involved.

#### Management Buyouts in the Hospitality (Hotel) industry

In leveraged buyouts (LBO), large portion of purchasing funds is a debt financed. Buyout associations privately own the remaining equity. MBO get financial assistance from private equity investors who receive shares in the new company as buyout associates. Managers always have internal information about the enterprise than outside shareholders. That is the advantage they over external bidders. Owing to the prior information related to the business they possess, managers tend to purchase the company with excellent prospects for future development. For example, the buying of

Menzies Hotel by its management in 2011 led to the restructuring of the Hotel under a new company called Cordial Hotels. Another significant example is the successful closure of Gulf Capital, one of the most active and investments in the Middle East in Abu Dhabi (Gulf Capital, 2015).

#### Benefits of Buyouts from Financial Viewpoint

Management buyouts have diverse financial advantages. There are three groups of parties affected by management buyouts from a financial viewpoint. Stockholder the hotel business entity, the managers and employees, all experience the financial implications of management buyouts. Buyouts may imply the sponsor (s) privately acquires the hotel enterprise or company. Shareholders, therefore, cease to own the company or hotel business. Contrary to the case of a merger, shareholders may not have control over the company's finances. In fact, they may lose their equity in the company (Wilson & Wright, 2013). Should the sponsors fail to acquire the company, shareholders would benefit from expanded operations and financial stability (Goossens, Manigart & Meuleman, 2008). Managers also benefit from financial buyouts in diverse perspectives. The company is likely to realize high returns for interments because of high capital and, therefore, beneficial to its managers (Hafzalla, 2009).

Employees may also benefit from buyouts because of a promising financial performance and possible expansion of operations. The business structure and operation scale may positively improve, hence implying a high pay scale for employees. To the buyer, buyouts help in enhancing financial progress. Often, management buyouts are highly calculated moves articulated after intense research and proof of financial benefits to the buyer. Further, it is an

opportunity for capital investments (Cressy, Munari & Malipiero, 2011). It presents an opportunity to the buyer to diversify risks through in investments and increase chances of returns.

#### Risks and peculiarity of the financial buyouts

Since all the MBO team invests equally in the business, some partners might think that all share equal stake in running the company. It is a risky venture since an enterprise must have one leader giving orders and controlling the management as no organization can operate without a leader. Being a shareholder does not allow free access to business managerial issues unless requested by the authority in charge.

Many financial institutions offer support for funds to complete deals, for example, banks, subordinate debt providers, term lenders and vendor financing. There are financial institutions that offer fair deals but have strict rules to comply with while the private financial institutions are expensive but patient. People tend to go for the cheaper financing giving them room to keep most equity for themselves. The approach may not be the best in finding a financial aid since some institution offers stringent rules that most customers cannot meet.

Each financial institution has rules regulating and managing its financial activities. The financial partners perform with openness, honesty, and full disclosure for the success of the business. The vital factor to consider in the development of the company is to understand the roles played by the partner.

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