

GOLDEN TOWERS: A FAMILY BUSINESS IN TRANSITION

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INSTRUCTOR'S NOTE

CASE DESCRIPTION

This case depicts the complexities of operating a family-owned and -operated business. It is fictional in origin and has been created to highlight the challenges of firm continuity amidst family disharmony. This case 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.

This is a decision-making case. Students can expect to be challenged at a level suitable for an undergraduate, senior-level course. Students should place themselves in the role of a trained family-business consultant who advises the family on decisions related to succession and family involvement in the business.

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.

RECOMMENDATIONS FOR TEACHING

Two options are offered for using this case, but both involve allowing students to read and prepare the case ahead of time.

Option 1: As one group, have students brainstorm what they believe are the major issues of the case. The instructor can insert issues missed by students. Next, break students into as many groups as there are issues. Groups of 3-5 work well. Assign each group one or two question(s) that capture the essence of an issue. Allow each group 10-15 minute(s) to discuss its assigned issue. Bring the students together once again and have each group discuss its recommendations.

Option 2: Assign one or two students to lead the discussion of the case. Have the discussion leader engage the rest of the class by having them identify the issues of the case. The leader should also have prepared questions that are either distributed to students ahead of or during class-time. A prepared handout for classmates that highlights the case can be useful. An example would be a blank pro and con list that the leader uses to help the class choose between alternative. The instructor should monitor the discussion and intervene where key concepts are missed.

QUESTIONS

This case introduces students to a variety of family-business dynamics, and it reveals how difficult it can be to act in the interest of both family and business. The case traces two transitions of power in this third-generation family business. At each transition, students can critique the decisions of key players and make their own recommendations.

Q: As Thomas' named successor, Maury should be naturally concerned about enhancing his individual power as the new general manager (GM). What is power? Discuss what bases and sources of power he possesses or needs in the GM position.

A: Power is influence over what others think and how they behave (Davis, 2007). It is that influence that Maury needs to fulfill his vision for the company. This is especially important as his ideas for moving the business forward will need buy-in from key stakeholders – family, managers, business partners, vendors, etc. Power is critical for making and implementing decisions (Davis, 2007). The more power a leader has, the easier it is to gain agreement on firm initiatives. It also helps motivate constituents to achieve goals and objectives.

Five bases of power describe the type of influence a leader might wield within an organization – *legitimate*, *coercive*, *reward*, (power granted by the job) *expert*, and *referent* (power that resides with the individual, irrespective of position power). Maury has proven himself in the director of sales and marketing position, but he still must show competency as the new GM. Employees will compare his performance to his father (perhaps grandfather) and may question whether he is qualified for the job. The GM position immediately gives him legitimate power and the ability to give rewards and punishments. Although the position carries great power with it, it can be undermined if Maury does not possess enough ownership in the company. Maury's concern that his brothers together may have more voting power than him is legitimate. Likewise, his father retaining majority voting power limits his level of influence.

A person gains several sources of power from the *roles, resources, and relationships* that exist within and outside the family business system (Davis, 2007). The family business system has three interrelated parts of ownership, family, and management. Maury immediately falls into two sub-systems. He is a member of the family and he works within the family business. He does not yet have any ownership of the hotel, but it is his father's intention to relinquish ownership to Maury and his siblings. In the existing *role* of director of sales and marketing he has the legitimate power of the position. He also has goodwill from relationships with hotel employees who respect and admire him. As the role changes to GM, the assigned power too will change. He will possess the greater level of authority ascribed to the position. At the family level, Maury is loyal to his father's vision of seeing the business pass from generation to generation, which pleases his father. His siblings may believe, however, that he has been less than a good family member. Maury will be granted at least 17% ownership of the hotel as a source of power; currently, however, he has no ownership vote. Outside the family business system, Maury has good relationships with vendors and local business owners. He would also like to grow and diversify the family business and bring in outsiders for their expertise. He can potentially develop a great deal of power through his external network.

There are several resources available to Maury within the business. He has had several years of experience working at the hotel, produced good performance results, been mentored by his father and Joe, and earned an undergraduate degree. In the family system, he has generally had the support of his father and been named by Thomas as his successor. As the case concludes, it is Thomas' intention to distribute ownership of the company. Ownership is a resource, as it provides voting rights in the firm and is a dividend bearing asset. If Maury eventually gains majority voting rights, that too would add to his resource portfolio. Maury lacks professional experience outside of the family system, which can be a disadvantage; however, he is open to adding professionals who can add a fresh and informed perspective.

There is considerable power to be harnessed through work, family, and social relationships. Within the business system, Maury enjoys a close father-boss relationship but has difficult work relationships with some siblings. On a personal level, his sibling relationships are further strained by this period of transition. Maury's relationship with his sister is the healthiest of the siblings, but it may not be a source of power for him. Cleopatra tends to be balanced in her assessment of family dynamics and is likely to place blame where it belongs. Maury may also be able to harness power through his social connections in the community and industry.

Overall, Maury appears to have greater power (base and source) than his siblings. If Thomas Jr. delays the transition of ownership or remains overly active in the hotel's day-to-operations, Maury's power could be diminished. Alternatively, Thomas Jr. could give Maury majority ownership in the company, move into an advisory role within the company, and allow Maury the control he needs to lead.

Q: How can Cleopatra be useful to her family in the succession process?

A: Cleopatra is the youngest of the siblings and the only girl. She also chose to work outside the family business. Her power in the negotiation process is that she has the ear of her father. Thomas Jr. has a tremendous respect for her ability to maneuver family dynamics. Cleopatra reminds Thomas of his wife, who excelled at managing the emotions of the family. Cleopatra also appears logical and rational in her assessment of what needs to be done to mend the family and strengthen the business. The spouse of the CEO/owner traditionally fills the role of

coarchitect in succession planning; however, Cleopatra seems well prepared to fill the role. She can be a strategic partner in managing the family system during the transition process. She is an excellent communicator, her siblings do not see her as a threat, and she is committed to both family and the business.

Q: Why is it important that a new successor be allowed to craft and take ownership of his/her vision for a family firm?

A: A parental shadow that remains after the founder/parent has left the business can deprive the next generation of the opportunity to shape the family business. The business will continue as an extension of its former self under such a conservative approach (Steiner, Miller, Le-Breton-Miller, 2003). For next-generation successors to become committed to the continuity of the family firm, it helps that the vision being executed has, in part, been shaped by them. This also creates a tangible legacy that new successors can attribute to their efforts. Each successor, therefore, should have leeway to create a vision for the family firm – one that reflects the core values that have served the firm well historically and adapts business strategy to evolving competitive conditions.

Q: What is succession planning? What is the role of an incumbent CEO or General Manager in the succession planning process?

A: Succession planning is a future-focused initiative undertaken by the ownership and management of a firm to develop next-generation family members or non-family members to assume key leadership roles within the family business. It also involves financial planning to transfer wealth and ownership authority from one generation to the next (Francis, 1993). The result of the planning process is a plan that guides ownership, management, and family systems through the transition.

Traditionally, it has been the role of the founder or owner to initiate and plan an orderly transfer of power (Handler, 1992). Poza and Daugherty (2014, p. 166) refer to the person leading the process as the architect of succession and continuity. The architect creates a vision and enlists persons with the requisite expertise to make it a reality. The vision encompasses what the company has been and what it hopes to be in the future. In the case of the Callis family, Thomas Sr. and Thomas Jr., as owners of the hotel, were responsible for the succession plan.

It is strongly recommended that members of the next generation be involved in the succession planning process. In both transitions the children were involved to some extent, but not enough. When selecting next-generation business leaders, attention should be given to the future needs of the company, rather than replicating what are already the strengths of the management team (Glynn, 2012). This is an important consideration given the dilemma posed by the new B&B presented at the end of the case. Thomas Jr. has a plan for managing the dilemma, but he is stepping away from the GM position. Maury has a different plan, but it involves greater risk and potential returns than Thomas'. The architect should put the needs of the family and business ahead of his/her ego and need to remain in control.

Three levels of family business succession planning are relevant to the case. The first level is management. Being a member of management does not equal being an owner of the family business. As such, the architect should carefully decide which family members will be owners, managers, or both. How much ownership to distribute is a strategic choice. Managers

who are owners have greater authority than those who only work within the firm. Ownership is the second level of succession planning. Granting each child ownership of the business is not necessary when there are other assets to transfer. In Thomas Jr.'s case, he has fixed and liquid assets that could provide an inheritance to his children.

Thomas should decide whether he intends to receive continued economic benefit from the business when the transfer takes place and whether he will retain controlling interest of the company. The second of these is concerning to Thomas, as he wishes to retain majority, decision-making authority for some time after Maury assumes the GM role. The last level is transfer tax. This level looks at the effect of estate taxes. Paying minimum estate taxes will often compromise the business from a strategic perspective (Francis, 1993). There must also be sufficient liquid assets on hand to pay estate taxes when company ownership is transferred.

Q: Describe the qualities Maury possess or lacks that influence his ability to be an effective successor?

A: Of his sons, Maury is best positioned to take Thomas' place as general manager. His years in the company and exposure to its various facets gives him a wider variety of experiences compared to his siblings. He also has benefited from his father's close mentorship, where his brothers have not. Poza and Daugherty's (2014, pp. 142-143) systematic review of succession experiences in family firms reveals several components of success. The first is the willingness of the successor to assume the role and take on its responsibility. Maury sees the family firm as an extension of his identify and is willing to sacrifice for its success. This is demonstrated by his performance thus far. Although Thomas has not established a multi-year succession plan, Maury has been mentored and groomed for top leadership within the company. He has also earned an undergraduate degree. It is not focused on hotel management, but he could gain that targeted knowledge through programs in small business or family business management.

Thomas could have done more to challenge Maury in other areas of company management. Important outcomes to measure would include output, profit, cost savings, etc. This variety would have helped Maury build his toolkit of skills. He could better understand the roles his siblings play in the business, if he spent time working in their areas.

Maury struggles with poor interpersonal skills. His brothers feel he acts entitled and belittles them. This has caused his siblings to be less than enthusiastic about his role as GM. Respect and regard are important aspects of a leader's ability to have influence over others. Maury needs to earn the respect of his siblings. He should also work to win over those within the company who may have watched the deteriorating relationship between the brothers and sided against Maury. A strengthened relationship with the brothers could make them useful allies.

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