



The Family Business: Who's to Bless and Who's to Blame?

After working through this chapter you should be able to:

- Identify the inherent advantages family firms have over non-family firms
- Understand the roles of key individuals in the family firm
- Discuss the nature of conflict in family businesses
- Identify why a significant number of family businesses fail to be transferred successfully

INTRODUCTION

The *Collins English Dictionary and Thesaurus* (1992) defines 'Family' as '[a] parent and children or near relatives'. A family business is more difficult to classify. According to Litz (1997) and Sharma (2004) this is because the field itself is still relatively new and under-researched; therefore, several definitions exist. Litz (1995) suggests that a business can be defined as 'family' when its ownership and management are concentrated within a family unit.

Shanker and Astrachan (1996) are more prescriptive and note that the criteria used to define a family business can include:

- Percentage of ownership;
- Voting control;
- Power over strategic decisions;
- Involvement of multiple generations; and
- Active management of family members.

The *Australian Family and Private Business Survey* of 1997 classifies a business as 'family' when any one or more of the four following criteria are met:

- More than 50 per cent of the ownership is held by a single family;
- More than 50 per cent of the ownership is held by more than one family;

- A single family group effectively controls the business; or
- The majority of senior management is drawn from the same family.

In 2003 the same survey opted for a self-identification method, asking businesses to nominate whether they thought they were either a family or non-family business (Smyrnios, Walker, Le, Phan, Vuong, and Young, 2003).

Currently, *Entrepreneur.com*, defines a family firm as:

A business actively owned and/or managed by more than one member of the same family, <http://www.entrepreneur.com/encyclopedia/term/82060.html>, retrieved February 2008.

These definitions are unhelpful in terms of furthering scientific research in the field as they do not allow direct comparison between studies. However, they are useful here as they have a commonality and introduce the notion of 'family control' or dominance of the business by one or more family members which is appropriate for this chapter. Nonetheless, an assessment of the extent to which family businesses exists cannot be accurate due to definitional differences but we can make some reasonable assumptions. For example after reviewing the evidence, the Centre for Labor Research concluded that 67 per cent of Australian firms consider themselves to be family businesses (Spoehr, Nukic and Robertson, 2005). In the US, around 92 per cent of American businesses are classified as family businesses (Shanker and Astrachan, 1996). This makes the sector significant in terms of employment provision and wealth generation.

Reflective practice

1. How would you help overcome the challenge of defining small family hospitality firms?

This chapter identifies the difficulties in obtaining an accurate profile of small family owned hospitality firms and continues by discussing some typical roles played by family members in new hospitality businesses. A notion of new venture teams is introduced and the use of 'external' advisors outlined including governmental and non-governmental sources. The chapter continues by discussing the advantages that small hospitality family firms have over those managed by others and how conflict may be recognized and addressed. Finally, transferring the family business and succession planning are introduced with some suggestions how the complex process may be managed effectively.

HOSPITALITY AND TOURISM

Most hospitality and tourism enterprises fall into the small or micro firm category. Unfortunately, it is difficult to be entirely accurate due to the non-uniform manner in which the information is collected. However, aggregated data suggests that internationally most hotels are small to medium-sized (Lee-Ross, 1999). In Australia, they form 90 per cent of total hotel stock (Lee-Ross, 1998). Similarly, in the UK around 85 per cent of hotel firms are small (Sheldon, 1993). The Australian and UK profiles are reflected globally and Morisson (1998) comments that internationally, 'The small firm continues to play a significant role within the hotel industry . . .' (p. 191). Moreover, owner-operators account for 85 per cent of all hotels (MSI, 1996). This is confirmed by Wanhill (1997) who notes that the small and medium-sized hospitality sector is dominated by family businesses. It may therefore be concluded that family plays a vital role in the hospitality and tourism industry and that to understand entrepreneurship therein necessarily requires an understanding of how families think, interact and operate.

When it comes to starting a new hospitality business, there is a temptation to rush headlong into the process without first giving due consideration to those who will actually be involved. Often at start-up there may only be one person, the founder, and perhaps a 'significant' other who will probably be holding down a job elsewhere to ensure an income stream at this crucial early stage of the business. Assuming the entrepreneur wishes to grow the firm (not all do) creates a situation where one individual simply cannot undertake all the required activities, certainly not in the long-term. So who exactly becomes involved in running small hospitality firms? The following hypothetical case helps us to identify some key people and also highlights other issues including poor planning, impoverished knowledge of alternative sources of finance, role ambiguity and obligations of family members.

The 'Sea View' Bed and Breakfast

Stella and Gary Slack purchased a B & B in a UK seasonal seaside town. Formerly, they were locals living elsewhere in the town and so had a reasonable understanding of the tourist demand for accommodation during the busy summer months.

Stella held down a job in a local retail outlet whilst Gary worked for a gas and oil rig maintenance company. Tired of his 'two weeks on' and 'two weeks off' shift-working arrangements both he and Stella decided to start afresh as small hoteliers. After giving notice, Gary quit his job and they purchased an existing B & B business in need of some 'tender loving care'; Stella remained employed elsewhere as they would have to rely on her job for income during the 'off-season' when the business was closed.

After extensive refurbishment during the winter months, Stella and Gary opened their doors for business in June of the following year. At first, trade was slow but they had received a number of bookings from the regular trade established by their predecessors. Stereotypically, Stella did much of the cooking and Gary looked after general maintenance and some waiting at tables. As the summer season began to gather pace, their B & B became busy with many 'walk-ins' and increased prior bookings. This demand meant that for a period of around six 'peak' weeks, they managed to let all eight of their bedrooms almost every night. Understandably, this created extra work; far more than they could deal with by themselves. So like many new entrepreneurs they relied on family members, friends and locals to fill positions including, room attendants, wait staff and kitchen assistant. All individuals were paid the going rate for the job including family and friends. Some were *bona fide* employees whilst other were paid 'cash in hand'. As the season started to become quieter, some staff were no longer required.

After several successful Summer seasons, Stella and Gary decided to expand their business premises. Luckily the adjacent B & B was up for sale and the couple were most keen on making a purchase. However, they could not raise enough capital to secure the deal so they approached family members in the hope of an interest free loan. Much to their delight a brother and sister in law came to the rescue but with one condition. The new couple wanted joint ownership and, occupying similar roles, to work alongside Stella and Gary in the new venture.

After little thought, virtually no negotiation or scenario planning, Stella and Gary agreed to the condition. Soon after the house was purchased both converted into one large B & B with 16 bedrooms. After decorating and renaming the new B & B, all was set for their first busy summer season.

1. How would employing these individuals have affected the running of Stella and Gary's B & B and how should they have planned for the busy period?
2. How would the founders have advertised these employment positions?
3. What knowledge would Stella and Gary have needed to ensure their staff were enjoying fair and legal employment conditions?
4. What impact would the new couple have on the operation of the B & B?
5. Take an educated guess at some of the opportunities and challenges associated with joint ownerships and working with partners.

Source: the authors

Key point 7.1

Family plays a vital role in the hospitality and tourism industry and that to understand entrepreneurship therein necessarily requires an understanding of how families think, interact and operate.

THE CHOSEN FEW

As discussed in Chapter 1, many hospitality enterprises fail in the first year or so of operating. Reasons cited include poor marketing, inability to innovate, poor business planning, failure to delegate responsibility and so on. These shortcomings are essentially people-related, that is, many entrepreneurs lack relevant expertise and experience. Barringer and Ireland (2006) refer to this as the ‘... liability of newness ...’ (p. 127) where firms struggle because of inexperienced and inflexible founders and associates. One of the biggest hurdles is for the entrepreneur to identify their weaknesses and be totally honest about it. This is important when starting a business and questions the founder needs to ask herself include:

1. What do I know?
2. What don't I know?
3. What do I need to know?
4. Who has this expertise and knowledge?
5. How do I access and use these skills?

Satisfying these questions for some may be difficult, because entrepreneurs typically have a strong ‘locus of control’ (see Chapter 2) and as such, may not like to admit their shortcomings. However even before start-up, it is essential that founders are smart enough to realize that they may not have all of the answers and relevant business experience to run a small hospitality firm successfully. They may be deficient in a number of areas and require the advice and expertise of others. The best situation is where the family group is heterogeneous (within reason) and all individuals bring different knowledge and experience to bear on the new firm. However, a more usual scenario is where family members only possess a few complimentary skills or where the family group is so small (two people) that neither person has the required business knowledge.

So what can entrepreneurs do to address these knowledge and skill gaps? Fortunately, free advice is usually available from an array of public agencies and interest groups. Local tourism and hospitality associations are good places to seek advice. Several examples of generic small business services are shown below:

- Australian government sites - http://www.business.gov.au/Business+Entry+Point/How-to+guides/Thinking+of+starting+a+business/&http://www.australia.gov.au/Small_Business
- www.business.qld.gov.au/mentoring

- National Network of Area Consultative Committees funded by the Australian Government, working to promote regional development www.fnqacc.com;
- Council of Small Business of Australia Ltd. - <http://www.cosboa.org/webs/cosboa/cosboaweb.nsf/>
- Small Enterprise Association of Australia and New Zealand - <http://www.seaanz.asn.au/>
- UK Government - <http://www.businesslink.gov.uk/bdotg/action/home?domain=www.businesslink.gov.uk&target=http://www.businesslink.gov.uk/>
- Advice for small business (UK) - <http://www.smallbusiness.co.uk/> & <http://www.smallbusinessadvice.org.uk/sbas.asp>
- US Small Business Administration - <http://www.sba.gov/>
- European Small Business Advice - <http://www.esba-europe.org/>
- Small Business Europe - <http://www.smallbusinessseurope.org/en/>

Similar services are offered in other countries and are free with advice being offered on all aspects of running a small business including, staffing, strategies for growth, marketing, sources of finance, strategic planning and so on. Alternatively entrepreneurs can avail themselves of similar services from private firms who charge for such a service.

Another option for hospitality founders is to acquire and apply knowledge but this could take time and prove costly in the long run. Networking with others in industry associations and elsewhere through social outlets may also allow the entrepreneur access to business knowledge and information. Wherever the hospitality founder seeks information she must be eager and quick to learn if it is to be used effectively and developed. Family businesses are often at an advantage here as the knowledge acquired stays within the firm and grows organically over time with the addition of new family members. Whilst focused industry-relevant acumen is advantageous, prior generic business savvy is also important when starting a new business. So too is an awareness of funding availability. The following case illustrates this point.

How I Got Started

Nantwich-based entrepreneur Andrew Donaldson was running storage businesses in and around Manchester when he decided to get into the hotels business. He began by setting up his own company, The Egryn, to buy the Egryn hotel in the North Wales seaside resort of Abersoch. And he quickly secured [pounds sterling] 450 000 of financing from Bank of Scotland Corporate, which was recommended to him by his accountants.

Donaldson's main aim was to attract young families and budget travellers by offering cost-effective, comfortable rooms on a sliding price scale. Although there are numerous hotels and B&Bs in the area, he felt that holiday-makers on a tighter budget were not really catered for, leaving a lucrative gap in the market. Fortunately, Bank of Scotland Corporate shared his vision.

Having bought the hotel, Donaldson used the remainder of the cash to refurbish and extend the property, turning the former owner's accommodation into a three-bedroom, self-catered chalet, bringing the total number of bedrooms available to 10, along with one-bedroom staff accommodation.

And he certainly didn't hang about. Contractors were lined up and waiting and, after Donaldson got the keys on 1 July, 'with a lot of hard work and endeavour' the new-look Egryn was open for business within 48 hours.

Occupancy rates have been good so far, with the self-catering chalet let out for the whole of the summer. If the project continues to be a success, Donaldson, who set up his first business in 1991 with a loan from the Prince's Trust, aims to develop further sites in the area, making the most of his storage knowhow.

'Buying a hotel is a first for me,' he says, laughing, 'although the two companies both work along the same principle of letting out space.'

Source: Donaldson, A. (2004) How I got started, *Caterer and Hotelkeeper*, Sept. 2, p. 105.

Reflective practice

1. Interview an entrepreneur known to you asking how they identified their knowledge and skills gap and how they addressed the problem.

A checklist of those who may be involved directly and indirectly in a new venture is shown in [Table 7.1](#). Clearly some roles apply to family members whereas other more specialized ones do not.

The above list is by no means exhaustive, for example, the last category of 'Other professionals' is vast as each person offers a different service. Moreover, a decision to hire such people must not be taken lightly, a variety of issues need to be considered beforehand. Shaper and Volery (2004) caution that business consultants must not be considered a panacea for all business challenges and the founder should engage in their own research before using such services. These authors provide a useful summary of criteria which must be addressed prior to engaging the services of business consultants; they are shown in [Figure 7.1](#).

TABLE 7.1 New venturers

Players	Details
Founding team	<ul style="list-style-type: none"> ■ Can be more effective than individual entrepreneur as mutual psychological support offered to each member; ■ Past successes are a good predictor of new venture also allows trust to be developed; ■ Heterogeneity provides good basis for inter team debate provided individuals are significantly different to each other; ■ Power struggles may ensue as venture develops; ■ Members must have appropriate skills, knowledge and experience and operational ability linked to the venture. Restaurateurs should ideally have food production and service abilities in addition to higher management capabilities.
Key employees	<ul style="list-style-type: none"> ■ Decision to hire based on solid planning, some founders may play key staffing roles, especially in a family business where flexibility is key; ■ Good 'job fit' is essential, recruited through existing founder network, advertisements in various media, executive search firms for management staff.
Board of directors	<ul style="list-style-type: none"> ■ Necessary when firm becomes incorporated, not usual in hospitality SMEs especially at start-up; ■ Directors add 'legitimacy' to firm, sends signals to customers, employees and investors; ■ May be founders or external who oversee appointment of managers, declaration of dividends and affairs of the firm, usually meet quarterly ■ Other key role is ongoing support and guidance for founders and managers, therefore essential that directors have appropriate experience.
Advisory board	<ul style="list-style-type: none"> ■ Ongoing panel of experts, similar role to directors but has no legal responsibility for firm
Lenders and investors	<ul style="list-style-type: none"> ■ In the family firm these will probably be relatives and friends. May also be keen to observe the hotel closely and to become involved depending on the significance of the investment; ■ Can be a cause of conflict where investor has different ideas of operating compared with founders and managers; ■ Can provide invaluable help and advice in areas including recruitment, market knowledge, as directors or advisors.
Other professionals	<ul style="list-style-type: none"> ■ These include, lawyers, accountants, architects, business consultants and so on; ■ Small hospitality businesses might use a consultant for advice in several areas as employing one person in each designated area would be too costly.

Source: Adapted from Barringer and Ireland (2006, pp. 128–140).

An important issue not shown above is that of entrepreneurial confidence. Often the founders of small hospitality firms have technical knowledge and little else. It is vital that rapport is established between founder and consultant if the bases of the new firm are to be established to optimize its chances of future success. Some consultants are passive whereby the client is assisted in finding their own solutions. Others adopt a more dominant role as problem-solver (solicitor or accountant), whilst some challenges are of a more fixed nature. For example, a hotelier might decide to adopt computer software to deal with guest reservations. In this instance the consultant may be an

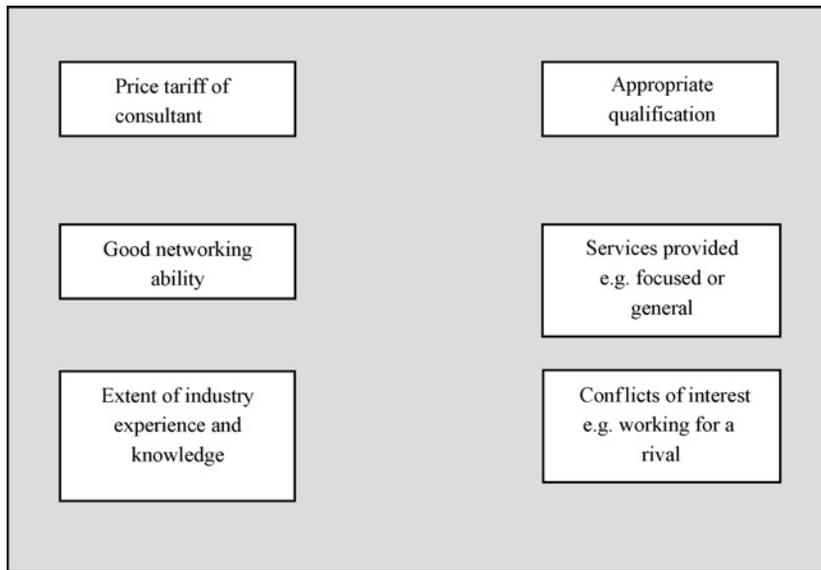


FIGURE 7.1 Key selection criteria.

Adapted from: Shaper and Volery (2004, p. 232).

employee of the software manufacturing firm hired to give specific instructions about how to use the new system. In any event, the type of problem usually dictates the consultancy style.

Key point 7.2

Before opting to use a consultant for business advice founders must engage in their own research to establish the credibility of the potential advisor.

ADVANTAGES OF THE FAMILY BUSINESS

Leach (1996) cites seven advantages enjoyed by family firms:

- Specialist knowledge and know-how protected and retained by the family;
- Free advice from experienced family members;
- Extensive business and social networks;
- Extensive knowledge of markets, suppliers etc;
- Commitment through family ties;
- Cultural long-term stability and positivity relative to non family firms;
- Reliability and pride building strong relationships with customers;

- Short-lines of communication allows fast decision-making;
- Family usually willing to advance loans at zero or low interest with 'flexible' repayments;
- Initial passion of founder may be transferred inter-generationally;
- Resilience of family members during times of crisis;
- Long-range planning although not necessarily of the 'formal type'; and
- Employment flexibility in terms of time and effort and whether to accept a full salary all of the time especially when business is not performing.

Adapted from: Leach (1996) and Deakins and Freel (2006).

Sirmon and Hitt (2003) also consider the family firm to have several inherent advantages noting that success depends on the management of a few unique resources. The first is how complimentary the skill sets of immediate family are. Second, a recognition that individual family members are likely to have a variety of complimentary external networks and linkages. The third resource is the nature of family capital which is often unfettered by red tape, is 'flexible' (in some cases interest-free!), and may be relied on in cases of emergency (including free labour). Finally because of the trust element present in family firms, much of the costs associated with 'official' policies, procedures, security systems and so on are at a minimum. Burns (2001, p. 359) agrees noting that a business culture characterized by task orientation, and performance management is at a disadvantage because it lacks a strong sense of emotional attachment which characterizes the family-firm.

However, family businesses also have their problems, the most obvious being nepotism. Deakins and Freel (2006) consider that the overarching management style exhibited in small firms tends to be autocratic and malignantly paternalistic. Overwhelming evidence suggests that this is also the case in the hospitality and tourism industry. Family firms are prone to conflict for a number of reasons which are discussed in the next section.

Reflective practice

1. Through either desk research or by interviewing a hospitality entrepreneur known to you, identify some key inherent advantages that family businesses enjoy.

FAMILY CONFLICT

Business founders typically experience higher workloads than virtually all categories of employee (Harris, Saltstone and Fabroni, 1999). It would

therefore be reasonable to expect high stress levels amongst these individuals. Furthermore, these extreme conditions are likely to engender conflict in the workplace. This may also be compounded by other issues if working closely with family members. Conflict within the family is likely to negatively impact on venture performance by lowering the well-being of the founder and subsequently hinders work performance (Sheldon, 1993, p. 289). Shelton (2006) defines work–family conflict as:

‘A form of inter-role conflict arising because pressures emanating from one role are incompatible with those from another role’ (p. 288).

So does this mean that conflict is reduced when the work/life interface is managed appropriately? The answer is ‘yes’ but there appear to be other challenges and nuances within the family group which must also be considered.

So how is conflict best reduced in family businesses? The evidence is conflicting but some cautious generalizations can be made. In small to medium-sized hospitality firms, co-founders are often family members. However, convening the family team or rather the appropriate configuration thereof is essential and may be challenging due to the inherent roles played by individuals as family members. For example, who will be the leader of the family business, the child, father, mother, uncle etc.? The extra dynamic here is that of the ‘traditional’ hierarchical structure of the family and the culturally bound relationships between members. Lambing and Kuehl (2007) note that family businesses are complex precisely because they are based on family relationships rather than the relatively simple notion of making money. There may be cases of nepotism, sibling rivalry for the top job and disharmony between parents and children. These challenges may be exacerbated when offspring marry and the family becomes extended. Not to mention the extra financial burden accompanying the advent of more members joining the business.

What about the relatively simpler family profile of only two members? Many small hospitality firms are comprised of only husband and wife (or similar) and employ others only during the busy periods. Even this situation may create a double edged sword. [Figure 7.2](#) identifies some related advantages and disadvantages.

Essentially, the issue here is ‘business creep’, that is, when work and family life become merged. This often happens during the early stages because couples (and other members) are intent on making their business successful to the exclusion of everything else; family life therefore takes second place. In extreme cases, this can continue until it is hard to distinguish the family from the firm. Anxieties and work-related stress can manifest in the home environment. Ultimately, these pressures can result in couples divorcing and other family members becoming estranged. Interestingly, divorce rates and/

Advantages	Disadvantages
Both partners/spouses work long hours to make the hospitality business a success	Too much time spent together
Partners/spouses can rearrange working conditions to account for domestic chores	Conversations and activities in domestic setting are dominated by business issues
Marriage/relationship and careers and intertwined	Divorce/separation may cause loss of business for at least one of the partners
Trust	

FIGURE 7.2 Advantages and disadvantages of family 'couples'.

Adapted from: Lambing and Kuehl (2007, p. 95).

or separations amongst hospitality managers are high at 33 per cent (Shrimpton, 2002). So too is alcoholism which may also reflect the significant stress levels under which family members work (Crosland, 2007).

So how can the impact of business creep be mitigated? Several coping strategies exist and they fall into two categories. The first considers psychological coping responses to negative emotions surrounding work–family conflict (see Ashforth, 2000). For example, suppression of behaviour and thoughts between the work and family domain, fixation and significant focus on only one domain to counteract the negative consequences of the other and limited involvement in one area to cope with demands from the other.

There are a number of practical steps which may help limit the negative effects of working side by side with a partner. Probably the easiest to implement is establishing separate times to discuss business and personal matters. A somewhat more challenging practice is to describe each partner's behaviour and then discuss it. If all else fails, a family business consultant may be used or even a family relationships counsellor! (Lambing and Kuehl, 2007).

The second strategy looks at role manipulation. Rooted in the earlier work of Moen and Yu (2000), Shelton (2006) advances the notion that role elimination, role reduction and role-sharing are key considerations for high performing family businesses (particularly for female entrepreneurs). Evidence suggests that work-family conflict may be lowered more effectively (than internal coping mechanisms) by adopting appropriate work-family management strategies as they can reduce conflict by changing the configuration of competing family and work demands. Moreover, if used judiciously these

measures can also reduce the requirement for psychological coping mechanisms (Shelton, 2006). The strategies shown below help lower family conflict by organizing, sequencing and delegating work and family activities:

- Role elimination – no role in family
- Role reduction – smaller family role or deferring a family until business is established
- Role sharing
 - delegation of role played in the venture (participative management techniques)
 - delegation of family role by outsourcing family obligations

The actual strategy chosen will depend on the salience of work and family roles (i.e. which is most important) and the type and quality of external resources available. The founder has to find an optimum ‘fit’ taking these factors into consideration. Shelton (2006) advances the idea that salience may be mapped against external resources as shown in Table 7.2.

It also goes without saying that in a business sense, both partners must share goals for the growth and development of the firm and allocation of roles. Furthermore, these issues are seldom static and may change over time as the business changes and matures. It is essential to revisit any original agreements on a regular basis.

The road is obviously fraught with difficulties and some commentators, in a general sense, recommend the use of a ‘family council’ whereby members meet regularly to discuss and debate major issues. Advisory boards may also be used to help ameliorate the inherent problems of governing a family business. Burns (2001) advises a four-step approach to resolving conflict within the family:

- Address the critical issues relating to family involvement in the business, that is, how does the business relate to the family and vice versa;
- Establish a family council to express views and set ground rules;

TABLE 7.2 Optimal work-family management strategy choices

		Internal family salience	
		Low	High
External resources	High	Delegate family role (role-share)	Delegate venture role (role share)
	Low	No family (role elimination)	Defer family Smaller family (role reduction)

Source: Shelton (2006, p. 292).

- Construct a family constitution by developing a written statement of the family's values, beliefs and objectives; and
- Monitoring progress and maintaining regular communication through council meetings.

Adapted from: Burns (2001, p. 367).

In a practical sense resolving family conflict is unlikely to be as smooth as suggested by the above model but these elements are important and the wise family business founder(s) would be advised to give each adequate attention.

Key point 7.3

There are two overall strategies for mitigating the negative impacts of business creep. The first considers psychological coping responses to negative emotions surrounding work-family conflict. The second is the manipulation of the work-family situation by role elimination, role reduction and role-sharing.

Reflective practice

1. What strategy would you adopt to avoid business creep in the small family owned and run hospitality firm and why?

SUCCESSION PLANNING IN THE FAMILY BUSINESS

The effective transference of the small hospitality firm from one generation to another (i.e. succession) is a direct result of thorough planning and communication as it addresses a number of key questions including:

- Will the business be transferred on a certain date or by a certain date? The former is immediate whilst the other is a longer term option and, all things being equal, the preferable pathway;
- Who will be the successor and are they ready and capable of running the business successfully? If not, how will the transition period be managed and by whom until the 'heir' is sufficiently skilled?
- Does the heir want to take over the hospitality enterprise?
- Do they know that parents are planning to hand it over? and
- When will the business be transferred?

The following case illustrates some of the above issues.

A Success Story

Like many hotel owners, long-time Best Western member Don Seaton grew up in a lodging industry family. More than 50 years ago, his parents owned a small, independent property in the Lake Tahoe region of California.

‘I started out when I was eight years old, doing the laundry,’ Seaton said. ‘We didn’t have dryers back then, so my job also involved taking the clothes to the back line, drying and folding them.’

Looking at a career in education, Seaton went on to college, but after graduation, he found it difficult to make ends meet on a teacher’s salary. In 1960, his father offered him a full-time marketing position at the property, which by then was a Travelodge. Seaton then started out on his own, acquiring a Travelodge in Clearwater Beach, Fla. Seaton sold the property, but by 1973, his family had acquired a membership for the 110-room Best Western Seawake Inn, also in Clearwater Beach.

Now, almost 30 years later, his daughter Wendy Damsker is manager of the Seawake. His other two children also have worked in the lodging industry. And Seaton’s Best Western portfolio now includes the 116-room Best Western Crystal River Resort in Crystal River, Fla., and the 124-room Best Western Harbor View in Melbourne, Fla.

As the son of a hotelier and father of children who wish to continue in the business, Seaton typifies the ‘sandwich generation.’

When it came time for Seaton to take over the business, he chose not to accept the inheritance of his parent’s stock, but to acquire their interest equally with his wife. Seaton and his wife now own 50 per cent, with the remaining 50 per cent split among his three children. In part, this has been undertaken as a strategy to blunt the otherwise significant impact of inheritance taxes.

‘In our kind of business, it’s very important that the next generation doesn’t get clobbered by these taxes,’ said Seaton, who also has six grandchildren—none of which has shown an interest to make lodging their career choice.

When imparting grandfatherly advice, Seaton encourages them to be flexible. Like family entrepreneurs in other industries, he knows the fourth generation of a hotel family doesn’t tend to be locked into the family tradition.

Sid Friedman is president and CEO of Philadelphia-based Corporate Financial Services, a consulting firm that helps manage the generational transition in hospitality industry families. Friedman said he believes successful succession planning is an art comprising prudent financial planning and managing the human relationships and pride that come into play as part of family life.

When it comes to the financial aspects, Friedman is a big believer in family-limited partnerships.

'When you start bringing your kids into the business, the growth is in your kids' names, not in yours,' he said.

Gift taxes on bequeathed-limited partnerships are significantly lower than estate taxes.

'Limited partnerships help get the assets out of the estate,' said Bill Meyer, co-owner of Meyer Jabara Hotels, a company based in West Palm Beach, Fla., with a 25-hotel portfolio. 'The [Internal Revenue Service] will attribute the limited-partnership interest with a 25-per cent discounted value for estate-tax purposes. Gifts of a limited-partnership interest don't have control aspects, which is why the IRS discounts the value of that gift.'

Meyer's father and the father of his business partner, Bill Jabara, are 40-year veterans who still play important roles in their hotel businesses. Their franchises include Holiday Inn, Sheraton, Marriott and Hilton.

Family matters come into play when heirs who have been substantially vested feel they should have the major say in day-to-day hotel-management affairs. Friedman said disputes might result if the parents don't want to cede control. He recommends setting up two classes of stock, with parents retaining a majority of voting shares.

Friedman said that while some children in a given family might be interested in continuing in the hotel business, others might not. In such cases, he suggested awarding ownership with a ratio partially determined by each child's degree of interest.

Michael Gulesarian is certainly an interested member of a second-generation hotel family. His father, 68-year-old Ed Gulesarian, owns a 175-room Sheraton Commander hotel in Cambridge, Mass. Trained as an engineer, Ed Gulesarian has been with the property since 1969. That year, his own father, who started in the residential suites business in 1946 and acquired the Commander in 1960, brought him into the business.

Ed Gulesarian still owns the 75-year-old Sheraton Commander, but his son Michael is general manager. At times, this can lead to generational disputes about how much authority the offspring has.

'He is basically running the place and really doing an excellent job,' Ed Gulesarian said. 'I have given the reins to him, but sometimes I stick my nose in things. I find it difficult to let go.'

Gulesarian has yet to work out the financial aspects of generational transfer.

'We have to do some more estate planning,' he said. 'Three weeks ago, the sermon in church was, 'Do what you can do today, and don't leave it to tomorrow.' That's probably right.'

Cendant Corp. franchisee Rick Williams also grew up in the hospitality industry as one of three brothers in an entrepreneurial family that first owned several motels in Georgia during

the 1960s. He recalled overhearing conversations about the business as a child, but his education didn't stop there.

'Throughout the years, my exposure went beyond the dinner table,' Williams said. 'I bell-hopped, checked rooms and desk-clerked.'

Williams is responsible for the 10-property hotel arm of Adel, Ga.-based Williams Investment Co. Because Williams was more interested in the hospitality business than his siblings, he said they have complemented each other. His father, John Williams, still drops by the office. *Source:* Shaw (2002) Successful succession transfers take prudent financial planning, *Hotel & Motel Management*, <http://www.hotelmotel.com/hotelmotel/article/articleDetail.jsp?id=37172>, Retrieved February 2008.

Unfortunately succession planning in small family firms is an area which is often haphazard and 'organic'. Smyrniotis *et al.* (2003) note that amongst first generation family firms in Australia, only just over half survive into second generation with around a quarter of this proportion following through to the third generation. North American succession statistics are similar with only 30 per cent of businesses surviving the first generation (Ward, 1988) with a mere 15 per cent passing to the third generation (Morris, Williams, Jeffrey and Avila, 1997). These authors consider a lack of planning as the major reason for failure including family quarrels leading to poor decision-making or no decision-making, irrational division of family assets, appointment of incompetent managers and so on. The hypothetical case below illustrates some of these challenges.

Growing Pains

David and Ruth Edwards were a successful entrepreneurial couple who owned a seventy-bedroom seaside hotel. Originally some 25 years earlier, they bought into an equal partnership arrangement with four existing partners. After a couple of years, they raised enough capital to buy out all of them and became proud sole owners of their establishment. In their late thirties at the time of purchase, they had a son Eric aged 16 who began to work in various roles. Eric continued to gain operational hospitality skills and experience, even working for short periods in other hotels, up until he left the region to attend university. During this time Eric returned during vacations to work for his parents in the family business. After graduation, he returned to work full-time in the hotel but now as a supervisor/junior manager. Happy to be working in this new capacity, Eric was keen to be given more responsibility for the strategic side of the business. He and his father also now broached the idea of succession once David and Ruth neared retirement age. Eric greeted this with enthusiasm but was disappointed with the outcome. Discussions simply consisted of ill-focused exchanges about what might or might not happen in the future with his father

constantly stating that 'One day son, all of this will be yours'. This was rather frustrating for Eric but he was unsure what he should do next, after all it was his parent's business and they could really do what they liked with it.

As the years went by Eric's role as manager really amounted to nothing more than providing emergency cover across most departments when staff failed to turn in for work. In fact, the only time Eric was granted any managerial responsibility was on his parent's one day off every week. And on these days he would receive a constant stream of telephone calls from his mother telling him what he should and should not be doing when dealing with issues that may arise on that day.

On a more personal level, Eric was feeling discontented as recently he sought to move out of the family home into a place of his own. Much to his disappointment he was unable to arrange a mortgage for a nearby house because his salary was relatively low in comparison with other paid employment for a man of his qualifications and experience. Begrudgingly he had to approach his parents to raise extra capital for the purchase. They of course were more than happy to do so but Eric was starting to feel beholden to them and began to question his financial worth and as a member of the family business. After undertaking desk research on salary levels for comparable occupations he became even more disgruntled.

A couple of years later Eric got married to Layla. She had extensive management experience in hotels but left her most recent position to accompany Eric in the family business. All four family members now worked together and Eric hoped that this new situation would tacitly persuade his parents to give him and Layla more real managerial responsibilities in the hotel. In more private moments, Eric and Layla saw that the business was doing reasonably well but there was much room for improvement, particularly in the area of banqueting and weddings. Fortunately, they could cater for these events with virtually no disruption to the ongoing business of the hotel as it had several kitchens and function rooms which could be easily cordoned off whilst events were taking place. After much discussion, from their notes, they drew up a comprehensive business plan and presented it to David and Ruth. It was received rather coldly and unenthusiastically despite their being few costs apart from employing a limited number of wait staff as and when the situation demanded. After the ensuing discussions where the parents were non-committal, nothing more was said about the matter. Six months later Eric once again tried to convince his parents about the worth of the idea. He was informed that while the scheme seemed reasonable, both David and Ruth were quite happy with the way things were and could not really see anything other than extra work being created for everyone, if the new idea was pursued.

Eric and Layla felt that this response was not only typical of people entrenched in a particular way of thinking and working but also short-sighted. After all, the family business would soon be expected to support four people rather than David, Ruth and, to some extent, Eric. They also considered his father's attitude to be rather disrespectful of their feelings and abilities. Later that year Eric and Layla found paid employment elsewhere and moved to a different region.

Some ten years later, David and Ruth decided to sell the family business and retire. After a lengthy five years on the real estate market, the hotel was purchased by a Chinese consortium for a vastly reduced price.

1. Discuss the important succession planning and issues revealed in this case.
2. Identify the major problems from the perspectives of Eric; and his parents.
3. Suggest how things could have been managed more effectively.

Source: the authors

Unfortunately, this case reflects a common situation where there is unclear communication between the founders and their children. It also highlights the common entrepreneurial challenge of an inability or unwillingness to delegate responsibility. Finally, it exposes how unsatisfactory transferring (or not as the case may be!) a business can be if succession plans are not seriously considered well in advance of retirement. There is really no substitute for careful planning when family businesses are passed from generation to generation. However, even with a succession plan in place, transferring a family business is challenging.

The following case similarly illustrates the often ‘unspoken’ and unplanned process of succession.

Kingtree Lodge: Savouring Success

Website: <http://www.kingtreelodge.com.au>

David and Cheryl Rourke are the original start-up owners of Kingtree Lodge and Kingtree Wines in the Ferguson Valley. This valley is a lush and verdant part of the Geographe Wine Region, 38 kms east of the regional port city of Bunbury and some 200 kms south of the state capital Perth, Western Australia. The decision to move to Ferguson Valley was in part a ‘tree-change’ for the couple since the valley is a certainly a wonderful place to live, work or visit. In this context, their investment decision did have a lifestyle aspect to it which is reflected in the way they have structured the business.

Built in 1991, the property consists of a federation style award winning two storey lodge built from beautiful local polished hardwood timbers. The main building is over 950 square metres in size and is situated high up overlooking 100 acres of prime valley land. The property was purpose-built to accommodate the family and up to eight guests in separate areas of the two storey structure. The business mix includes a vineyard, café and the hosted accommodation, all of which this couple run with some help from their eldest son Peter.

The wines from the vineyard have collected many awards including the Gold Medal at the Qantas/Mount Barker Show, Silver and Bronze Medals at the Perth Royal Show and Silver and Bronze Medals at the Geographe Wine Show. This entrepreneurial couple have built up the property to now be worth in excess of AUD\$2,500,000 with no debts to external parties. It is all too easy for the casual observer to forget that they work long hours and have all the market and seasonal risks attendant with running a hospitality and viticulture business.

Success has come through hard work, attention to detail and a positive ‘can do’ approach to life and business.

At the time of writing this case Cheryl was 52 years of age and David was 74, they have two children aged 22 (Peter) and 11 (Olivia) from their marriage of 24 years. Considering their age, it is apparent that the Rourkes have already given considerable thought to who will inherit the property if something were to happen to them. Olivia is too young to consider her future career and Peter is still undecided about the long term viability of working on the farm. The vision that the Rourkes now articulate is one where son Peter and his new wife will work the vineyard part-time, build a home on the property and perhaps continue to work off-farm. At present Peter and his wife are trying life off the farm, working in higher paid opportunities that are the result of the mining boom happening in the northern parts of Western Australia. Until Peter returns home and makes a career decision the future of the winery remains in limbo, to sell or to pass on to the children. With father David now having turned 75 he wants to retire in the near future, so some tough decisions are needed.

It seems unlikely that the hosted accommodation business will be viable once Cheryl decides to retire because they need and want to continue living in the property. When discussions of succession switch to the hosted accommodation Cheryl quips that her 'retirement plan was death'. The top floor of the lodge was designed as a retirement space for the Rourkes. Once they retire, the downstairs hosted accommodation area will be used to vacation the family they now have, and any new grand children. So, even as they plan for the possible end of one component of the business they look forward to enjoying new beginnings.

Source: Weber, 2007

Burns (2001) explains the succession process through a model based on that of Churchill and Hatten (1987). Essentially there are four stages involved in the transfer of power:

- Owner managed firm – early stage when founder has control and son/daughter are introduced to the business permanently;
- Training and development – decision is made to pass business on to heir and process of training and development takes place;
- Partnership – heir shows enough acumen and knowledge and founder relinquishes some control and engages in more delegation and power sharing; and
- Power transfer – strategic planning, management control and operational responsibility shifts to the incoming generation with founder playing a less active role in business and ultimately retiring.

Adapted from: Burns (2001, p. 362)

Key point 7.4

Amongst first generation family firms in Australia, only just over half survive into second generation with around a quarter of this proportion following through to the third generation.

In reality, handovers are not quite as prescriptive or systematic as the model suggests and conflicts may be frequent taking a variety of forms with a number of behavioural outcomes. These include the orientation of the founder which, according to Lambing and Kuehl (2007), is linked with their strong locus of control. This means they are loath to relinquish control of their business to anyone including their children. This may manifest as jealousy as the entrepreneur's control ebbs away. The founder may also ensure boundaries are unclear so that they can still exert significant power in the decision-making process. A less extreme version is where the original owner expects their offspring to manage the business in exactly the same manner as they have done. This can create enormous problems where second generation family members have different ambitions and attitudes (Deakins and Freel, 2006). Managing a family business with limited autonomy where major decisions are still being taken by the founder is a recipe for disaster (as illustrated by the 'Growing pains' case).

There may also be the issue of sibling rivalry (O'Brien, 1998). What happens when there are many children, power-sharing? This sounds like a reasonable solution but it does not always work especially if the founders make no distinction between heirs active in the firm and those who are not. Perhaps appointing the most qualified sibling as leader could help but what constitutes 'most qualified'? Will the remaining siblings accept this decision as fair? Martin, Martin, Martin, and Mabbert (2002) identify the following 'succession risk factors':

- firms where there is no distinct management team and employing between 10 and 50 employees;
- where business success is attributable to owner's personal goals;
- where founder is unable to delegate decision-making effectively;
- an absence of an internal successor; and
- when owner ignores the need for succession.

The key for successful transition is to begin planning early so that transference is a gradual process rather than one 'transplanted' onto the heir. Moreover, the planning process should be intergenerational and involve both active and non-active family members. It is often useful to develop something in writing which sets out roles, responsibilities, objectives and a management framework. It is also important to remember that transferring a small hospitality firm will have financial and tax implications. Call in solicitors and accountants to give expert legal and financial advice. For example, in many countries, founders can 'gift' business assets up to a certain sum per annum to the next generation without incurring financial penalties and minimize inheritance tax upon the death of the founder. Planning for retirement is also an important but often overlooked element in the context of business

transference. This will have positive financial and emotional outcomes so long as the decision to retire is resolute (Burns, 2001).

Reflective practice

1. Through desk research, identify two successful intergenerational hospitality firms and discuss the reasons for their accomplishments. Now repeat the exercise for two family firms who have not enjoyed similar success.

Assuming heirs do not want to establish different careers, Deakins and Freel (2006) advance the notion that for successful transition, founders must have a full understanding of their situation and ensure that the successor receives appropriate training. In order to ensure clarity of roles and responsibilities it is a good idea to include such in the firm's business plan to avoid squabbles but also to inform potential investors should this be desired in the future.

Harvey (2004) concurs and identifies several key factors in successful transitions including:

- Understanding the need for change and planning for it;
- Willingness of founder to foresee retirement;
- Recognising the importance of business education amongst heirs;
- Making sure individuals are trained;
- Ensuring heirs work elsewhere to broaden their business experience and aspirations;
- Ensuring heirs have a comprehensive knowledge of the family business where possible; and
- Engendering motivation amongst heirs to run the business.

Adapted from: Deakins and Freel (2006)

Manikutty (2004) proposes that for a family firm to be successful after transferral it must focus on several independent variables grouped under three headings of governance, business philosophy and culture and managerial practices. Specifically, the variables are:

- Governance
 - A greater number of external members serving on the board of directors;
 - Decisions being taken collectively rather than the Chief Executive Officer; and
 - Having a clear succession plan.

- Business philosophy and culture
 - A continuation of the founder's business philosophy by the subsequent generation; and
 - An adherence by subsequent family members to the cultural norms of the founder.

- Management practices
 - Delegation of important decisions to lower levels;
 - Prioritization of team management as preferred practice;
 - Focus on strategy; and
 - Sophisticated and systematic financial, marketing and operational planning; and a use of outside services of consultants and advisors.

Adapted from: Manikutty (2004).

SUMMARY

Notwithstanding the difficulties of defining and therefore establishing an accurate quantum of family owned and operated hospitality firms, they would appear to dominate the hospitality industry internationally. Many fail within their first few years of operation but others succeed. This chapter has over-viewed some of the probable causes for these outcomes.

There can be no doubt that many small family owned hospitality businesses become established due to the enthusiasm and sheer hard work of the founders. However, the ability and willingness of these individuals to engage in appropriate planning would appear less than forthcoming. Before start-up, founders need to identify their own strengths and weaknesses to determine who will actually be involved in the business. Many small hospitality enterprises are family run and for this reason have a number of potential advantages of those operated by managers and employees. A few of these are:

- Commitment;
- Resilience;
- A cheap or even free labour force;
- Long-term stability; and
- 'Flexible' financing.

However, the above benefits will only occur provided account is taken of the attributes each family member brings to the firm, that is, they must be complementary to avoid role conflict and duplication. Moreover, other challenges arise including a potential for nepotism, sibling rivalry, exploitation and so on.

A common problem encountered in small hospitality firms especially in the early stages is 'business creep' where work and family life become merged. New entrepreneurs have a tendency to devote all of their time and effort to the new business and relegate or put family life on hold. This is understandable during start up but if allowed to perpetuate can have a number of negative outcomes including divorce or separation for couples, estranged family members and ultimate failure of the small hospitality firm. There are some practical measures and coping strategies which if adopted may help mitigate business creep including:

- limiting involvement in either work or family domain to cope with the demands from either area;
- establishing separate times to discuss business and personal matters; and
- delegation of family responsibility to another person and so on.

An overall strategy is to establish a family council where members meet regularly and discuss major issues.

One could be forgiven for thinking handing over a family business to successive generations is a fairly straightforward affair. However, this is not the case and succession planning or transferring the family firm is an area where careful planning is an absolute must. Aggregated evidence suggests that between 30 and 50 per cent of all small businesses survive into second generation, with significantly fewer following through into the successive generation. There are a variety of challenges to the smooth handover of a family business; some concern issues of financial planning but many more surround the emotions of the founders and heir(s). For example, some owners tend to resent losing power after transferring the firm and actively seek to limit the decision making autonomy of the new family member. Similarly, founders may have not considered the matter of retirement to any great extent and are left making decisions for which they nor their successors are prepared. Other challenges where founders have more than one child include sibling rivalry, identifying criteria most effective when delegating power and control and whether to include children who are not already active in the business.

Proceeding on the basis that family members do not see employment elsewhere and are internally motivated to take over the firm, there are some key issues which founders need to consider to increase the likelihood of successful transitions:

- An understanding of the need for change and planning for it (including foreseeing retirement);

- Ensuring heirs receive appropriate prior business and skills training including acquisition of experience outside the family firm; and
- Ensuring heirs have a comprehensive knowledge of the family business.

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