

The Peak Hotel: The Challenge of Succession and Family Firm Continuity

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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, the Peak Hotel, in Lermoos, a bustling Austrian ski town, but knew 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 this hotel so that we can fund our retirement and honor the inheritance that your family gave to us and that we built into what it is today."

The Peak Hotel

The Peak 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 Peak 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 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, 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 were 26.8% of their overall expenses with an operating efficiency of €175,000 and staff costs per employee of €47,000. 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 Peak 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 Peak 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 Peak Hotel at the forefront of high-end accommodations within the destination.

About Patricia and Perry and their Family

Patricia, age 57, and Perry, age 61, were the owners of the Peak 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. After handing over the hotel, Patricia's parents withdrew from any involvement in the hotel as they sometimes clashed with Perry about his new ideas and they moved on to work with another business. 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. In 2009, they became a member of the Leading Family Hotels and Resorts, a group of luxury family resorts in Austria and Italy and invested enhanced services such as extended opening hours or night reception.

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 Peak Hotel. His elder son Charles, and his wife Susan, both worked as managers in the business. However, Perry observed that when the last guest left, at the end of the season, Charles and Susan took their holidays and did not stay around to oversee the property and prepare it for winter.

His younger son Peter, and his wife Olivia, had no real experience working in a hotel, although they recently expressed an interest in returning to Lermoos to help run the family business. He and Patricia had always been 100% committed to the hotel, they were willing to do any job that was necessary to keep the hotel running and would have never left for holidays until the hotel had been closed up and everything wrapped up.

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 and Patricia have saved money, but this capital is bound in a foundation, which they set up

years ago with 76% of ownership on Perry and 24% of ownership on Patricia; thus, the success of the family business determines the amount of their pension when they go into retirement. This means, Perry and Patricia will receive earnings from the successors based on the successfulness of the business. 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 Peak 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 Peak 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 Peak 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 Peak 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 Peak 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.

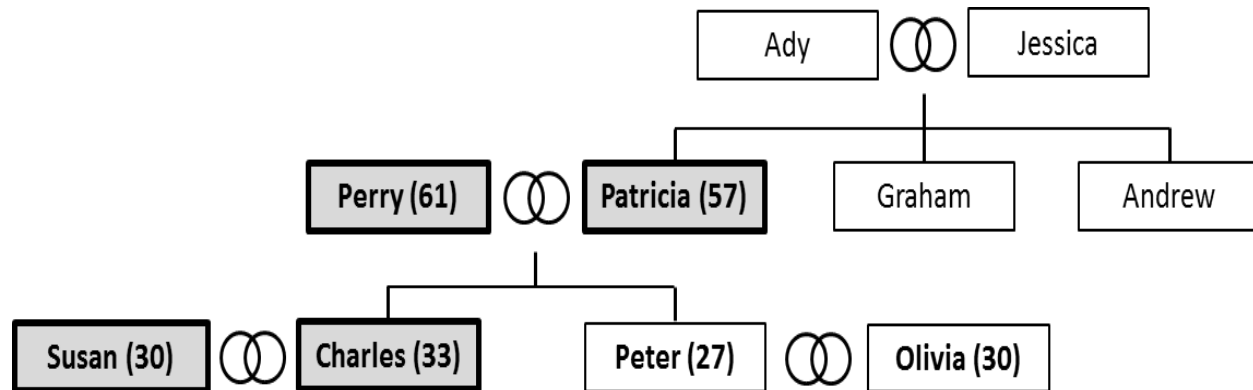
After Peter returned, Charles was very nervous about his future role at the hotel, and he and Susan had several arguments and difficult moments with Peter and Olivia due to the tension they all felt. Charles and Susan were concerned that Peter and Olivia were trying to come in and take over the Peak 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 Peak 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.

Everyone had the same goal for the Peak Hotel, to ensure that it remained a family owned and run business that offered a high-quality experience for guests and a comfortable and harmonious life for all the members of the family. Perry thought a great deal about the experiences he and Patricia had together after inheriting the family business. He found that the couple's conversations often returned to discussing their retirement concerns and the future of the hotel. The history and tradition of the family business were very important to Perry. He feared that conflicts between Charles and Peter might tear the business apart, which would also endanger his retirement and the reputation of the hotel and family.

As Patricia and Perry sipped their coffee on a bright June day, Perry decided to call a meeting with their two sons and their wives to begin the succession planning process.

Appendix 1

The family tree shows three generations of the entrepreneurial family. The table below the family tree provides more details on the backgrounds, education, skills, knowledge, and experience of the family members. The main actors are in bold letters and conflict parties in grey boxes.



Charles (33)	Education in the field of hospitality; graduated from a highly renowned hotel school in Switzerland; deeply integrated into the local Lermoos community; very social person; member of the volunteer fire brigade and several village clubs and associations; division manager in the family business since 2012; knows the family business very well; loves to be a host.
Susan (30)	Education in the field of hospitality; graduated from a highly renowned hotel school in Switzerland; married to Charles with two kids; responsible for managing the reception desk since 2013; knows the family business very well; loves to be a host.
Peter (27)	Education in finance management at universities in the United States, Spain and Switzerland; work experience in high paying jobs in the finance industry in Geneva; no experience in the hospitality industry; very straight-forward and egocentric person; not integrated into the village community; started to work in the family business in 2017; sees the family business more as a job than heartfelt wish.
Olivia (30)	Educated in marketing management; work experiences in marketing for a number of large companies in Switzerland; no experience in the hospitality industry; international experience; originally from Chile; does not speak German and fears living in the small village community compared to the big cities she lived before; started to work in the family business in late 2017.