



THE *** CASE

 **ÜLYSSES**

DIGITAL STUDENT COMPETITION ON FAMILY BUSINESS





SLOGAN/TAKE AWAY MESSAGE:

This Case study shows that the right communication is a key factor for business succession in family firms. It shows the intergenerational communication and succession challenges that can occur in family businesses.

KEYWORDS:

Succession planning, family business, tourism, hotel

ABSTRACT:

A family-run four-star hotel in the Austrian Alps has challenges with regard to family firm succession. The family firm is currently in its second generation, and the owners, Perry and Patricia, want to develop a plan to hand the business to the next generation. The entrepreneurial family is dealing with change and transformation processes among the family members. This case supports students at both undergraduate level and graduate level to consider options and issues in the succession planning of family firms. It provides the opportunity to identify and discuss options with regard to the succession plan, but also identify and evaluate potential succession planning strategies for the family firm. Students will consider how successors and predecessors communicate during the succession process and which ways they use to solve intergenerational communication conflicts and misunderstandings.

INTRODUCTION TO SITUATION (STORYTELLING)

On the eve of their 38th wedding anniversary in June 2017, as Perry and Patricia sat down on their sunny patio for their regular afternoon coffee, each could see the worry in the other's eyes. They were the successful owners of a family run hotel in Lermoos, a bustling Austrian ski town, but know they had to make some major decisions. On considering the 38-year milestone she was celebrating with Perry, Patricia said:

"Perry, I am not sure how many years we have left together. We have two sons, let's turn the business over to them and spend our remaining years doing things together rather than always working."

Perry understood and sympathized with his wife's ideas but was not sure how to achieve her wishes. The couple inherited the hotel from Patricia's parents when it was a small farm inn, and through hard work and keen market insight they had transformed the property over the past 35 years into a large four-star hotel that had become well known among European families seeking a holiday offering rest, relaxation and wellness. Perry still loved working and he was unsure that his sons had the skills and dedication to maintain the business at the same



level that he and his wife had achieved. His sons and their spouses were very different people, and it was often difficult to get the family members to agree. He could not understand how they would jointly manage a complex operation such as the hotel. Reflecting on these relationships Perry said:

“Patricia, I feel that your family gave us a great inheritance, and through our hard work we have earned the right to retire and spend more time together. However, if we want to retire we must create a plan that ensures the success of the hotel so that we can fund our retirement and honour the inheritance that your family gave to us and that we built into what it is today.”

DESCRIPTION OF CHARACTERS AND FAMILY BACKGROUND

Patricia, age 57, and Perry, age 61, were the owners of the Hotel. A few years after meeting and getting married when they both were studying in hotel school, Patricia inherited the hotel from her parents and the young couple began to make changes to expand the hotel into a larger and more professionally run operation. Patricia and Perry invested into the hotel infrastructure as well as in accommodation for their employees. Over time, Patricia and Perry's vision of a larger, high-end family resort hotel took hold and proved to be successful, and the couple and hotel became well-respected members of the local tourism establishment.

At the hotel, Perry served as hotel director overseeing all operations, while Patricia managed reservations and bookings. Patricia and Perry had two sons, Charles and Peter, who were now both in their late 20s and early 30s and married. While the kids were growing, Patricia always had the dream that their two sons would take over the business, although she had wanted to make sure that family harmony was not compromised the way it was between her husband and her parents. She was also concerned about the extensive social responsibility taken by their family towards their employees and the larger community. Reflecting on what she valued about the family business Patricia said:

“The history and the tradition of our family business are very important to me. Thus, I fear that conflicts among Perry, Charles and Peter might tear the business apart, which would also endanger the reputation of the hotel and the family.”

Perry felt unsure about letting go of his role as head of the hotel. He had always exerted a very patriarchal leadership style, and still found himself to be full of energy and entrepreneurial spirit. While discussing retirement with Patricia, Perry exclaimed:

“While part of me welcomes the change, the transition, the other part says I will miss it like hell!”

The most crucial question for him was the commitment of his sons to the business. He was concerned that his sons would not find their way in the family business and might not be 100 percent committed to a lifetime at the Hotel.

Perry was torn between his wife's desires to retire, and his own feelings that he needed to keep running the business for at least a few more years until his sons were ready to take over.



He was determined to maintain the integrity and strength of the family business and the brand that he and his wife had developed. As a small business owner, he also knew that the hotel was his retirement plan, therefore it was important to him that the hotel remained financially successful so that he and Patricia could get maximum value out of the hotel to support their retirement. Perry's perspective was summarised in the statement he made about his mission: *"My mission is to take the right decisions and reduce the misunderstandings among the family members so we can start the succession process and put the hotel on a path to continued success."*

The Next Generation

For the past five years, Perry and Patricia's elder son, Charles, had been a division manager overseeing operations at the Hotel, and his wife Susan was the manager of the reception desk. Both of them had been educated in a highly renowned hotel school in Switzerland, and they were deeply integrated into the local Lermoos community together with their two young daughters aged 1 and 3. Charles was a member of the volunteer fire brigade and joined several village clubs and associations. During Charles and Susan's wedding, which was held in Lermoos, Patricia and Peter had announced their intention to pass the hotel along to Charles and Susan. After their wedding, Charles and Susan had always planned their lives around the idea that one day they would take over the Hotel. As Charles explained:

"As a young child, I grew up around the business and always looked up to what my parents did. I found it great that they were true hosts and were loved by the guests. This is why I went to a hotel school, to learn how to manage a hotel the right way."

Charles, however, often clashed with his father, who had a very different management style and personality. Charles struggled with the way his father treated him in the business and felt that his father did not trust his competencies. He and his father had very different leadership styles. While Charles liked to delegate decision-making and develop strong employee teams, Perry was a very top-down and fact-oriented manager who believed in hierarchical structures. Charles and Susan were also concerned that the business lacked clear policies for employees and needed to develop workplace and job descriptions now that it had over one hundred employees. Perry and Charles' relationship had grown so strained that they avoided talking directly to each other and mostly communicated by email. Susan was concerned about how Perry treated Charles, and despite the pledge made at their wedding and their many years working in the business, the couple wondered if they would be better off moving to work at a different hotel or starting a new hotel of their own.

Charles and Susan's concerns about their place in the business grew when Charles' younger brother, Peter, and his wife Olivia, returned to Lermoos in early 2017 to start working at the Hotel.

Patricia and Perry's younger son, Peter, had moved away from Lermoos first to attend boarding school and then universities in the United States, Spain, and Switzerland. After



graduating from university, Peter worked in a high paying job in the finance industry in Geneva. There he met his wife Olivia, who was trained in marketing and worked in marketing management for a number of large companies in Switzerland. Olivia was from Chile and did not speak German but had been raised like Peter in a family that ran their own business. After a few years together in Switzerland, in 2017 the young couple decided they wanted to start a family and felt it was time to move back to Lermoos to join the family business. As Peter explained:

"My friends keep telling me I have a great opportunity to go home and work in our family business. They ask how could you not do it? What an opportunity!"

A major factor for Peter and Olivia was the potential that they saw in the business. Peter felt his experience in finance would be a strategic asset the hotel could leverage, and Olivia was sure that her marketing experience would be useful. They felt their wide range of international experiences and contacts could help the Hotel grow and develop new markets and lines of business. They saw that the tourism business was changing, with people taking shorter but more frequent holiday breaks, demanding new experiences. They felt that the hotel had the opportunity to tap into new clientele from a more diverse set of countries in Asia or South America.

There were, however, several factors that made Peter and Olivia's transition back to Lermoos and the Hotel difficult. First, there were no clear positions for either of them at the hotel. Second, the fact that Olivia did not speak German and had always lived in big cities made it difficult for her to integrate and contribute within the Lermoos community. Finally, after Peter and Olivia's return to Lermoos, Peter and Charles and their spouses struggled to develop a working relationship. The two brothers had very different personalities and life experiences. Charles had envied his younger brother since their childhood and felt that their parents had always favoured Peter and made life easier for him, in part because Peter had diabetes.

After Peter returned, Charles was very nervous about his future role at the hotel, and he and Susan had several arguments and difficult moments with Peter and Olivia due to the tension they all felt. Charles and Susan were concerned that Peter and Olivia were trying to come in and take over the Hotel despite not having a strong knowledge of the industry and region. The relationship between the two brothers had never been close, but after Peter's return relations broke down further and the two brothers generally avoided each other and rarely spoke. Both, Charles and Peter, and their spouses, had an interest in owning and working at the Hotel. They were sure that they had the skills and experience necessary to successfully run the hotel and continue to expand the hotel's marketing and services.



INFORMATION ABOUT FAMILY BUSINESS

The Hotel was founded as a farm inn by Patricia's parents in 1965 when Lermoos was a small village in the Austrian Alps. In 1982, when it had sixteen staff people and 50 small rooms, the inn was passed down to Patricia and her young husband Perry. The inn offered a basic bed and breakfast, and, initially, the couple maintained the style of the inn. Later, in the 1980s, with the trend toward a focus on the special interests of guests, the couple began to focus more on families and decided to enhance the hotel by adding rooms and services. Over the next 30 years they transformed the small inn into a high-end four star family resort that catered to wealthy European families on holiday. Patricia and Perry were leading hospitality innovators in Lermoos and helped develop the small village into a well-known four-season resort destination. In the 1990s, the Hotel had been one of the first Lermoos hotels that began focusing on families and the development of a whole family wellness offering. This required substantial investment and was seen as a new and risky undertaking, but their entrepreneurial risk-taking paid off and the hotel progressively added rooms and services and expanded its market. The most recent upgrade occurred in 2016 when the hotel invested 13 million Euro in a new outdoor wellness area, room refurbishments and a high-end restaurant.

In 2017, the hotel hosted 114,000 overnight stays, an increase of over 8% from the year before. It primarily drew from a regional market with 75% of customers from neighbouring Switzerland and Germany, and 10% from Benelux countries. The remainder came from Austria and other European states. Annual revenue in 2017 was 14 million Euro, with earnings before taxes of 3.2 million. In 2017, the net profit ratio was 20.8%, the return on assets were 12.3%. The equity ratio was 50.85% in 2016/2017 compared to 39.82% in 2015/2016 with a return on equity of 25.6% in 2016/2017 compared to 24.5% in 2015/2016. In 2017, the indirect debt-repayment period was calculated with 3.1 years for the economic year 2016/2017 compared to 4.9 years in 2015/2016. The hotel employed 90 staff full time, and over 130 in peak times, including 5 managers. Staff costs per employee of 47,000 Euro. It had strong staff loyalty and retention with an annual employee turnover rate of 20%, which was far below the average within the Lermoos tourism sector.

A year-round destination, Lermoos was in the Tirolean Alps in Austria with a population of approximately 1,000 permanent residents. The destination was among the most renowned family destinations in Europe, both summer and winter alike. The Hotel was one of the most renowned accommodation providers in the destination, and Perry and Patricia had been leaders within the Lermoos destination management organization helping to build a brand that identified Lermoos as a family friendly location that offered high quality accommodations, excellent service and a diverse set of mountain holiday activities. The Hotel was one of the first hotels in the region to offer enhanced wellness and spa services, and the 2016 expansion



of these services kept the Hotel at the forefront of high-end accommodations within the destination.

PROBLEM TO SOLVE

The father, Perry, is presented as being controlling and unwilling to let go of "his" business. His clashes began when he and his wife took over from her parents, but those were resolved when her parents withdrew from the business. Perry has expressed reservations about withdrawing from the business both because he enjoys working and because he feels he and his wife are more committed to the business than their sons.

Patricia, whose family started the hotel, wants to step back from regular operations, but she is unsure how to convince her husband to take that step. She is concerned about family harmony, and while it is her goal to have everyone in the family working together at the hotel, she also fears that this will not be possible.

The elder son, Charles, and his wife Susan, feel they have been committed to the business, but have not felt appreciated by their parents, especially by their father, Perry. They feel they have the skills to take over but have been blocked from bringing new ideas and they are concerned that their parents favour the younger son, Peter. They have clashed with Perry and are concerned about their future at the hotel.

The younger son, Peter, does not have a strong background in the hotel business, and neither he nor his wife Olivia have strong ties to the village where the hotel is located. They have a dream to move back to the village and help to run the hotel, but no clear plan or position within the hotel.

A lack of communications is a clear problem, as key players including the father and both sons, and the two brothers, are not talking with each other regularly. Everyone has a similar goal, but because they are not communicating, they have a lack of trust in each other and misunderstandings about intentions. There are also differences in management styles and priorities between Perry and his son Charles, and a lack of confidence and trust from Perry toward the skills and commitment of his sons and their partners.

QUESTIONS

Topic 1: Succession

- What are the key challenges that must be addressed and overcome for there to be a successful takeover of the hotel by the next generation?
- What succession strategy do you propose and why?



- What are the options for succession for the family?
- What additional options other than family succession might exist for the family and the hotel?

Topic 2: Communication

- What are the strengths, weaknesses, and interests of each of the family members?
- What kind of communication approach would support the succession strategy?

INSTRUCTIONS FOR STUDENTS

- Students should answer the questions posed -> Provide students with some literature?
- Template for students with question and points (why did they come up with this idea -> could be aligned to the evaluation criteria)
- Up for discussion: Connection to literature or only hands-on?
- Handing in: Written solution (5-6 pages)
- Video presentation -> can be video of team, animation etc. → pitch 3 min

EVALUATION

- **Aims and Process:** the team was able to identify the problem/crisis/issue, defines clear and comprehensible aims on how to solve it and describes its approach and the reasoning behind it
- **Structure & Form:** the form and structure of the final output and its presentation is creative (editing, tools used, design, attractiveness), comprehensible (red line), follows academic standards (citations), and uses adequate language.
- **Research (literature and theory):** the approach and processes to solve the problem are based on relevant literature and theory
- **Content / Solution / Outcome:** the team's solution provides an added value for the family business and its members (Level of Creativity, Level of Innovativeness, Level of Feasibility/Implementability)

Max. 5-8page



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