

# **GOLDEN TOWERS: A FAMILY BUSINESS IN TRANSITION**

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## **CASE DESCRIPTION**

*This case depicts the complexities of operating a family-owned and -operated business. It is appropriate for courses in family business, small business, and entrepreneurship. It can be used in a family business course to demonstrate the difficulty of choosing a successor who will ensure the company's health and be an excellent steward of the family. It captures several family business concepts, some of which include succession and business planning; estate planning; family dynamics challenges; and the systems theory perspective depicting the interaction between management, ownership, and family subsystems. Also, it may be used in small business and entrepreneurship courses to discuss business continuity, creating and implementing an entrepreneur's vision, and the practice of entrepreneurship. Students can expect to be challenged at level 4, which is suitable for undergraduate, senior-level courses. One class session of one or two hours in length is appropriate for this case. Students should set aside at least one hour to prepare.*

## **CASE SYNOPSIS**

*Thomas Callis Jr.'s announcement that he would step down as general manager of Golden Towers Hotel signaled the beginning of a transitioning period for the family and business. The family had gone through this process once before when Thomas Jr. succeeded his father. Thomas Sr. planned poorly for his succession. When he fell ill, Thomas Jr. struggled to take charge of the company. There was no estate plan in place, and it left the family scrambling to make legal provisions before he passed. Thomas Jr. hoped not to repeat the mistakes of his father, but he too procrastinated and found himself at the age of 65 just crafting a succession plan.*

*The business thrived over 60 years and supported several generations of Callis'. Thomas Jr. had several sons working in the hotel, but favored one to take his place as general manager. Several siblings wished to be considered for the position and were less than pleased with their father's decision. The troubled relationship between some siblings began to negatively impact work at the hotel.*

*The would-be successor and Thomas Jr. also differed fundamentally on their vision for the hotel. A new competitor was soon to enter the market and test the hotel's ability to compete. Where Thomas Jr. wished to continue a focused approach, the named successor believed in company diversification and had several bold ideas for moving the business forward. Thomas Jr., therefore, had to be strategic in granting decision-making authority and ownership to his son. Thomas needed to act quickly in deciding what would be best for the family and future of the hotel.*

## AN INTRODUCTION

Thomas Jr. walked into his office, slammed the door behind him, and hurried over to the window. Deep in thought, he shook his head and pounded his fist against the glass. The stormy March weather mirrored his mood perfectly. “How can I make this better,” he mourned? Just three months earlier he announced to his family he would step back from the business. It was at Nathan’s 26<sup>th</sup> birthday. All the children were gathered at Thomas’ house for dinner. Thomas even made sure to have Nathan’s favorite chantilly cream cake from Gilly’s Bakery. After dinner, they had all retired to the porch with cake and coffee when Thomas announced his intentions concerning the business. He was worried about how his children would take the news. He knew it would be difficult to make everyone happy and still do what was best for the business.

Thomas Jr. had continued the legacy of his late father, who started the Golden Towers Hotel in Savannah, Georgia in the 1950s. At age 65, Thomas Jr was ready to pass the business to the next generation of Callis’. Staring out the window, Thomas thought to himself how much easier it had been when he took over the business from his father. There were few choices for who and what he would be. His father brought him into the business at the age of eight. He helped wash cars of the guests. That was the first job he remembered having. The family business was all he knew – all he wanted to know.

As Thomas stood at the window, he knew he had to make several critical decisions concerning his family and the business. He chose his successor, but several of his other children responded poorly to the decision. Both work and family relationships were strained. As Thomas Jr. grappled with succession issues, the threat of a new competitor loomed over the business. Thomas Jr. and his successor had different strategies in mind for moving the hotel forward. As such the direction of hotel and the family’s involvement in the business were uncertain. Thomas Jr. needed to act quickly and decisively.

## BACKGROUND OF THE BUSINESS

Golden Towers Hotel was opened in 1954 by Thomas Callis Sr. and his long-time friend, Joe Dillan. At the time, the business was just two stories and a basement level, but the two wanted the name, Golden Towers, to reflect what ultimately the hotel would be. Owning a hotel was Thomas’ dream. During their service in the United States Army, Thomas talked of nothing else. He would say again and again, “Joe, when we get out, we are in business, and it’s going to be golden.” It was some years after leaving the Army before the two would make headway on their plan for a hotel. When Thomas returned home, he worked in his uncle’s thriving tavern and restaurant in Savannah, Georgia. He also earned an undergraduate degree in general business. When his uncle was ready to retire and sell the business, Thomas was poised to buy it and make it the future location of Golden Towers Hotel. He negotiated with his uncle to buy the property at \$150,000 and make payments over six years.

Construction of Golden Towers Hotel took four years to complete. Joe came on board to help oversee the property renovation and was Thomas’ assistant manager. As the property was large enough to accommodate the expansion, the new development was constructed on the existing site. A business loan provided most of the needed financing; however, as the cash-cow of the business, the tavern remained open the longest to help fund the renovation. Piece by piece the new replaced the old until the hotel was finished. At its opening, it had eight standard rooms, four guest suites, and a dining facility. The aesthetics of the hotel complemented the historic allure of the

Savannah district. When compared to other hotels in the area, it was small, but had a charm all its own.

The first few years of operation were lean. It was difficult for the hotel to gain traction in the local hotel market, but it was eventually modestly profitable. Having a young family of his own, Thomas was concerned about his ability to provide them financial security. Thomas married his long-time sweetheart, Dianne, right out of the Army, and shortly after they had a son, Thomas Jr. The family spent a great deal of time together at the hotel. Dianne assisted Joe in running the restaurant and soon enough Thomas Jr. also helped by running errands and performing small chores. The hotel was an extension of home.

Thomas Jr. entered the business formally in 1969. He was twenty at the time and fresh off a small tour across the South East with his swamp blues band. Thomas Jr. was smart, creative, and a bit of a free spirit. Although Thomas Sr. wanted him to assume a full-time position in the business years earlier, Thomas Jr. negotiated with his father to have two years during which he could indulge his music passion. In those years, Thomas' band gained a small following and experienced relative success. When it was time to enter the business, he did so without apprehension. He supported the dream of his father and always saw himself as an integral part of it.

Joe mentored Thomas Jr. in the ways of the business. He quickly grasped the operations-side of the hotel and had a great many ideas for making things more efficient. Thomas Jr. wanted Golden Towers to step out of the shadows and become one of the leading boutique hotels in the area. Father and son shared a loving and respectful relationship; however, the one point on which they disagreed was their vision for the business. Thomas Sr. had more conservative views concerning the business. Thomas Sr. thought his son often overstepped his bounds as a junior member of the business; Thomas Jr., however, believed asserting himself would ensure the business continued to evolve and grow.

Thomas Sr. foresaw that when his son joined Golden Towers he would eventually take over from Joe as his "right hand man." Joe had expressed a desire to step away from the business in a few years to pursue some of his other interests. This arrangement gave Thomas Jr. enough time to learn the business and benefit from both his father's and Joe's mentorship.

### **THOMAS JR. TAKES THE HELM**

When Thomas Jr. took over from Joe in 1979, the business grossed annual sales of \$1.95 million dollars with 3% net profit. Within five years, he reduced operation costs in the dining area and moved the net-profit margin to 8.7%. The hotel provided only a limited variety of pre-made breakfast options. Guests did not find the options particularly appealing and commented about being able to find much better items in town. This meant food at the hotel was often left uneaten and later discarded. Thomas Jr. addressed those losses by partnering with a few local bakers and vendors to provide specialty food items that were enjoyed by guests. He also hired a young chef to make fresh plates and added a brunch menu. The number of patrons opting to have breakfast or brunch at the hotel before heading into town doubled. Thomas Sr. was very pleased with these types of improvements, but he thought some of Thomas Jr.'s other ideas, like his proposal for a \$650,000 hotel expansion, were much too risky. Unlike Thomas Jr, his father believed in a slow and steady approach to sustainability.

In 1981, Thomas Sr. was struck with a massive heart attack that debilitated him and left him unable to oversee the business. Thomas Sr.'s poor health put a great deal of stress on the family and the business. They were unprepared for the effects his incapacitation had on the day-

to-day running of the business. Thomas Sr. had additional health complications while in the hospital and was in no position to make decisions about the business. The family had never thought about obtaining a power of attorney for Thomas Sr. The entire business was owned by Thomas Sr., and Diane had no authority to act on his behalf. Thomas Jr. did his best to assist his mother in taking care of his father while he recovered. Diane stepped away from the business completely, while Thomas Jr. spent every moment trying to fill everyone's role. He pleaded with Joe to return to the business for a few months to help manage things. Joe was more than happy to assist but could do so only in the evenings.

Thomas Sr. was a successful business man, but he kept his ideas and processes in his head, never taking time to record them. Thomas Jr. warned his father about the dangers of this, but it changed little. Now that Thomas Jr. was in charge, it all but infuriated him to have to make guesses about his father's dealings. With great effort, he and Joe managed to do enough to keep the business in good standing. In his private conversations with Joe, Thomas Jr. vented about the difficult position in which his father had put everyone. "Things have to change," he said.

Had it not been for Thomas Sr's illness and impaired recovery, Thomas Jr. would have found it more difficult to take charge of the business. Thomas Jr. filled his father's position as General Manager, while Joe stayed on as the assistant manager for another year. Diane returned to assist with the dining facility on a temporary basis. It was another 10 years before Thomas Jr. would own a majority stake in the company. Thomas Sr. retained 25% of the company and Diane 15%. Upon their deaths, Thomas Jr. received full ownership of the hotel. During this time, Thomas Jr. married and started a family. His wife, Christelle, gave him five children: Maury, Terrance, Nathan, Joseph, and Cleopatra. Sadly, Christelle passed away in childbirth. Thomas Jr. later met Joanne. She raised the boys with Thomas Jr, although they never married. A genogram of the family appears in figure 1.

Golden Towers grew to three times its original size under Thomas Jr.'s leadership. He had a knack for "seeing the possible." Thomas' aggressive marketing positioned the hotel as an ideal location for wedding guests and vacationers. Guests came from several states away, and the hotel often was booked, on average, at 79% capacity. This was considerably higher than some of the surrounding hotels. In 2003, the hotel was renovated and expanded. Two additional stories were added and a modest parking structure set in place. Even the paltry dining facility was remodeled and expanded. It was no longer hidden away within the hotel, but stood annexed alongside the hotel. This arrangement gave the sense that it was independent restaurant. While breakfast and brunch remained exclusively for guests, the restaurant welcomed the public for dinner. A local expert chef was hired to elevate the dining experience. Thomas was especially proud of how profitable the hotel managed to be and the stability it provided his family.

## **A NEW GENERATION OF CALLIS' AT GOLDEN TOWERS**

Several of Thomas' children joined the family business. Maury started at the hotel shortly after completing his international business, undergraduate degree in 2007. Thomas mentored Maury closely and groomed him for the role of Director of Sales and Marketing. They had complementary ways of thinking that fostered a good family and work relationship. Maury had an eagerness about him that reminded Thomas of himself when he started at the hotel. Thomas thought this was a wonderful quality, in addition to Maury's general humility when learning new things. Maury spent two years working on the operations-side of the hotel before moving into sales and marketing. Thomas was happy with Maury's performance as Director of Sales and Marketing.

He integrated new guest management technology and made the hotel's website more attractive and user friendly. Guests were very complimentary regarding efforts in his department. Maury created a marketing campaign that drew more attention to the hotel in off-peak periods, and over two years saw reservations increase by 15%. Maury also built strong relationships with local event promoters, which raised the profile of the hotel's restaurant.

Joseph was the youngest of the Callis brothers and managed the business office at the hotel for three years. As the office manager, he oversaw payroll and employee scheduling in addition to supervising four assistants. Joseph ran an efficient office and employees at the hotel enjoy his easy-going nature. Joseph worked as the assistant manager of a fast-food chain before he joined the family business. He had a disagreement with management about his career advancement and decided he might have better opportunities at Golden Towers.

Terrance was the only child to possess a graduate degree. His dealings with the hotel were sporadic. He had on occasion performed financial audits for the hotel and advised on financial matters. Nathan worked part-time at night and on weekends as a front desk supervisor in the hotel. He liked interacting with the guests and was happy to make extra money to support his somewhat extravagant lifestyle. Cleopatra supported the family and family business but chose a different life for herself. Cleopatra was a successful tax accountant in a local firm.

### **PASSING THE LEGACY: ROCKY FIRST STEPS**

It was on that stormy March morning that Thomas asked all his children to gather for a closed meeting at the hotel. The Callis brothers were arguing more frequently, and Thomas Jr. was sick of all of it. The day before Joseph and Maury could be heard shouting in the business office.

"How could you give Tony time off and not run that decision by me first?" yelled Joseph. "It's my department and my reputation on the line when my department messes up. Maury, you have to be more considerate of what's going on around here. We ended up short-staffed at a critical time."

Maury responded by saying he didn't think it was a big deal, which made Joseph even more infuriated. This was just one example of how strained the relationships had become between Maury and the brothers. Maury was favored by Thomas Jr. to take over as general manager of the hotel. Joseph, more so than the other brothers, resented the implicit assumption that Maury would naturally be in charge. The brothers did not question Maury's competency, but they thought Maury acted entitled. It created a *he-versus-them* dynamic that was problematic.

In the meeting, Maury stood up and announced, "I'm taking over from dad." The room went silent. Joseph was the first to speak.

"And when is this supposed to happen? We haven't even talked about this Maury."

Just then Thomas Jr. interrupted, "Calm down everyone. This was the reason I called a meeting; we need to plan for this transition of power."

Terrance held his tongue until then but could no longer be quiet. "It seems we are having this discussion one decision too late. We didn't even discuss Maury being chosen as your successor. Were the rest of us even considered, dad?"

"Of course I considered all my sons, but Maury is best suited for the position. He has the most experience and will do a great job. Besides, it is my company, and I choose who takes it over." The room went silent once again.

Then Terrance asked, "What about ownership of the hotel? Are decisions being made about that too?"

Maury looked at his dad and said, “Of course, I expect ownership to transfer to me once dad retires.”

Thomas had three goals for the family meeting. First, he sought to tell the family he had chosen Maury as his successor. Second, he wanted to discuss his diminished role in the business and ideas for transitioning Maury to the general manager position. Last, and perhaps most contentious of all, he needed to discuss dividing shares in Golden Towers and his retirement earnings. Thomas Jr. owned 100% of Golden Towers Hotel. The estimated value of the company’s assets was \$6.8 million. Thomas did not earn annual dividends on company shares. He drew an annual salary of \$235,000 from the business. His sons who worked in the business draw salaries commensurate with their job duties. Thomas’ health insurance, life insurance and leased Mercedes vehicle were all paid for by the company. The home in which he lived was no longer mortgaged. Thomas had other personal assets including stocks, real estate, and cash. Thomas had been concerned for some time that he was behind in his estate plans. To prepare himself, he consulted a local lawyer with expertise in family-business matters. The lawyer expressed the need to have a valuation done of the business, create stock options for the heirs, divide ownership of the hotel, and transfer ownership in a strategic fashion. These matters had to be discussed with the family.

Thomas had only broached the topic of dividing Golden Tower shares when talks altogether broke down. Thomas insisted that he retain majority voting rights. He wished to give Maury 17% as the new general manager and each of the other children 8%. Nathan and Terrance thought Cleopatra’s shares should be reduced to 4% given her inactivity in the business. Cleopatra believed she should receive whatever her father wished to give her. She was not angry at the boys for asking their father to reduce her shares, she just hoped the brothers would at least believe she deserved it.

Maury was concerned that together his brothers had more ownership in Golden Towers than he would as the general manager. The brothers took this as a slight against each of them and insisted again that Maury acted too entitled. Maury expressed his concern over having insufficient power to make decisions as the General Manager. Privately, he wondered if his father doubted him, if somehow his father would struggle with stepping away from the business. Maury was anxious to know when his father would retire from the hotel. Thomas had in mind that he would remain the general manager for another five years while Maury shadowed him. Maury believed, however, that he would be ready to take over within two years.

Maury looked over at this father and asked, “When will I ultimately have controlling interest in the hotel?”

“I need to think about that” replied Thomas. Thomas became very uneasy with Maury’s remarks concerning controlling interest in the company. He wondered if Maury wanted him to quickly step away from the business. That was not Thomas’ plan.

Just then, Joseph stood up and said, “I guess I’m no longer needed here; I’m clearly just a spectator. Frankly, I don’t know if I have a future at this hotel” Thomas urged Joseph to stay, but he stormed out. The meeting soon after degenerated. Thomas asked his remaining children to meet again at his home over the weekend. “I’ll talk to Joseph” he promised. He then turned and exited the room.

## WHAT WILL BE THE FATE OF THE CALLIS LEGACY?

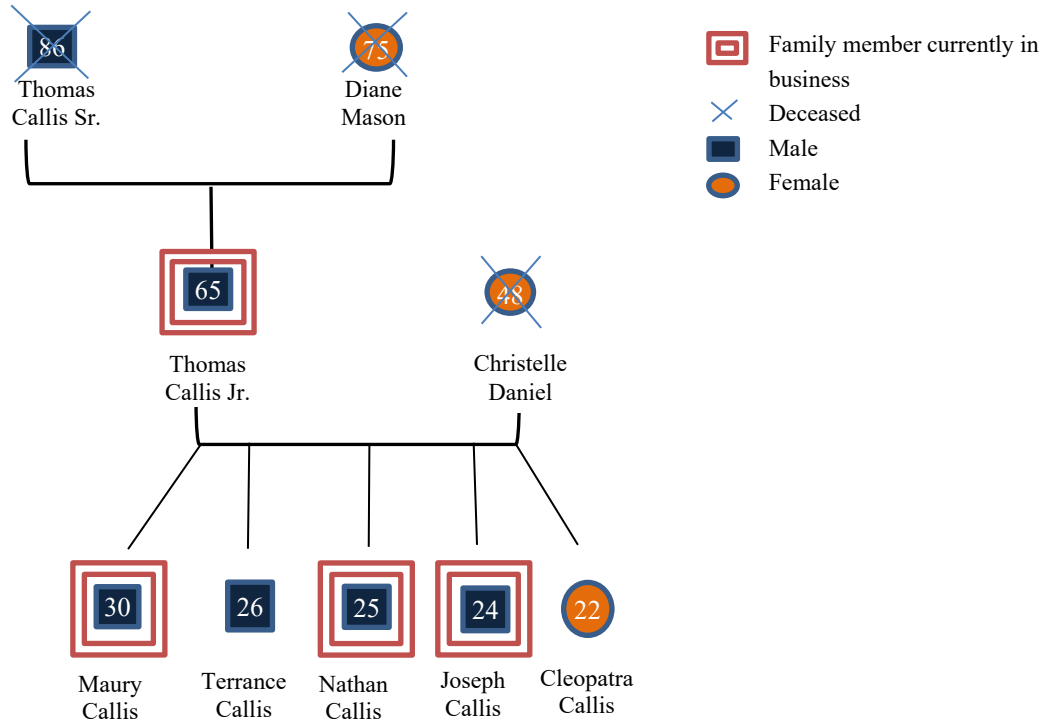
Cleopatra followed her father back to his office and soon could be heard at the door. “Dad are you okay?” Before Thomas could answer she continued, “That could not have gone the way you intended. The boys are so upset. Dad, you should have handled that announcement differently.

Cleo, you’re so much like your mom. She was direct too, but she also knew how to listen...how to make the boys feel heard. I need your help. I want this hotel to remain in the family for generations to come. It’s what your grandfather dreamed of for the family. I...we need to decide our next steps very carefully. The family isn’t my only concern though. I’ve recently learned the old Manor Estate two blocks away has been bought by a developer with intentions of opening a bed and breakfast (B&B) within the year. It’s not the only B&B in town, but it’s certainly the closest to us, and it’s in a slightly better location to the waterfront. What I know of the existing infrastructure suggests the room capacity will be between 10-12 guest units. I’ve shared this information with Maury. We agree there are areas in which we clearly stand out, such as amenities, parking, guest packages, capacity, and the restaurant; but, we are unlikely to undercut their price. Maury and I disagree on the way forward, however, and this transfer of power further complicates matters.

Thomas believed the best option for viability was to focus on the immediate threat of the new B&B and implement strategies to withstand the impact of this competitor. Maury recognized the challenges posed by the new B&B but believed a better strategy would be to grow and diversify the family business. This approach he believed would make the company more resilient to threats of this kind. Maury also wanted to expand the composition of the hotel’s leadership team. He thought an outsider with expertise in growing a small business could help the family business move in a new direction. Thomas was skeptical about adding non-family members to top management. He was uncertain whether an outsider would be truly beneficial.

This matter made decision-making authority and ownership far more relevant to Thomas’ succession plan. If Thomas gives up majority voting rights or steps away from the business too soon, it might be to the detriment of the family business. Yet, he must be careful not to hamper Maury as he tries to make the business his own. Each generation needs to define the company going forward. Each successor needs to take ownership of the vision of the company to be a strong leader and keep that entrepreneurial spirit. Thomas wished to avoid repeating the mistakes his father made with his own estate plans. He could not ignore that he was already 65 years of age. What if he suddenly fell ill or died. What, then? Accordingly, Thomas needed to act quickly in deciding what would be best for the family and the future of Golden Towers Hotel.

**Figure 1**  
**Callis Family Business Genogram**



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