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CONFLICT IN FAMILY BUSINESSES

Conflict, Models,
and Practices

Josiane Fahed-Sreih



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I would like to dedicate this book to my three children, Edwin, Kevin, and Karen, and my husband Robert Sreih. You are my inspiration in everything I do. Thank you for being always by my side.

PREFACE

Throughout my experience in the business world, I was able to get involved in the conflict processes that take place in family businesses. Conflict is an important topic that most of the family businesses ignore until it happens, a period where its prevention becomes difficult. This book covers conflict management in family businesses. It is divided into two main parts: The first part starts with a detailed description of conflict. It proceeds to discuss conflict management methods, and then moves to cover conflict management in family businesses. The second part of the book is a collection of conflict management cases in family businesses.

The first chapter of the book defines conflict according to important and recent literature. It discusses conflict starting from its development, then discusses the different types of conflict, the roles of conflict, positive and negative conflicts and the difference between them, the causes of organizational conflicts, the models and types of conflict, and the detailed process through which conflict goes through from its beginning till its resolution. The second chapter moves to conflict management, starting with the role of communication in the organization at the management level. It discusses the processes, strategies, and styles of conflict management. It mentions in detail the seven conflict management approaches, as methods for dealing with conflicts. It then mentions alternative conflict management approaches and discusses the extent to which conflict is bad, especially in family businesses. Chapter 3 goes deeper into the conflict topic, tailoring it to family businesses. It contributes in

illustrating a model of the causes of conflict in family businesses, their results, and their management methods. Chapters 4–10 constitute illustrations of conflict issues in family businesses through case studies. Some recent similar books have covered the topic of conflicts in family businesses from a different perspective; this book covers a collection of case studies of family businesses. These are “Managing conflict in the Family Business- Understanding Challenges at the Intersection of Family and Business”—by Rhodes and Lansky (2013), and “Deconstructing Conflict: Understanding Challenges at the Intersection of Family Business”—by Doug Baumuel and Blair Trippe (2016).

Conflict is a set of repeated actions that reduce an individual’s performance and pose as a treat to the success of the business he/she handles (Levinson 1971). Research has shown that conflict is not always a negative thing. These studies actually found that when implemented in a moderate way, task conflict can actually be beneficial to the business through the discussion and exchange of the working functions of ideas (Jehn 1995, 1997). But on the other hand, relationship conflict that takes place when a relationship is affected by anger, resentment, frustration, and hostile behavior can be very harmful.

An excellent grasping of the difference between the above-mentioned task and relationship conflicts is required to fully understand the effects of conflict. But it fails to recognize the unique behavioral psychology of a family firm, because it considers family members who are involved in the business to fully understand these two types of conflict and how to solve them (Dyer Jr 1986, 1994; Schulze et al. 2001, 2003b; Schwenk 1990), while in reality though we have a clear understand of these two terms, we still lack knowledge on how to properly deal with them.

Family firms usually have a higher level of conflict due to the thin boundaries between the family’s personal relations and the business professional relations (Kellermanns and Eddleston 2004). This aspect is at its peak during the succession process and is best described by the popular three-cycle of family firm.

Family firms must manage conflicts that are in a way unique to it, for example sibling rivalry and marital discord (Dyer Jr 1986, 1994; Schulze et al. 2001, 2003b). Not to mention that it is harder to get out of a family business due to the fact of not being able to easily sell one’s owned shares, the fear of losing status and inheritance perks and rights and other perks that may come with the family business (Gersick et al. 1997; Schulze et al. 2003a, b). These in turn result in the lockdown of unwanted members in the business, thus increasing conflict (Lee and Rogoff 1996).

Family members might face reoccurring conflict due to the fact that there is frequent communication between working family members and non-working family members in the business (Gersick et al. 1997; Harvey and Evans 1994), and because of its nature, conflict might become more drastic because its magnitude might increase when work conflict is added to personal conflict. For example, if a family member is communicating a decision with another family member who is not really a fan of the idea, the issue might become greater if that second member already has personal resentment to the working relative.

Part of the learning in the family business field is that it relies heavily on comparative learning and on approaches applied in other family businesses. The purpose of this book is to highlight some of the problems in family businesses as related to the ownership, management, and the family aspects, and the solutions adopted in these businesses. Readers and owners of family businesses will have a wider look at different businesses and will be able to compare their systems to other family business systems.

This book while based on real-life experiences encountered in family businesses, it also highlights some of the practical solutions to these in the teaching notes. It is a good reference for students studying Family Business management and management in general. The cases concentrate on the area of family enterprise with suggested issues such as trans-generational entrepreneurship, succession planning, governance, non-family members as key employees, family crises, next-generation issues, sibling relations, and professionalization of a family enterprise.

The cases can serve as an exercise for students studying family business management. After each case, there is a set of questions on how to develop the best practices in family business management and the problems the businesses passed through to suggest a set of solutions and solve the many issues from the perspective of family business management.

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Conflict

Abstract This chapter introduces conflict. It starts with the various definitions of conflict and the way it develops. Then the roles of conflict including both the positive and negative outcomes are discussed. Later, the causes of conflict in an organization are highlighted while discussing the different modules and types of conflict. Finally, the processes and stages through which conflict passes are further deliberated.

Keywords Conflict · Relationship conflict · Task conflict
Process conflict · Incompatibility · Cognition · Intentions
Behavior · Outcomes

1.1 CONFLICT: DEFINED

Conflict is a culturally defined event; it is understood differently by different people. It is a kind of disagreement between two or more persons, parties or entities. It could also be among ideas, values, perspectives, thoughts, opinions, or attitudes. It is present at all levels of human social relationships. Conflict is normal. It is not a deviant or sick behavior. It is largely a perceived phenomenon. It is our perception of the situation that determines whether a conflict exists.

The term conflict refers to perceived incompatibilities resulting typically from some form of interference or resentment. It is the procedure that starts when one party perceives that another has frustrated, or is

about to frustrate (Thomas 1992). This definition is broad enough to cover a wide variety of conflict phenomena; however, it identifies a starting point for the conflict procedure, the point when other social manners like decision-making and discussions “switch over” into conflict.

There is still no commonly accepted definition of “conflict” in the literature. However, we will adopt Thomas’ (1992) definition “a process that begins when one party perceives that another party has negatively affected, or is about to negatively affect something that the first party cares about” (Robbins and Judge 2007: 504).

There seems to be two general approaches to the concept of “conflict.” According to Schmidt and Kochan (1972), the first approach has emphasized more closely upon phenomena linked to competitive intentions, such as deliberate interference with the other’s objectives. This definition tends to be closer to popular usage of the term “conflict” and is particularly popular in the industrial relations literature discussing strikes and job actions. The second approach, according to Pondy (1967), has been to adopt more general definitions which move “upstream” in the conflict procedure to involve events (usually a party’s perceptions) which occur before the choice of conflict-handling modes. These definitions incorporate a broader range of the phenomena by allowing the conflict procedure to contain “branches” which comprise conflict-handling modes other than competition.

As stated in Vokić and Sontor (2009: 4), conflict is an “unavoidable component of human activity (Brahnam et al. 2005: 204) that may be viewed as a situation in which the concerns of two or more individuals appear to be incompatible (Darling and Fogliasso 1999: 394), and which tends to occur when individuals or groups perceive that others are preventing them from attaining their goals (Antonioni 1998: 336).”

1.2 DEVELOPMENT OF CONFLICT

Since not all conflicts are the same, conflicts sometimes develop in a sequential manner. This sequence is known as the spiral or escalation ladder of conflict (Pruitt 2009). A spiral ladder taken from Eunson (2012) is shown in Fig. 1.1.

Each conflict develops in a different manner. There is no standard sequence of events that make conflict. This is why the proposed spiral is drawn in this form. In the conflict process, certain phases of the spiral are

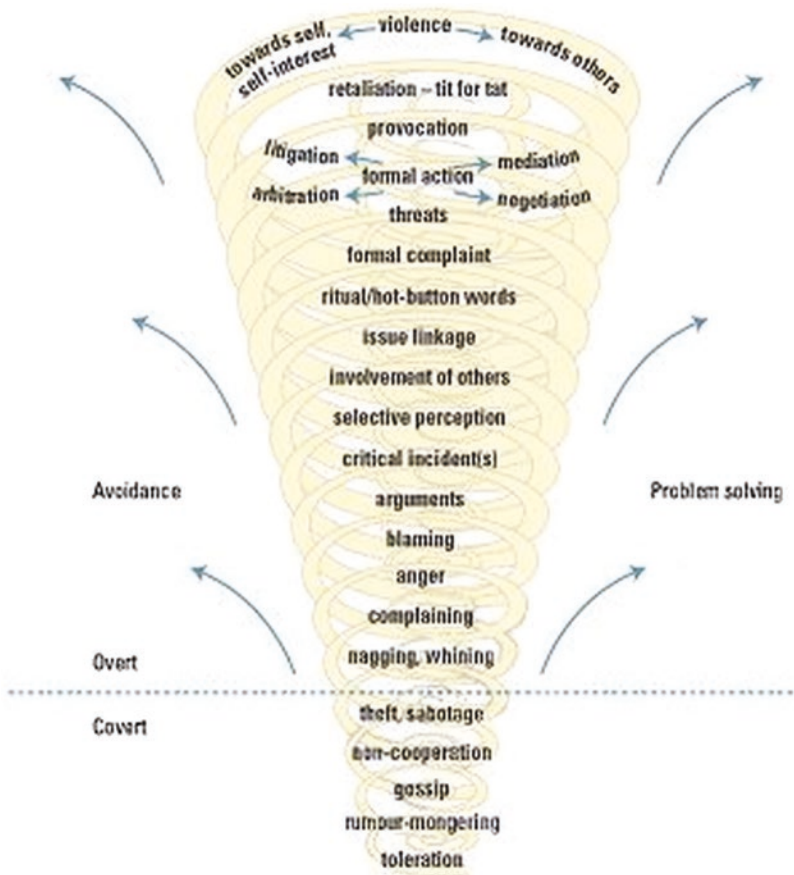


Fig. 1.1 The conflict spiral. *Source* Eunson (2012: 451)

sometimes skipped. They may also occur in a different sequence or order (Glaser 2000; Kydd 1997).

The spiral is designed to be similar to a tornado. The more you go up, the stronger the effect, and the more difficult it is to get out of it. The spiral is divided into two main zones: the overt and the covert. In the covert zone, conflict is still not openly acknowledged, and it has not

yet emerged into public view; while in the overt zone, conflict is done or shown openly; it becomes public and direct.

The sequence of the phases of the spiral is as follows: Covert Zone includes the toleration, rumor-mongering, gossip, non-cooperation, theft, and sabotage. The overt zone includes the nagging and whining, complaining, anger, blaming, arguments, critical incident(s), selective perception, involvement of others, issue linkage, ritual/hot-button words, formal complaint, threats, formal action (mediation, negotiation, litigation, and arbitration), provocation, retaliation—tit for tat, and finally violence (toward self or toward others).

Here some questions should be raised. Is it possible to get out of the spiral during the conflict process? Are there certain standard techniques to find positive resolutions of the conflict while in the spiral? Are there conditions where it is suggested to stay in the spiral rather than trying to get off of it? Here comes the role of the conflict management techniques offered in the conflict management chapter.

Conflict usually involves antagonistic behaviors and attitudes. These behaviors result in a change of vision of the antagonistic parties to each other. They may see each other as unreasonable, illogical, and working against the expected methods, thus leading to the development of negative thoughts of their opposites. Antagonistic behaviors are sometimes reflected by sabotage, name calling, and physical aggression. Organizations usually aim to minimize the antagonism and its consequences. Conflict presence is based on the perception of it. So, if none of the parties is aware of the presence of a conflict, then it does not exist (Robbins and Judge 2007).

There are many causes for organizational conflict. These can be scarce resources, jurisdictional ambiguities, personality clashes, differences in power, differences in status, difference in culture, interdependence, goal differences, group identification, group bias, and communication breakdown. Changes on the personal and social level are sometimes caused by conflict. Due to the constant changes in the environments of organizations, conflict would certainly appear. Conflict prevents stagnation and certain stability conditions that may not be in the advantage of the organization. It also stimulates curiosity and need for change. Parties in conflict have beliefs that they have to neutralize or destroy each other because they think that they certainly have incompatible goals and visions to the problem causing the conflict. Conflict is sometimes

considered as a social interaction with struggles over resources, power and status, beliefs, and many other preferences and desires (Thakore 2013).

There are three discipline-based approaches to the study of conflict: the *micro*-level analysis of conflict, negotiation, and third-party dispute resolution. The micro-level (*psychological*) analysis of conflict concentrates on conflict within and among human being as individuals specifically on intrapersonal, interpersonal, and small group behavior variables that affect conflict causes, dynamics, and outcome. The *macro*-level (*sociological*) approach focuses on groups, departments, divisions, and even entire organizations, as units of analysis for understanding conflict dynamics. Researchers have discussed the functions and dysfunctions of social conflict, as well as the analysis of conflict at the social level. The third approach employs *economic* analysis using models of economic rationality to individual decision-making and even to complex social behavior.

In addition to the three conflict research approaches closely tied to disciplines, there are three more that owe their origin to the specific area of applications. The *labor relations* approach includes issues pertinent to the determination and administration of the employment relationship. Recent research has focused more heavily on the determinants and consequences of work place conflict resolution mechanisms and techniques. Another approach is *bargaining and negotiation*, in which researchers enumerate sets of principles for effective negotiation, while others borrowed from game theory to model the bargaining process. The last approach is the *third party-dispute resolution* which focuses on labor and international disputes, and emphasizes the actions taken by parties external to the conflict to resolve it or restore effective negotiation. Cross fertilization has taken place among the six approaches leading to a limitation to three approaches: the micro level, negotiation, and third-party dispute resolution.

Conflicts are a dynamic constitute of a complex interaction between attitudes and behaviors. Outsiders are prone to be involved as the conflict develops and may themselves in this manner become parties in a prolonged conflict. Conflict is everywhere. Every relationship has a potential for conflict. It exists inside and around people. It is natural and inevitable in human social relationships. It occurs with the different levels of a society: intrapsychic, interpersonal, intragroup, intergroup, and international (Burton and Dukes 1990). It should

be expected and considered a normal experience in the work environment. Rather than avoided, it should be well channeled, handled, and resolved. Since the birth of organizations, managers had been used to view conflict as a negative force. However, conflict may be both functional or dysfunctional (“Conflict Management and Negotiation—strategy, organization, levels, style, advantages, manager, definition, company, disadvantages” 2016). Although dysfunctional conflict is destructive and prompts diminished productivity, functional conflict may actually encourage better work effort and aid in the fulfillment of tasks (SIDHU, D.N.S. 2013). Conflict has its functional outcomes. It enhances innovation, creativity, and growth. It improves organizational decision-making. It helps in finding solutions for common problems. It reinforces individual and group performance. It also has dysfunctional outcomes like job stress, dissatisfaction, reduction of communication between the parties in conflict, distrust, damaged relationships, reduction in job performance, increased resistance to change, and organizational commitment and loyalty may be affected (Rahim 2002). Although it has been proven that conflict is beneficial and functional to organizations, most recommendations related to conflict in organizations are related to its resolution, reduction, and minimization. According to Rahim (2002), there is a clear deficiency in the following areas: No clear rules are available to maintain conflict on a certain level; no clear set of guidelines are available to the methods of conflict reduction, ignorance, and enhancement for increasing effectiveness; and no clear set of rules is set to deal with conflict when different situations are present in the same conflict.

Since in the old approach to conflict management, it was assumed that all conflict was immoral and acts against organizational goals; conflict management was identical to conflict avoidance. This left parties in conflict to experience only one outcome: a win-lose scenario. In such cases, the loser would feel affronted and this, however, would lead to rehabilitated hostility. From this approach, most managers used to view conflict as something that should be eliminated from an organization. This approach of avoidance in conflict management was widespread during the late nineteenth century and until the mid-1940s. Nonetheless, conflict avoidance is never an adequate strategy for dealing with most conflicts. Although it is one of the strategies of conflict management used up till today, conflict avoidance leaves avoided parties feel neglected. It also usually fails to resolve the apparent differences that originally caused the conflict. Therefore, the conflict avoidance strategy is not always useful

in the long run. The acceptance of conflict started through the human relations view of conflict management which dominated between the late 1940s and mid-1970s. This view was based on the fact that conflict is a natural and inevitable occurrence in any organizational setting. Moreover, it encouraged the concept of the potential benefits of conflict, and since conflict is inevitable in some settings, it encouraged making use of it in order to improve the performance in organizations. It was during this time period that the term “conflict management” was introduced.

So, since the mid-1970s, organizational conflict was not only accepted, but it was also encouraged. According to many theorists, a conflict-free organization has a tendency to become stagnant and causes low responses to changes in the market. Here comes the new concept of keeping a minimum level of conflict in organizations in order to maintain a certain level of performance.

Whenever the cause of conflict is based on values, it is more difficult to deal with it as values are less negotiable than other causes of conflict. A similar difficult cause for conflict is the basic human needs. Basic human needs are known to be non-negotiable as a need cannot be given low importance.

Some principles can be followed in order to aid in the prevention of conflict in organizations. These involve the setting of scientific standards of work that provide a fair working day, guaranteeing scientific selection and adequate development and remuneration of employees, giving each employee a task that fits his/her capabilities and job requirements, offering proper cooperation between managers and employees, providing means to encourage each employee to use his/her full capabilities in his/her job, and developing internal structures for controlling the production phases.

1.3 ROLES OF CONFLICT

There are three different approaches to the role of conflict in organizations:

The *Traditional* view focuses that conflict is harmful and must be avoided in general. It only views conflict negatively. It does not show any positivity in conflict. From the traditional view's approach, conflict is frequently related to terms like *violence*, destruction, and *irrationality*. Conflict is seen as a dysfunction resulting from poor communication, lack of openness, and lack of trust between the parties in conflict.

The *Human Relations* view deals with conflict as a natural occurrence, encouraging the acceptance of conflict. Supporters of this view describe conflict as inevitable and state that it may also have benefits.

The *Interactionist* view encourages conflict. Its supporters see that people tend to become static, apathetic, and nonresponsive to needs for change and innovation (De Dreu and Van de Vliert 1997). It encourages group leaders to keep ongoing minimum levels of conflict in their organizations, a level enough to keep the self-criticism and creativeness active among employees. On the other hand, this view does not state that all conflicts are good. It separated conflicts into *functional* and *dysfunctional* forms.

1.4 CAUSES OF ORGANIZATIONAL CONFLICT

Many causes are associated with organizational conflict. However, according to Johns and Saks (2005), the following causes are the most commonly studied and researched as being the major causes of organizational conflict.

1.4.1 *Group Identification and Intergroup Bias*

In any organization, many types of groups are present, from which individuals are classified or classify themselves accordingly. These might be based on some personal characteristics such as race, gender, or age; on job functions such as production, sales, or quality control; and on job level such as senior, managerial, or non-managerial. These differences between groups may be emphasized by differences in secondary aspects such as power and opportunity.

Individuals have a large tendency to develop a positive view of their own group, thus leading to a negative view of all the other groups. The intensity of this negativity and positivity is directly related to their perception of how different the other group members are.

Self-esteem is a major factor in the occurrence of intergroup bias. This is led by the innate goals of an individual to see his/her group more successful than any other group. This intergroup bias points out that organizations should give adequate attention to manage relationships between teams, thus attenuating the differences between individuals, and hence decreasing the potential number of intentionally and non-intentionally formed groups.

1.4.2 *Interdependence*

The mutual dependence of individuals or parties on each other in accomplishing goals is a major cause for the existence of conflict. This is usually a common problem in companies between the sales and supply teams. The sales team depends on the supply team to accomplish the sales process, while the supply team depends on the sales team to provide work for them through requesting orders to be supplied on time. If any of the two teams was not able to perform his duties adequately, the other team will be directly affected, hence a conflict would occur. Conflict in this case would not happen if each party could perform his job independently of the other.

In the interdependence case, there is a necessity for interaction and coordination. This interaction and coordination, accompanied sometimes by an abuse of power given to one party, may cause conflict which creates antagonism. On the other hand, interdependence has a positive aspect that it provides collaboration through mutual assistance.

1.4.3 *Difference in Power*

Whenever there is no mutual dependence (interdependence), but a one-way dependence exists, there is a high probability of occurrence of conflict. This can be seen whenever one party needs to accomplish a goal, while the other party does not aim for the same goal. In such case, the second party has power over the first, and thus antagonism develops. One example is the difference in power between quality control and production workers. Production is highly dependent on quality control while the opposite does not apply. Whenever production workers need the approval of the quality control personnel, and the latter do not give their approval, a conflict occurs due to the fact that the quality control personnel are obstructing the task of the production personnel and the production process overall.

1.4.4 *Difference in Status*

In the normal form of organizations, individuals from lower status are expected to accept orders from individuals with higher status. However, in some cases, individuals with lower status can be seen to give orders and control the tasks of those with higher status. Because employees,

in general, are not socialized to expect and accept this form of orders, antagonism develops as a result of conflict. As in the interesting example offered by Whyte (1948), servers in restaurants usually give orders to higher status chefs in order to initiate queries of clients. This simple yet clear case sometimes is not easily accepted by the higher status chefs, thus leading to conflict.

1.4.5 *Difference in Culture*

Whenever different cultures are present in an organization, variations in values and beliefs may easily result in conflict. A simple example is in hospitals where physicians who usually have a culture based on providing the best patient care at any cost, basing their work on being a mission for the good of patients rather than a strict profit-maximization mission. This usually creates conflict with hospital administrators who have a different profit-maximization culture based on efficiency.

1.4.6 *Ambiguity*

Ambiguous acts, goals, plans, and rules lead to ambiguous outcomes. Ambiguity, in general, is a major cause of conflicts, especially between employees and managers. Rules of interaction break down under ambiguity. Moreover, in such circumstances, outcomes cannot be measured adequately, not knowing who is responsible for good and bad outcomes.

1.4.7 *Scarce Resources*

Scarce resources were also found to be a primary source of conflict. The scarcity of resources leads to competition for these same resources, thus leading to conflict. Whenever resources become scarce, the use of power for competitive purposes takes place, and the difference in power becomes obvious.

1.5 MODELS AND TYPES OF CONFLICT

Many researches on this topic show that conflict is something that hurts the business and should be avoided at all cost. While in reality, it can be a positive thing and can increase all the aspects of the firm's performance (Kellermanns and Eddleston 2004). This happens when conflict leads

higher attention to detail in the strategy and planning phase, and while executing those strategies, thus leading to better and more accepted end results (Kellermanns and Eddleston 2004).

Conflict is known to be present in three forms (Jehn and Mannix 2001): *Relationship conflict* deals with interpersonal tensions between individuals caused by their relationship and not by the tasks or jobs they perform. *Task conflict* deals with tensions and disagreements on the nature of the tasks different individuals work on, distributed as contradicting opinions and views about the goals and about technical issues concerning those tasks. Finally, *Process conflict* deals with disagreements on how work should be accomplished. It also deals with disagreements on the organization of the work and plans and timetables.

The most popular aspect of conflict here is known as task conflict (Amason 1996; Jehn 1997a); this is because this type of conflict is free from all negative feelings and encourages more open debates, thus leading to a better understanding and a more efficient task accomplishment method (Amason 1996; Jehn 1997a, b). In fact, research on this particular topic has shown that as long as it is present in moderate levels, it helps boosting the performance of all management teams (Amason 1996; Jehn 1997a, b; Jehn and Mannix 2001). It is important to note here that this conflict is at its best when moderate; if it occurs heavily, it can lead to a slow procession procedure and slows down the performance of the firm (Janis 1972; Kellermanns and Eddleston 2004). Nevertheless, this approach to task conflict fails to recognize the unique behavioral psychology of the family, especially when members are hostile and have volatile interactions.

In this case, task conflict might mutate to relationship conflict which does the same thing as a high level of task conflict but also threatens the stability, security, and future of the firm and the family as a unit (Jehn 1997a). Relationship conflict has a habit of shifting work efforts from the business task at hand to playing internal family politics which leads to less attention paid to the quality of the job being done in the firm (Amason 1996; Amason and Schweiger 1994; Brehmer 1976). This type of conflict feeds on negative emotions and personal conflict; it destroys the business using conflict that is purely personal (De Dreu and Van Vianen 2001).

As no one's definition of conflict is predominant, some defined it as a particular social interaction between parties who have mutually exclusive or incompatible values. Different views argued on the state or outcome

of conflict versus the process. The core of a model of organizational conflict is *competition over scarce resources*; then comes the *conflict for control* typical with supervisor subordinate over rule-making and organizational procedures; then the *conflict in lateral relationships* for work coordination and task integration. The scarce resource underlies the intergroup conflict, whereas control conflict relates to models of power use and power equalization. The dominant paradigms of organizational conflict are normative and descriptive. The descriptive includes fight, debate, stages of conflict, dual concern, and structural models, while the normative includes the conflict grid, conflict cycle, systems and interface conflict solving. *Fights* are emotional and non-rational, driven by fear and stereotypes, and characterized by hostile and tit-for-tat responses that develop into conflict spiral. These spirals end only upon the removal of one party. A *debate* is an exchange of ideas about “what is” versus “what ought to be”. Stages of conflict describe *conflict dynamics* in which the parties present a process stage and a decision stage when evidence is evaluated. Research has shown that these styles varied along two orthogonal dimensions: the level of assertiveness (the degree to which the person satisfies his own concern) and cooperativeness (the degree to which the person satisfies the others’ concerns) and they identified five conflict-handling styles, or reactions to conflict, being the avoidant, the accommodative, the sharing and compromise, the competitive, and the collaborative. Later research helped to put forth structural determinants of conflict behavior. These are: each party’s behavioral predispositions, respective social pressures, respective conflict incentives and stakes in their relationships, and jointly applicable rules and procedures.

The complexity perspective of the family firm is best understood when task and relationship conflict are clearly defined; it is even argued that the presence of relationship conflict erases all the benefits that can occur from a task conflict. It is also concluded that the firm will operate optimally when relationship conflict is absent and there is moderate presence of task conflict (Kellermanns and Eddleston 2004).

Nonetheless, it is not easy to achieve the above-mentioned harmony in family businesses, and sometimes conflict management proves to be crucial.

Three assumptions fall under the descriptive models of conflict, *A1: conflict generates from a variety of possible sources*; *A2: conflict follows a predictable course or pattern*, and *A3: conflict is manifested in many ways which have positive or negative consequences*. The normative models of

conflict are the *conflict grid*, the *conflict cycles*, the *systems 1–4*, and the *interface conflict solving*. The *conflict grid* discriminated different orientations to management in a managerial grid. The grid consists of five managerial styles between the high concern for production and low concern for people. They strongly recommend collaboration as the most productive and advantageous style. In the *conflict cycles*, certain emotional issues lead to triggering events that make the conflict manifest itself. The *systems 1–4* is a system that shows a strong willingness to listen to and understand the other party, open and trusting communication, low use of power, development of opportunities for mutual influence, and a desire to cooperate and a search for a joint problem-solving approach to conflict. The *interface conflict solving* was proposed by Blake and Mouton (1985) as an action-oriented (process) model for resolution of conflicts between groups in organizations who work together frequently (e.g., line and staff, labor and management). Important assumptions underlie this normative work: *A4: Conflict and conflict-handling behavior is adaptive*. This positive view of human nature view corresponds with the humanistic trend in management theory. Thus, responses to conflict are learned and can be relearned by direct analysis of past behavior and by education and behavior-shaping programs. *A5: Conflict is to be managed with respect to its consequences (rather than its causes)*. These models suggest that individuals learn to adapt to them and to manage dynamics once conflict has occurred. It tends to be coherent with assumption 3. *A6: Collaborative behavior is strongly desirable as a way to manage and resolve conflict*. The value of a collaborative style and the desirability of achieving integrative agreements have been simply taken for granted by some writers and widely acclaimed by others.

Whenever the causes of conflict are present and conflict begins, a series of events usually occur: A party being part of the conflict has an aim of winning the conflict and usually focuses on this winning aim more than on trying to find a solution to the initial problem causing the conflict. Parties start hiding important information from each other and sometimes try to pass distorted information. Members of each party become more cohesive, and those who offer reconciliation are faced by refusal. Any contact with the other party whom the conflict exists with is discouraged, except under formal conditions whenever necessary. The image of the personal party is boosted while trying to show a negative image of the opposite party. Individuals who have the skills of engaging in conflict properly appear as leaders. The events above exponentially

increase the effect of conflict making; it fluctuates between personal and challenge issues (Johns and Sacks 2005).

By looking at the descriptive and normative models together, three additional assumptions are seen. *A7: The dynamics of conflict can be (and should be) analyzed apart from the dynamics of its resolution.* Models of conflict tend to focus on conflict initiation and escalation; models of conflict resolution tend to ignore them, and vice versa. *A8: Interpersonal and small group processes may be examined apart from environmental and societal variables.* Only recently has research in one area, public sector labor relations, clearly suggested that environmental and societal variables would impact conflict.

In sum, while these models provide a foundation for understanding both conflict processes and conflict resolution, they have significant limitations. Underlying assumptions should be taken into account to understand the models and the historical development of the field.

1.6 THE CONFLICT PROCESS

There are five stages in the conflict process (Robbins and Judge 2007). These are as follows: the *potential opposition or incompatibility*, the *cognition and personalization*, the *intentions*, the *behavior*, and the *outcomes*. Figure 1.1 shows a diagram of these five stages.

The first stage in the conflict process is the *potential opposition or incompatibility*. This is described as the conditions that create opportunities for conflict to arise (Robbins and Judge 2007). These conditions do not necessarily always lead to conflict, but one or more of them need to be present if conflict is to be present. Three general categories are part of this stage. These are the communication, structure, and personal variables (Robbins 1974).

Communication is known to be a source of conflict. Difference in word connotations, jargon, ambiguity, and noise in the communication are all causes for conflicts. Moreover, it has been studied that communication should be done moderately; whenever too much or too little communication is done, this appears to cause conflict as too much communication gives information more than needed for a certain task and makes the parties frustrated, and too little communication is a form of ambiguity that also causes frustration due to the lack of information provided.

Structure of the hierarchy and specialization of members is a second cause for conflict. Structure includes size (the larger the group, the larger probability for conflict occurrence), degree of specialization (the more specialized the activity of the group, the larger probability for conflict occurrence), jurisdictional clarity (the more ambiguous the distribution of responsibility for actions, the larger the probability of conflict occurrence), goal compatibility (diversity of goals among groups increase the probability of conflict occurrence), leadership roles (close style of leadership with strict and continuous observation and general control increases the probability of conflict occurrence), dependence (interdependence triggers many other causes of conflict causes), and remuneration systems (conflict is caused whenever rewards are distributed unfairly) (Jehn 1995).

Personal variables are the third major antecedent condition for conflict occurrence. These variables can be as simple as the sound of the voice of the other persons in conflict, their smile, their personality, their emotions, and their values. It is based on personal traits and characteristics that the other person cannot withstand, and hence becoming a potential cause for conflict.

The second stage in the conflict process is the *cognition and personalization*. As in the definitions of conflict, perception is required. So, one of the parties involved in the conflict must be aware of the presence of preceding conditions. In this stage, conflict issues are defined, and parties perceive what the conflict is about (Pinkley 1990). This stage is essential because the view from which the conflict is defined reflects how it is dealt with, and affects the outcomes of it. Moreover, emotions have a major role in perceiving the conditions of a conflict (Kumar 1987). For example, if negative emotions are present, reduction in trust and negative interpretations of the behaviors of the other parties in conflict take place. On the other hand, if positive emotions are present, more innovative solutions are expected to appear due to an ability to take a broader view of the conflict situation (Carnevale and Isen 1986).

The third stage in the conflict process is the *intentions*. Intentions are decisions to act in a given way (Thomas 1992). They are also interventions between one's perception, emotions, and behavior. It is necessary to separate the stage of intentions from other stages as it is very important to be able to infer other's intentions in order to be able to respond to their behavior accordingly. Many conflicts are exaggerated because of wrong intentions and misinterpretations of the intentions of

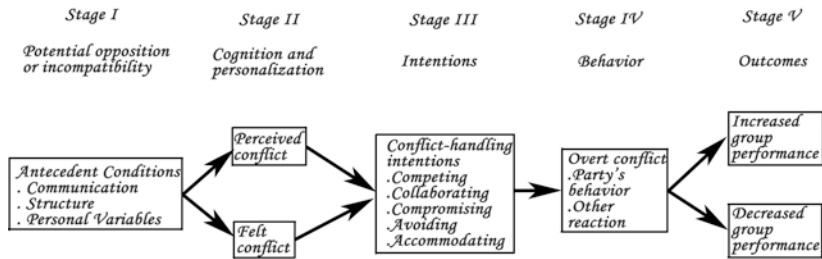


Fig. 1.2 The conflict process. *Source* Robbins and Judge (2007)

other parties. There are five primary conflict-handling intentions. These are drawn using two dimensions, *cooperativeness*, and *assertiveness*. These intentions will be discussed later and shown in Fig. 2.1 in the conflict management section.

The fourth stage in the conflict process is the *behavior*. When conflict is discussed, most people tend to focus on this behavior stage because in this stage conflict becomes visible. Behaviors include statements, actions, and reactions made by the parties involved in the conflict. In this stage, parties implement their intentions. Robbins and Judge (2007) described the behavior stage as a dynamic process of interaction. Sometimes, behavior deviates from the original intentions (Thomas 1992). Figure 1.2 shows a diagram that describes the conflict intensity continuum.

Any conflict has a place along the continuum in the diagram above. The continuum ranges between no conflict on its lowest part and annihilation procedures of conflict on its upper part. In the lower part, controlled forms of tension take place, while on the upper part, severe intense actions with actions of aggressivity and destruction appear. Wars are an example of conflict behaviors that fall on the upper part of the continuum, whereas functional conflicts are examples of conflict behaviors that fall on the lower part of the continuum.

The last stage in the conflict process is the *outcomes*. Outcomes in this case are the consequences of a conflict. They can be functional outcomes in that they act in improving the performance of the parties in conflict and the overall organization, or dysfunctional in that they prevent the performance of the parties in conflict and of the organization. Functional outcomes are constructive outcomes that result in the improvement

of the decisions, in the stimulation of creativity and innovation, in the encouragement of interest and curiosity among members of the group, in providing an environment where tension decreases, and in providing an environment where self-evaluation becomes essential. They also encourage the creation of new ideas, and enhance the reevaluation of the goals and activities in a group (Robbins and Judge 2007). They can also enhance productivity positively. Through studies performed on conflict, it was proven that performance and productivity improve whenever there is conflict in a group (Hall and Williams 1966). It was also found that groups that are composed of members with different interests tend to produce better solutions to different problems than groups with members having the same interests (Hoffman 1959). Cultural diversity has also been shown to be an essential constituent of groups that produce more efficient work and better performance due to the difference in interests, difference in views to the same topics, and due to an increase in creativity, leading to an improvement in the quality of decisions and member flexibility (Cox and Blake 1991). The functionality of conflict encourages some managers to invent conflict in organizations even if it does not exist. On the other hand, dysfunctional outcomes that prevent proper performance have known consequences. Common ties between individuals are broken in conflict, thus leading to destruction of groups and hence to a decrease in performance and effectiveness (Wall and Callister 1995). These outcomes also include miscommunications, decrease in the cohesiveness of groups, and deviation of group goals due to the aims of fighting among the members in conflict.

Another somehow similar version of the processes for managing conflict was suggested by Rahim (2002) as seen in Fig. 1.3.

The process here starts with the *diagnosis* of the conflict. This has similarities with the *cognition and personalization* stage of Robbins and Judge's (2007) model of the conflict process. The diagnosis which is about problem recognition is an essential step in the conflict process. Many management studies have studied the prevention of conflict and conflict management methods, but very few focused on problem recognition which is defined as the sensing and formulation of the problem. It is common to focus on intervention in organizational conflict, but there is also an importance to give importance to the diagnosis of the problem at first in order to be able to intervene properly (Brown 1995 and DuBrin 1972). Its importance lies in solving the right problem whenever intervention takes place. The diagnosis involves both the measurement



Fig. 1.3 The conflict intensity continuum. Source Robbins (1974)

and the analysis of conflict. Measurement includes the sources of the conflict, the amount or intensity of conflict at the different levels: interpersonal, intergroup, and intragroup levels; the styles of handling these conflicts; and the potential results of the conflict on the personal and organizational levels. On the other hand, analysis includes the styles of handling the conflict, the relationship of the conflict to its source, and the relationship of the conflict to its results (Rahim 2002) (Fig. 1.4).

As a result of proper diagnosis, the need and method of intervention can be interpreted appropriately. *Intervention* is the second stage of Rahim's (2002) model of managing conflict. Rahim and Bonoma (1979) described two basic approaches to intervention in conflict to be the conflict *process* and *structure* of conflict. Then comes the *conflict* which is described by the amount of conflict and the conflict styles. Finally is the stage of *learning and effectiveness* on individual, group, and organizational basis.

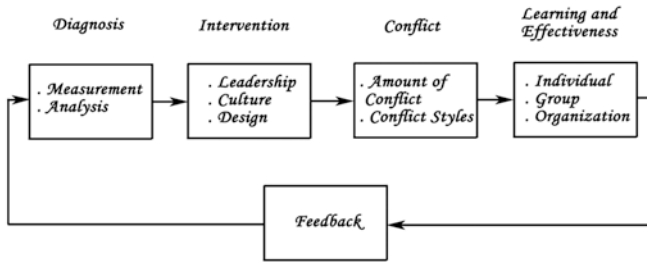


Fig. 1.4 Managing conflict process. Source Rahim (2002: 222)

These four main stages of the conflict process make a circular cycle where the diagnosis stage is interlinked to previous conflicts through feedback from previous learning and experience which are used to diagnose new conflicts, and the cycle restarts.

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Conflict Management

Abstract This chapter discusses the different methods, processes, and styles of conflict management, based on the different types of conflict discussed in the first chapter which are related to the stage the conflict is in. It examines the importance of communication in such cases. Moreover, this chapter deliberates the different approaches to managing organizational conflict, including competition, avoidance, compromise, collaboration, and accommodation.

Keywords Avoidance · Negotiation · Mediation · Arbitration
Adjudication · Non-violent directive action · Violence

It is not possible to avoid conflict in an organizational communication. Conflicts occur normally in any organization as people have different views and thoughts, and among them, there are people who cannot admit other people's different perceptions (Spaho et al. 2013).

A conflict is solved by fortifying the representation of appropriate task features (Egner and Hirsch 2005) and by obstructing the representation of inappropriate task features (Stürmer et al. 2002), as participants tend to prefer easier tasks, thus leading to frequent conflicts.

Is it always suitable to eliminate conflict? There is a difference between **conflict management** and **conflict resolution**. Conflict resolution deals with the elimination or reduction in conflict, while on the other hand, conflict management deals with the elimination, reduction,

Table 2.1 Conflict diagnostic model

<i>Dimension</i>	<i>Difficult to resolve</i>	<i>Easy to resolve</i>
Issue in question	Matter of principle	Divisible issue
Size of stakes	Large	Small
Interdependence of the parties	Zero sum	Positive sum
Continuity of interaction	Single transaction	Long-term relationship
Structure of the parties	Amorphous or fractionalize, with weak leadership	Cohesive, with strong leadership
Involvement of third parties	No neutral third party available	Trusted, powerful, prestigious, and neutral
Perceived progress of the conflict	Unbalanced: one party feeling the more harmed	Parties having done equal harm to each other

Source Greenhalgh (1986: 47)

or increase in conflict (Eunson 2012). Therefore, conflict resolution is part of conflict management that also includes the encouragement of conflict in some cases.

Research has shown that groups that enhance or sustain performance over time share the following conflict resolution tendencies: emphasizing on the content of interpersonal interactions instead of the delivery style, explicitly discussing causes behind any decisions reached in accepting and allocating work assignments, and assigning work to members who have the appropriate task expertise rather than allocating by other common methods such as volunteering, default, or convenience (Behfar et al. 2008). In addition, teams that are successful over time tend to be both proactive in foreseeing the need for conflict resolution and pluralistic in formulating conflict resolution strategies that apply to all team members. Methods in which a team controls its conflicts are highly important for anticipating team viability and performance over time.

Conflict is similar to illness; in order to properly manage it, it should be properly diagnosed.

According to Greenhalgh's (1986) model of conflict diagnosis shown below in Table 2.1, one has to look for the different dimensions of the issue at hand in order to properly diagnose it for adequate management. These dimensions cover the issue in question, whether it is divisible or a matter of principle, the size of stakes, the interdependence of the parties, the continuity of interaction, the structure of the parties,

Table 2.2 Strategies for getting off the conflict spiral

<i>Spiral phase</i>	<i>Critical reaction</i>
Covert resistance	Challenge the development of gossip, noncooperation, theft, and sabotage
Overt resistance	Challenge nagging, whining, complaining, anger, and arguments
Critical incidents	Challenge the unthinkingly negative interpretation of events and words
Selective perception	Challenge filtering or distorting perceptions of events and words
Enlisting support of others	Resist being recruited to an unthinking in-group; challenge those who wish to recruit
Issue linkage	Challenge whether issues really are linked
Ritual or hot-button words	Challenge the unthinking use of words and labels
Threats	Challenge the use of intimidation, pressure, and bullying
Action	Encourage healthy structured actions; monitor to ensure transparency and effectiveness
Provocation	Challenge interpretation of events and words; resist or ignore incitement, hassling, needling, and goading
Retaliation	Refuse to retaliate; or retaliate at a less intense level than might be otherwise expected; and counsel others to do the same
Violence	Refuse to be violent toward self or self-interests; deflect or arrest violence of others by bringing in authorized third parties, such as respected elders, friends, or police

Source Eunson (2012: 454)

the involvement of third parties, and the perceived progress of the conflict. Each of these dimensions has options that are easy to resolve, and some that are difficult to resolve. So the strategy of conflict management depends on the combination of the number of dimensions that are easy to resolve and those that are not. Taking extreme cases, if all the dimensions are easy to resolve, then the conflict management strategy should be easy, while if all the dimensions are difficult to resolve, then the conflict at hand would need special management tools and strategies to be properly managed.

An interesting table of actions is suggested by (Eunson 2012) to challenge the conflict spiral shown in Chap. 1. This is shown in Table 2.2 below.

Several academics have claimed that conflict management, and specifically conflict resolution, is a vital determinant of the group and/or

dyadic conflict–performance relationship (Jehn and Bendersky 2003; Marks et al. 2001; Mathieu and Schulze 2006; Williams and O’Reilly 1988). In theorizing about this main role of conflict management, previous studies suggest that a procedure for managing conflict would allow the mitigation of the negative effects of all types of conflict by restoring fairness, process efficiency, resource efficacy, working relationships, and satisfaction of parties (Thomas 1992). Robbins (1974) described some basic conflict resolution techniques to be: *Problem solving* in which open discussion takes place between parties in conflict through face-to-face meetings in order to identify the problem and try to resolve it; *super ordinate goals* where a shared goal is created for conflicting parties so that this goal cannot be reached without the collaboration of these parties; *expansion of resources* whenever there is a scarcity of resources causing the conflict, here the supply of lacking resources acts to solve the conflict as it solves its original cause; *avoidance* whenever avoiding the conflict may cause its diminishing, and this usually happens whenever a conflict is not major and does not highly affect performance; *smoothing* through studying differences while searching for common interests between parties in conflict; *compromising* where each party offers something of value to the other party in order to meet on common interests; *authoritative command* where authority is the major factor used, forcing resolutions through informing the parties about procedures to be implemented; *altering the human variable* where the human behavior and personal relations are focused upon through training to change attitudes causing conflicts; and *altering structural variables* through changes in the hierarchy and internal structures of organizations in order to alter the form of interactions, thus preventing the corresponding type of conflict.

The way in which members deal with one another while resolving problems influences the expectations for the team’s interaction, for member satisfaction with the team (Lind and Tyler 1988), and for the members’ will to keep on contributing to the team proactively (Jehn 1997a, b). In addition, one important key to understand team performance depends on better understanding the choices that the groups make in selecting conflict resolution strategies to solve conflicts.

If teams make conflict resolution choices that do not help in solving the conflict efficiently, they are likely to be disposed to continuous, intensifying conflicts since members spend time responding to challenging conflict behaviors of other team individuals instead of focusing on the current task at hand. Teams that can adapt their processes

appropriately, however, are more likely to create teams where members are satisfied and performance is enhanced.

According to Hackman and Morris (1975), there are three criteria for team viability: The team should meet the expectancies of those who receive their work (performance); the team should satisfy the individual needs of members in the group experience (individual member satisfaction); and the procedure the team adopts (e.g., conflict management tactics) should improve its capability to work together in the future. In all, how well conflict resolution strategies address a team-level balance between task and influence management is what leads to team viability. An imbalance of one type or the other is related to a threat to viability.

It is worth noting that conflict constitutes a natural part of the team environment. In fact, teams can improve the quality of decision making and stimulate a cooperative, goal-oriented culture. However, to be effective, teams must be capable to control that conflict and the way they do so brings out the best or the worst of employee participation (Amason et al. 1995). Particularly, we emphasize on two types of conflict that teams must manage to improve their value to the firm. Teams can both enhance an organization's culture and at the same time can be a source of problems that obstruct or even block the organization's growth. Nevertheless, the successful teams use conflict to allow discussion and encourage creative thinking, whereas the less successful ones fail in controlling their differences; the thing that leads to poor decisions. In other words, efficient teams know how to benefit from the conflict in reaching effective results, and less effective teams either avoid conflict or allow it to contribute to negative results.

While disagreements among team members are unavoidable, as long as they emphasize on fundamental issue-related differences of opinion, they enhance team efficacy. This type of conflict is called C-type conflict (C stands for *cognitive*), which is helpful because it necessitates teams to be involved in activities that are crucial to a team's efficiency (Amason et al. 1995).

By encouraging frank communication, C-type conflict stimulates innovative thinking and fosters creative solutions to different problems, hence, enhancing the quality of the decision taken.

Disagreements over personalized, individually leaning issues are highly harmful to team performance. Such type of conflict is called A-type conflict (A stands for *affective*) that threatens team efficiency by irritating

hostility and distrust among the members of the group (Amason et al. 1995).

Leaders of effective teams seek to help incorporate all team members by pursuing opinions of those who are less active and struggling to moderate the influence of those members who dominate the discussion; i.e., integration is highly essential to acquire a commitment to the decisions taken.

Emotional intelligence (EI) has an important role in conflict management as constructive solutions necessitate the compromise which requires a capability to identify and control the emotions. Defined, EI is the individual's "ability to motivate oneself and persist in the face of frustrations; to control impulses and delay gratification; to regulate one's moods and keep distress from swamping the ability to think; to empathize and to hope" (Goleman 1995: 34). Moreover, EI has a significant positive workplace outcomes in terms of company rank and higher remuneration (Seibert et al. 2001), the overall performance of the business (Lopes et al. 2006), and a constructive conflict management (Bodtker and Jameson 2001). Accordingly, several studies have shown that leaders with higher levels of EI are more likely, or more capable, to be involved in functional confrontation with employees and groups, a concept called "constructive conflict management" (Jordan and Troth 2002a, b). Besides, higher levels of EI may enable cooperative and problem-solving behavior, where emotions are both controlled and generated to create new solutions that satisfy both parties' requirements. On the other hand, individuals with lower levels of EI are more likely to be involved in the higher use of forcefulness and avoidance, which leads to a destructive management (Goleman 1995). The obligation to solve conflicts in businesses is mainly given to leaders since leaders can reframe an organization's positive value orientation (Weider-Hatfield and Hatfield 1995), have more opportunities to be trained on how to solve critical issues about conflict management and group dynamics, and since conflict management skills of leaders develop as they become experts in dealing with conflicts.

Furthermore, the constructive management skills are more critical for non-leaders since it is the followers who formulate the strategies and vision of the leader and the company. Therefore, the form and strength of the relationship between leaders and non-leaders are critical components of a successful conflict management.

As for the effect of age, older adults are involved in strategies that boost positive social experiences by avoiding conflict (Luong et al. 2010); i.e., they are not confronted with the same daily difficulties that their younger and middle-aged counterparts face due to the fact that they are generally treated more positively and excused more easily (Luong et al. 2010).

2.1 ORGANIZATIONAL COMMUNICATION IN CONFLICT MANAGEMENT

According to Hener (2010), below are the types of organizational conflicts:

- **Vertical conflicts** which happen when the supervisor is always informing an employee what to do and tries to “micro-manage”, while at the same time allowing the employee to execute his job.
- **Horizontal conflicts** which happen among employees on the same hierarchical level as a result of the different interests in relation to allocation of resources.
- **Line staff conflicts** which occur between support staff and line employees.
- **Role conflicts** resulting from a mistaken understanding of the task given to an employee at a particular period of time.

Conflict can have both positive and negative consequences on the organization. The positive consequences involve important social changes, developing creative ideas and innovations, offering quality decisions for solving important problems, and developing solidarity and team unity, whereas the negative consequences are similar to bad collaboration, as they waste time that can be consumed in a more efficient way.

Conflict is a dynamic procedure that does not occur suddenly, but needs some time to develop and passes across different stages. There are different approaches to the conflict stages, and as per Louis R. Pondy’s (1967) approach, he identifies five stages of the conflict procedure:

- **Latent conflict stage** in which conflict is unknown, although there are conditions for starting it. The reasons can be related to

competing for insufficient resources, differences in objectives and orientation toward organizational independence.

- **Conflict perception stage** where all parties are aware of the latent conflict, there are many situations in conflict perception. Sometimes, conflict is apparent although it does not exist or when latent conflict exists, but actors do not identify it. The latter can be explained by emphasizing on other conflicts in the organization, while some conflicts remain unnoticed.
- **Stage in which conflict is personalized** in which both sides of the conflict feel pressures and experience anxiety and other difficult feelings.
- **Manifested conflict stage** where low spirits between actors in conflict are identified. The conflict behavior is represented in different ways: from thorough apathy to open hostility, opposing with the rules and guidelines of the organization.
- **Consequence stage** where the result of clear conflict is either solved, or the solution is not satisfied and the conflict goes back to the latent conflict stage.

Conflict resolution is based on understanding destructive human conflicts. Positions are reframed between parties in conflict. The needs and interests of the parties should be clarified for proper repositioning or reframing of positions (Ramsbotham et al. 2011).

As stated previously, many conflicts have positive consequences on the efficiency of organizations. Therefore, in contemporary organization, there is a need for conflict management rather than conflict resolution. Conflict management is the employment of strategies for the correction of perceived differences in a positive manner. It does not necessarily involve avoidance, reduction, or termination of conflict, but it involves the design of effective strategies to minimize the dysfunctions of conflict and the enhancement of the constructive functions of conflict in order to enhance learning and effectiveness of an organization (Rahim 2002). It also sometimes involves conflict resolution through the elimination or termination of the forms and types of conflict. When people talk about conflict resolution, they tend to use terms like negotiation, bargaining, mediation, or arbitration.

Certain types of conflicts, which may have negative effects on individual and group performance, may have to be reduced. These conflicts, known as affective conflicts, are in general caused by the negative

reactions of organizational members. Relationship conflicts interfere with the tasks as members focus on diminishing threats, expanding power, and attempting to build union rather than working on the task (Staw and Sutton 2000).

Conflict management's main role is to minimize the negative consequences of conflicts and endorses its positive outcomes. Conflict management also aims to minimize affective conflicts, while maintaining a moderate amount of substantive conflict (Rahim 2002).

Conflict management and decision making in management should satisfy the following criteria in order to be effective: Conflict management should be capable of improving innovative thinking in order for managers of conflict to properly diagnose and intervene the conflict to be managed. Whenever multiple parties are involved in a conflict, these parties should be involved in the conflict management process as this will lead to collective learning and to an increase in organizational performance and effectiveness. Ethics also takes a major part of handling conflicts. Without ethics, decision taken to solve a conflict may not be adequate for certain situations, sometimes even causing bigger conflicts when neglecting the basic needs of a party.

Conflict managers can choose from a number of different procedural options for managing conflicts. They must carefully consider the advantages and disadvantages of each possible procedure before choosing the best approach to the resolution. There is no common approach that works for all situations. Each case should be dealt with individually.

Some of the primary approaches to conflict management used by managers or leaders in order to handle and resolve conflicts include:

First, employees should be protected by being removed from conflict situation whenever conflict negatively affects the performance. Many times, for example, a party loses temper during a certain situation like in a conversation. This party itself should be taken out of the situation in order for it to be protected and in order to protect other parties from exaggerated reactions. After the situation calms down, comes the time when the causes for conflict should be discussed, searching for the appropriate conflict management strategy.

In some cases, a primary approach is removing a disruptive member from their position. In certain personality clashes, it is very difficult to resolve a situation easily. The best resolution techniques in such cases may be moving the person causing the conflict to a different job or team where he may be more suitable in, thus reducing the constant tension

he is causing. Here, the individual is tested for improvement, and if after several trials he/she does not improve, then disciplinary processes should be considered on his behalf, and in the worst situations, their firing may be considered.

2.2 PROCESSES, STRATEGIES, AND STYLES OF CONFLICT MANAGEMENT

We have discussed the stages and types of conflicts and how conflicts take place. However, several kinds of literature discuss some processes, strategies, and styles to manage conflict appropriately.

Processes of conflict management are described as follows:

Diagnosis:

The most important part in conflict management is the problem identification. Once the right problem is identified, an efficient intervention may take place. In this phase, it is mandatory to find out the number of conflicts in the business and to discover the relationship between affective and fundamental conflicts and formulate strategies adopted by managers and employees in resolving these conflicts.

Intervention:

The intervention is especially required in case there were too many affective conflicts and too little substantive conflicts. There are two types of intervention: the process approach and the structural approach. The process approach is where managers tend to match the styles of handling conflicts to different situations, while the structural approach is where conflict is managed by changing the perceptions of the intensity of conflict at different levels.

Conflict:	Conflicts have two extents: One consisting of disagreements in relation to task issues, and the other involving emotional and interpersonal issues which contribute to conflict.
Learning and effectiveness:	One of the main purposes of controlling conflict in a contemporary organization is to improve organizational learning which includes knowledge acquirement and spreading, information analysis, and maintaining organizational memory. Individual learning is obligatory, but it does not constitute an appropriate condition for organizational learning.

When there is a conflict, the management can handle the problem and find appropriate solutions to solve it. Referring to Klein et al. (2011), team leadership moderates the effects of values diversity on team conflict, whereby there is a significant relationship between relationship-oriented leadership and solution-based conflict management.

Managers can use the following three major strategies to solve conflicts:

1. **Strategy of negotiation:** This is the most common strategy to solve conflict, and it is efficient when the interests of contradictory parties are partly mutual and partly different. Negotiation is essential in most conflict management cases, aiding in conflict prevention or in resolving the existing conflict. As stated in Neale and Bazerman (1992: 42), negotiation is “a decision making process among interdependent parties who do not share identical preferences.” Two main types of negotiation are commonly known (Walton and McKersie 1965): the *distributive negotiation* and the *integrative negotiation*. Distributive negotiation assumes a case in which a fixed amount of assets are divided between parties (Johns and Sacks 2005). Referring to Fig. 2.1 shown later during this chapter, this type of negotiation is on the axis between competition and accommodation. Usually, there is a tendency toward the center of this axis known as compromise style

of conflict management. On the other hand, integrative negotiation assumes a win-win situation where the common problem solving involves enlarging the assets that will be divided between parties. Referring to Fig. 4.1, integrative negotiation is found to be on the axis between avoiding and collaborating, ideally tending to be toward the collaborating style of conflict management.

The negotiation is a procedure in which different tactics can be implemented. Negotiation involves the following subcategories:

- **Face-to-face tactic:** Mutual confidence as a basis for negotiation can be developed using this method.
 - **Persuading tactic:** It is based on using different approaches and conducts to win over partners and to attain a better negotiating position.
 - **Deceitfulness tactic:** It is based on presenting false data and arguments, and its success is related to how well the negotiating parties recognize each other and if deceitfulness is successful.
 - **Threat tactic:** It is based on the fact of discouragement from the side having a higher position or more authority. The stronger side presents significances to the weaker, if it does not admit the suggested solution.
 - **Promise tactic:** This tactic is also based on having a better position and more power, with the stronger side persuading the weaker that it will keep its promises.
 - **Concession tactic:** This is the most important tactic in the negotiation strategy. It is based on making concession but in a normal way, not to make too many concessions, whereby an atmosphere of goodwill and readiness for solving the problem can be developed.
2. **Strategy of a superior goal:** One of the best ways to solve conflict is to define a high objective. This is sometimes referred to as *super ordinate goals* where a shared goal is created for conflicting parties so that this goal cannot be reached without the collaboration of these parties.
 3. **Strategy of the third-party intervention:** In case a negotiation strategy does not lead to results, it is better to implement the strategy of the third-party intervention, whereby an external consultant, usually known as a mediator, is appointed to solve the problem.

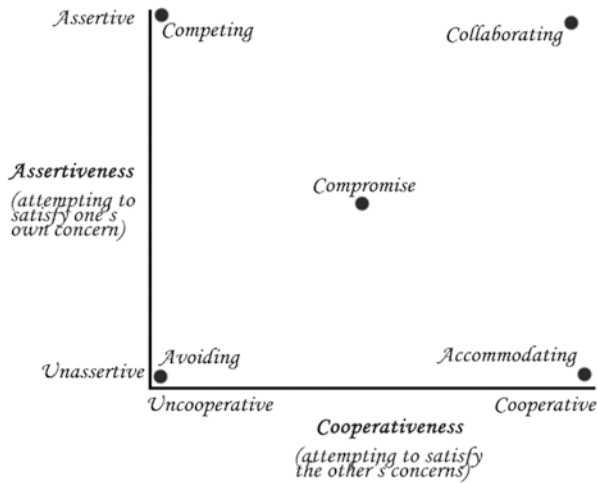


Fig. 2.1 Approaches to managing organizational conflict. *Source* Thomas (1992) and Robbins and Judge (2007)

Based on conflict, intensity, and care for other people, managers can adopt five styles of conflict management. As described by Thomas (1992), managing conflict is function of how *assertive* a party is in satisfying his/her own group or self-concern, and how *cooperative* it is in satisfying those of the other party.

Figure 2.1 shows a simple graph where each style of conflict management is placed according to how much assertive and cooperative it is.

The *avoiding* style of conflict management has both the lowest cooperation with other parties and lowest assertiveness of a party's own interests. On the graph above, it is situated on the lower left side. This style is often used to hide away from the situation and to avoid stress. Moreover, it does not improve the situation. Its main advantage is in the cooling down of the situation whenever no efficient act may be done in certain circumstances. It is based on distancing from problems and hiding them. It is adequate for small problems and for difficult and escalating problems since it cannot solve the core of the problem.

The *accommodating* style takes place whenever there is total cooperation with the other party while not asserting to satisfy one's own concerns. In the graph of Fig. 2.1, it can be seen on the lower right side

of the graph. Accommodation is not a sign of weakness. It may be the best and most suitable style of management in certain situations, especially when the party accommodating is aware that it is wrong or when it wants to prove a goodwill to the other party in the conflict.

The *compromising* style fits in the center of the graph, with intermediate levels of cooperation and assertiveness. Therefore, as described by Johns and Sacks (2005), it is a compromise between pure competition and pure accommodation. It is based on accomplishing a balance between personal and common interests. In this approach, a strategy is used where all concerned parties are to be satisfied somehow through implementing needed compromises. This approach is labeled as “distributed conflict management” because no one here gets exactly what they want but rather a portion of everyone’s goals is accomplished (Sorenson 1999). However, it has been shown that this is not the best conflict management strategy because it does not really solve the disputes but rather finds a way around them (Murningham and Conlon 1991). These disputes persist more so when they are related to personal relationships. Moreover, if a family does no compromising, it is more likely to have bad relationships than one that compromises. In other words, while it might not solve existing problems, it can prevent new ones from emerging. But its excessive use can result in negative effects; decisions will be viewed with less respect and seriousness (Sorenson 1999). So to fully benefit from this approach, it must be used moderately and only when absolutely needed. In this style, all participants must change some attitudes through interventions, negotiations, and voting. It results in democratic solution, but may prevent reaching a creative solution of the problem. This style of management is not to be used when the conflict is based on power asymmetry because in this case, extreme acts of conflict management are required.

The *competing* style, also known as contending style, is when specific individuals try to force their will, wishes, and perspectives on others, creating competition between family members (De Dreu and Van Vianen 2001). Contending blocks people from achieving their goals and brings up feelings of anger, stress, and distrust which leads to misunderstandings and potentially harmful relationships (Jehn 1997b). It has the characteristics of maximum assertiveness for one’s own concerns and a minimum cooperativeness with other’s concerns. It can be seen on the upper left of the graph above. In this case, the priority is only given to one’s own goals and aims. Its results will be extreme, either win or lose,

no compensations take place. In other words, using a system that forces and harasses people to perform, and the use of dramatic measures such as threats to accomplish certain goals is a very bad method that is unlikely to yield any positive outcomes and might actually lead to the destruction of the firm. The best use of this style of conflict management is when one has lots of power and is sure of his position, or wants to take a risk in order to make control of the situation.

The last style of conflict management is the *collaborating* style. This style occurs when a mutually acceptable situation that pleases all concerned parties is worked out by individuals (De Dreu and Van Vianen 2001; Sorenson 1999). This increases team effectiveness, leads to solutions that satisfy everyone, and reduces the chance that conflicts will arise in the workplace (Pruitt and Rubin 1986; Tjosvold 1997). In this style, both the assertiveness to satisfy one's own concerns and the cooperativeness to satisfy the other party's concerns are maximized. It can be seen on the upper right of the graph above. The result of such style is the satisfaction of the interests of both parties involved in the conflict, a situation described as a win-win situation. Therefore, the use of the collaboration style of conflict management transforms the conflict from a negative situation into a positive one, producing better condition to both parties. Even though research has shown that this is not the best method to go for in normal firms, family firm research has shown that it is the most effective way to go for in this type of firms because it eases understanding and increases the level of positive relationships (Sorenson 1999). Though it is not easy to implement, it has many prerequisites such as open communication, trust, and mutual support. In other words, this style is tailored to be used by family firms (Seymour 1993). According to Johnson et al. (1981), the ideal cases for the use of this style are when the conflict is not intense and when each party owns information that is useful to the other party involved in the conflict.

From another and somehow similar point of view, Rahim and Bonoma (1979) differentiated the five conflict handling styles based on two different dimensions: self-concern and concern for others. The concern for self explains the degree to which an individual attempts to satisfy his/her own concerns, while the concern for others explains the degree to which he/she attempts to satisfy the concerns of others in a conflict.

Figure 2.2 shows a visual diagram of the "dual concern model of the styles of handling interpersonal conflict."

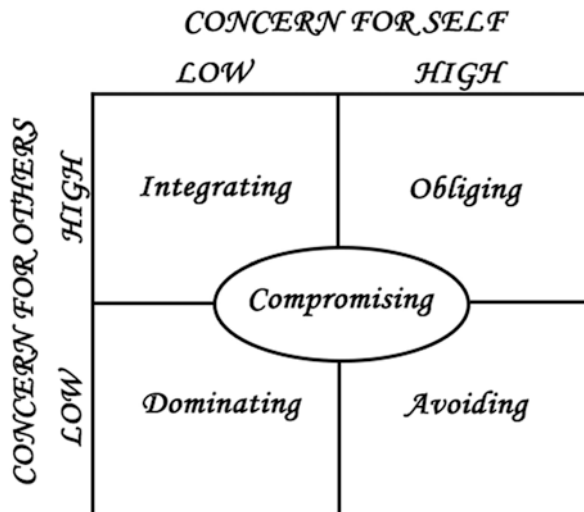


Fig. 2.2 Dual concern model of the styles of handling interpersonal conflict. Source Rahim (2002: 217)

In Rahim's (2002) model, three terms differ from Thomas's (1992) model shown above. The term *obliging* replaces the term *accommodating* in Thomas's model. Obliging focuses on reducing differences and emphasizing on common interests. It stimulates cooperation, but it does not solve the reason of the problem; it is not appropriate for escalating problems. The term *integrating* replaces the term *collaborating* in Thomas's model. Integrating is suitable for difficult problems, which are not always clearly understood; in the long run, this style is efficient, but not adequate for conflicts arising from different values. And finally, the term *dominating* replaces the term *competing* in Thomas's model. This style is common for people who are more emphasized on personal than on mutual interests. Through adopting this style, managers oblige employees to obey, it is suitable when unpopular working solutions must be applied, when the deadline is tight, as well as in case of minor issues. It does not require much time to be executed, but it is related to disapproval and resistance of employees. Although the replacing terms differ in their meaning and concepts, they tend to show the same position toward the concerns of self versus the concerns toward others.

In all, the most important aspect for selecting the conflict management style is the nature of the goal, i.e., beating the opposite side or finding a solution appropriate to all. For managers, the choice depends on the goal, i.e., demonstrating power, creating a compromise, or developing a positive image. Besides, conflicts must be solved by first-line managers, or, if the conflict is substantial, it must be solved by the middle level of management. It is not adequate to leave conflict solving to top management, since it shows that managers at lower levels are not able to deal with conflicts and employees in general. More importantly, experience has also revealed that solving conflicts on higher levels negatively affects organizational efficacy as top managers have other major tasks in their job.

The emergence of conflict can be gradual or steady. It can also develop very rapidly after certain events. At first, most conflicts start without being public. As the differences intensify, the conflict becomes more obvious and public. In this stage, the avoidance of the public aspect of the conflict cannot be done anymore. Here, groups that the parties are members in are also affected both directly and indirectly. As incompatibilities become more prominent, conflicting parties start defining themselves based on the cleavage in terms of “us versus them” basing new relationships on a conceptual cause. If the conflict was not solved on time with one of the regular procedures, it may sometimes lead to violence which often produces counter violence. While the other mentioned styles revolve around the conflicted parties to solve their own problems, third parties often are necessary to intervene when these conflicted parties fail to fix their own mess and need a neutral opinion to settle the matter (Wall and Callister 1995). There are many ways to go about this style. Mediators can be used because they improve communication and help individuals recognize how they have been contributing to the conflict (Haynes and Usdin 1997; Kaye 1991). Arbitrators, who do the similar actions as mediators, have the power to dictate solutions (Wall and Callister 1995). However, the most common method of action is using the intervention of third-party conciliation and consultation. It is important to keep in mind that these methods of action do not require the family business to hand the control over to them (Gersick et al. 1997; Harvey and Evans 1994). It only requires their consent to take part, which by itself increases the chance of resolving the conflict. The third-party intervention method is most efficient when the conflicts are rooted in personal family conflict.

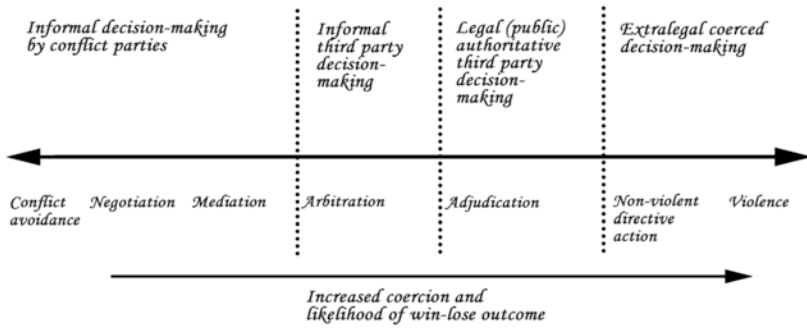


Fig. 2.3 Continuum of conflict management approaches. *Source* Moore (2003)

Figure 2.3 shows a range of conflict management approaches where third-party intervention has a major role. These range from conflict avoidance on one extreme to physical violence at the other. Between these extremes are several approaches for conflict management through third-party intervention. These approaches increase progressively in coercion, and the influence of parties in conflict on the overall outcome of conflict management decreases as we move to the right.

2.3 AVOIDANCE

The easiest choice whenever a conflict begins is the avoidance. Parties tend to avoid each other if the conflict type permits. This is when management decides to ignore the problem at hand, they recognize the devastating impact digging into it might have on the business and thus decide not to deal with it and keep postponing it (Murningham and Conlon 1991). This is primary due to the fact that discomfort accompanies any conflict. Sometimes conflict avoidance also comes from parties considering the conflict as unessential or unimportant, and sometimes they consider that the situation cannot be improved with or without conflict. Sometimes avoidance comes as a strategy of waiting for the right moment to act or respond to the causes of the conflict itself. The intensity of the conflict increases as the avoidance is no longer possible. Here, different approaches to solving the problem causing the conflict are used. This method has proven to be successful for some businesses but it fails to account for the unique properties of the family business when there

is frequent contact between the family members and their lockdown to the business. The more the conflict is ignored and postponed, the more serious and harmful it gets. It can even lead to dissatisfaction in work, immense rivalries between siblings and lower level of trust in the organization.

The most common way to reach a mutually acceptable agreement is through informal decision making, which can involve negotiation and/or mediation.

2.4 NEGOTIATION

Negotiation is a voluntary bargaining relationship among the opposing parties. In negotiation, all the involved parties take the others' interests and needs into consideration. Sometimes assistance from a third party is needed for a negotiation to begin due to two main reasons: the difficulty to start a negotiation between conflicting parties and the lack of knowledge and negotiation skills. In negotiation, parties in conflict settle the differences through an aim to reach agreement or compromise and avoid arguments. Whenever a conflict is present, parties aim to achieve the outcome closest to their position, and hence the negotiation's difficulty. For successful outcomes of negotiation, mutual benefits and retaining the relationship between the parties in conflict are a must. Different forms of negotiation are implemented in different situations. However, negotiation skills that frequently use interpersonal skills should be learned in order to be adequately applied for proper conflict resolution.

Proper negotiation has to follow general stages or steps. The main steps are preparation, discussion, clarification of goals, negotiation toward a win-win situation, agreement, and finally the implementation of a course action.

In the preparation stage, after the decision to negotiate is done, the location, time, persons attending, and duration of negotiation meeting should be set. This stage may also include checking policies of the organization where conflict took place, whenever policies are available, reconsideration of the causes of the conflict, and thinking of probable solutions to be discussed during the negotiation process. Sometimes specifying the duration of the negotiation meeting is important for preventing long disagreements. This preparation phase helps avoid unnecessary disagreements during the negotiation meeting.

In the discussion stage, each of the parties in conflict describes the case as they see it. Then questioning and clarifications take place. Notes are sometimes taken during this stage in order to record and compare the visions of each of the parties. Each party must be given equal opportunities to express their vision of the problem(s) causing the conflict.

In the clarifying goals stage, each of the parties has to clarify their goals, interests, and vision of the disagreement as a whole and has to explain their expectations of the outcomes of the meeting. A list of priorities should be noted. As a result of the clarification process, common grounds may be established, aiding in solving the conflict more easily.

In the negotiation for a win-win outcome stage, a focus is done aiming to make solutions where both parties reach their aims and interests without having to sacrifice much of their expectations. The best win-win outcomes are a match of a maximum amount of cooperativeness where a party attempts to satisfy the other party's concerns, and a maximum amount of assertiveness where a party attempts to satisfy its own concerns. In this stage, both parties feel that they have gained positive results of the negotiation meeting, while knowing that their point of view has been taken into consideration. Although the win-win outcome is the best outcome, it is not always the result of a negotiation meeting. Whenever a win-win situation cannot be reached, alternatives must be suggested, aiming to reach the most possible benefit for both parties in conflict.

In the agreement stage, after the viewpoints of both parties have been considered, an agreement has to take place as a method of achieving a solution for the problems causing the conflict. This agreement has to be clear, and sometimes noted and reported, in order to prevent one party from disobeying what was agreed on.

The final stage in the negotiation process is the implementation of a course of action. In this stage, all what was agreed on should be exactly implemented in all its details.

Whenever there is a failure to agree through negotiation, a second meeting is suggested in this case. This helps avoid heated discussions and arguments outside the meetings that seek solutions. Then, if after several other negotiations are done and the conflict has not been properly solved, other methods of conflict resolution like mediation and arbitration should be used.

2.5 MEDIATION

“Mediation is the process whereby an acceptable third party who has limited or no authoritative decision-making power assists the principle parties in a conflict to resolve their dispute through promoting conciliation and facilitating negotiations” (*Negotiation and mediation techniques for natural resource management* 2005: 2.2). As with negotiation, parties in conflict make the final decisions concerning the conflicts they are facing.

Mediation is clear in its definition. It deals with dispute resolution aiming to reach conciliation. For the mediators’ intervention to be efficient and ethical, they should respect certain deontological principles. Mediation empowers, through confidential interviews, the establishment and reestablishment of bonds for the resolution of conflicts.

As the case of ordinary firms, mediation also has its major importance in conflict resolution in family businesses. Good mediators have to have general knowledge of the organizations for which they are mediating and be aware of general principles and mediation skills in order to be able to deal with the difficulties of solving conflicts of both the family and business aspects when dealing with family businesses.

Firm is a system. Family is also a system. Family business is composed of an intricate of two systems, the family and the firm. Any conflict or heavy misunderstanding in one system may induce a dysfunction in the other. Family conflicts happen for a huge amount of reasons. Some common examples of conflict in family businesses are the following: Conflict between family members on the management after the death of the founder; family-related disagreements and conflicts like conflicting decisions on the medical conditions of the elderly parents are directly reflected on the performance and on business disagreements in the family business.

During the mediation process, an impression is sometimes felt that the conflict can be easily solved in a plain rational way. Each participant uses juridical or technical argument. Mediator promotes the exchange of the hidden reasons. The “obvious” conflict reasons do not seem that “obvious.” The mediator has to be able to discover the hidden aspects of the situation, the conflict situation.

One of the best methods that the mediator may use during the mediation process is the Socratic “maieutic” frame method defined as “the structure of the kind of talk that occurs when discussants use intellectual

dialogue to collaborate to make meaning out of sophisticated text, by responding to open-ended questions” (Orellana 2008). It is a form of cooperative argumentative dialogue between individuals, based on the stimulation of critical thinking and drawing out hidden ideas through responding to questions. Through this method, the mediator will help discover where the real conflict or plain misunderstanding lies.

In spite of the common values that the members of the family have, intercultural conflict may easily occur. These different cultures are acquired through the professional course of each individual professional course. So, when a family reaches the phase where decisions are to be taken, each member will view the situation from his professional background’s culture. The role of the mediator here is to join the different cultures and understand the different points of view in order to reach common grounds where these different cultures meet. He/she proceeds in questioning that stimulate creativity in searching all together a solution. This way, blind spots are exposed, leading to probable solutions of problems whose causes were in part vague. Mediation develops social intelligence as both family and enterprise are considered to be parts of the society. Because of its confidentiality, family and business reputations are preserved and sustained. It strengthens links between participants, enhancing capacity to go on living and working together.

A subcategory of mediation is the social mediation defined as the process of creation and restoration of social bonds and of daily life conflict management within which an impartial and independent third party attempts, through the organization of talks between persons or institutions, to help the latter to improve a relationship or to manage a conflict that opposes them.

Mediation in families, particularly in family businesses, is known as “family mediation.” It is defined as “a process of building or rebuilding family bounds, directed towards the autonomy and the responsibility of the persons affected by situations of break ups or separations within which an impartial, independent and qualified third party, without any decision making power: the family mediator, favors through the organization of confidential meetings, their communication and the management of their conflict in the diverse and evolutionary realm of family” (Guillaume-Hofnung 2009: 24). Broader than an alternative method, its function is to build or rebuild social bounds. At the same time, it is very precise, distinguishing mediation from the paralegal realm through the third party and the process’ criteria. That process is not just an

alternative procedure. The characteristics that third parties must present to be qualified as mediators distinguish them well from conciliators (who can happen to not be a third party or depend on an institution but who essentially have to bring an amicable agreement, the conciliation).

A good worker can be judged by his tool. At the risk of sounding paradoxical, if mediators know how to respect their tool, they will avoid being manipulated. Indeed, mediation is not an instrument, it is the great social and ethical adventure of the twenty-first century. Without it, social intelligence will not develop. That is one more reason to not confuse mediation and arbitration.

2.6 ARBITRATION

Whenever mediation does not work, the normal procedure suggests the choice of arbitration. Arbitration is a voluntary process, whereby the conflicting parties agree on a third party to make the decision for them. Any outcome achieved by a mediator can be also achieved by an arbitrator. Mediation is described as a process similar to arbitration, but the mediator's decision is not binding and the parties in conflict are free to disobey it (Goltsman et al. 2009). Arbitration dominates mediation because the arbitrator is the final decision maker. Unlike adjudication, arbitration is an informal form of judging with usually unverifiable arguments. It is described as a private procedure. The mutually chosen person to render a final decision in the arbitration is called the arbitrator. A signed agreement is done between the two parties in conflict and the arbitrator, including a major point assuring that the decision taken by the arbitrator will be implemented and crucial, thus giving the required importance of the arbitration process and reassuring both parties in conflict that the aim of the arbitration will be fulfilled. This makes the arbitrator's decision as a binding decision, allowing courts or military action to enforce it against other decision makers. Goltsman et al. (2009) concluded that arbitration always performs better than negotiation and mediation.

2.7 ADJUDICATION

Many conflicting parties skip the arbitration process and go directly to adjudication. In adjudication, the resolution process is done through public domain. In this process, disputants usually hire lawyers that act as their advocates. Lawyers study the case of their hirer in details in order

to describe their case according to set norms to the judge at the court of justice. Lawyers defend the position of their hirer. The result of the adjudication process is a judgment taken by the judge (sometimes several judges) or other officials from provincial authorities representing public law and based on the laws, norms, and values of the country where the adjudication is being performed.

As the coercion and likelihood of winning or losing the outcome increases, conflict management tends to move outside the law. Here, extralegal decision making starts to be observed. Out of these extralegal decisions and acts are the non-violent directive actions and violence, actions that are not socially acceptable. Here, processes of coercion may take place, aiming to persuade and/or force the other party in conflict to abide and comply.

2.8 NON-VIOLENT DIRECTIVE ACTION

Non-violent directive action takes place whenever one party tries to force the other party in conflict to obey its orders or directions. This action which includes implying orders and threatening is also the case when the first party refuses to cooperate with the second party.

2.9 VIOLENCE

Violence, also known as physical coercion, also involves threatening of one party to the other party in conflict. This may in many cases include physical violence and sometimes torture as one extreme case of the use of violence. Violence is an implementation or use of force in order to impose a party's will on the other party. Here in many cases, coercion defined by the forced acceptance of a party to the outcome imposed by the other party takes place.

2.10 ALTERNATIVE CONFLICT MANAGEMENT

Since the traditional conflict management techniques usually produce winners and losers, alternative conflict management methods (known as the ACM methods) were introduced. These methods are mainly based on collaboration of the conflicting parties in solving a conflict. They aim to produce win-win solutions due to joint decision making and voluntary agreements, thus preventing the power-based or judicial regulations

of the traditional conflict management techniques (Fisher 2000). Parties' willingness to fulfill what was agreed upon is essential in choosing the alternative conflict management techniques. Third parties may be helpful in these methods but they are not essential to their success and may not force any opinions on the disputants. These types of collaborative conflict management methods are best used between stakeholders who have equal power in an organization (Warner 2001).

As all methods, ACM methods have their strengths and limitations. Their strengths lie in aiding in overcoming the obstacles present in the traditional conflict management methods, including judicial, legislative, and administrative approaches, focusing on shared interests, discovering common agreement points, and involving flexible and low-cost agreements. On the other hand, their limitations lie in their failure to show structural inequalities and their potential of intensifying power imbalances; difficulty of getting all involved stakeholders to the bargaining table; due to power imbalances, power differences among stakeholders may cause certain parties with low power to be marginalized in decision making; decisions that are not legally binding; and difficulty to make appropriate use of methods previously used in different circumstances.

What we talked about earlier shows that the measures taken by work groups and normal firms cannot be fully applied to family firms because this type of firm is unique. In contrast to all other firms, family firm members work together on average way more than other firms' employees do, and their interaction is not limited to the workplace, which needs to be taken into consideration when investigating the existing conflicts. Family firms' workforce persists through generations by succession, which is why avoidance is not the best approach here. As mentioned before, third-party intervention is the way to go for family business although there is not enough research around the subject of making the best decision about what subsection of this style to take. The existing research suggests taking into consideration the family's background and the origin of the problem before making a decision on which strategy to choose.

2.11 HOW BAD IS CONFLICT?

Whenever mentioned, the word "conflict" tends to have a negative connotation, because frustration is in its basic definition. Through recent research, there appears to be a new approach to conflict, exposing its positive aspects and benefits of organizational survival (Robbins 1974).

The functionality of conflict tends to be focused on the fact that it encourages and sometimes forces organizational change.

For any organization to survive, it must adapt to its environment. In natural sciences, this is referred to as Charles Darwin's evolutionary theory which is described as the "Survival of the fittest" (Darwin 1872). In organizations, changes in strategy that are stimulated by conflicts cause adaptation and hence cause the survival of the organizations (Robbins 1974). New ideas are brought to the frontline because of conflict. Without conflict, these same ideas may not have appeared, and no adaptation would have been done.

Conflict also might force change because whenever it is present, different parties in conflict monitor the performance of each other more carefully in order to try to highlight any bad behaviors, thus being a step forward from the other party. Power redistribution also results from conflict. This sometimes stimulates the concept of *conflict stimulation* in organizations which is a strategy of forcing conflict for the purpose of motivating change. Currently, many managers are using this strategy which appears to be fruitful whenever used moderately and under good control. Conflict stimulating techniques include the use of ambiguous or threatening messages including members whose culture, background, attitudes, and values differ; realigning groups and members, modifying rules and regulations, and encouraging interdependence in order to alter the status quo in the organization; appointing a "devil's advocate" through designating critics that argue with the flow of events and ideas in groups (Robbins 1974).

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Conflict in Family Businesses

Abstract This chapter begins with a review of the literature on conflicts in family businesses. It shows how they are a fertile environment for conflicts. It also deliberates the effect of conflicts in family businesses on their overall performance. Moreover, it contributes by drawing models of conflict in family businesses.

Keywords Family business · Performance · Episodic model · Anger Conflict

From operational and conceptual bases, numerous attempts have been done in order to develop a common definition of a family business. Several authors have listed common definitions of the concept of a family business (Chua et al. 1999; Handler 1989; Litz 1995). Another stream of research differentiated between family and non-family (e.g., Anderson and Reeb 2003; Coleman and Carsky 1999; Gudmundson et al. 1999; Lee and Rogoff 1996; Littunen 2003; Westhead et al. 2001; Zahra et al. 2004). These studies revealed a mixture of results. However, no common definition was adopted to explain the differences between a family business and a non-family business. Mainly, the impact of the “family” was studied (Astrachan et al. 2003; Corbetta 1995; Klein 2000). This impact can be seen in terms of the role of the family in determining the vision and control mechanisms and the creation of unique resources and capabilities (Chrisman et al. 2003). Some scholars have studied

the homogeneity of family firms (Sharma 2002) in terms of the level of the family involvement in them (Tsang 2002). The mode of involvement is divided into three directions: the development of family firm typologies (Sharma 2002), the development of multiple operational definitions (Astrachan and Shanker 2003; Heck and Stafford 2001; Westhead and Cowling 1998), and the development of an F-PEC scale to capture the types of family involvement (Astrachan et al. 2002). The multiple operational definitions include the broad definition where family controls the voting power in a family firm (Astrachan and Shanker 2003), or the family controls the voting, and is involved in the operations of the business, and the most stringent operational definition is only when the family controls the voting and multiple generations are involved in the operations of the business (Astrachan and Shanker 2003). The F-PEC scale measures family involvement using three subscales: power, experience, and culture. The power scale shows the power of family over ownership, governance, and management. The experience scale measures the breadth and depth of dedication of family members to the business through the number of individuals and generations of family members involved in the business. The culture scale measures the level of family commitment to the business and the family value system.

Some researchers have supported the adoption of a “family embeddedness perspective” by including the characteristics of family systems in research studies (Aldrich and Cliff 2003; Chrisman et al. 2003; Zahra et al. 2004). Sharma (2002) developed a family business typology, identifying 72 distinct and non-overlapping categories, based on the extent of family involvement in the ownership and management of the firms. This typology which meets some of the key criteria of an appropriate classification system was described as by “collectively exhaustive,” “mutually exclusive,” and “stable” system of classification (Chrisman et al. 1988: 416; McKelvey 1975, 1982 in Sharma 2004).

Large-scale carefully designed empirical studies have revealed that the success of family firms depends on the effective management with an overlap of family and business, rather than on resources or processes in either the family or the business systems (Olson et al. 2003).

Family businesses are a fertile environment for conflicts. Conflicts exist in almost every family business. These conflicts embrace complex relationships, chronic pressures, work–family conflicts, and factors beyond individual control. A large scholarly attention has been observed over the past decade on studying both the topics of family businesses and conflict

management. But there have not been enough studies on the integration of both these topics. A professional manager rarely encounters the problems and difficulties that the founder of a family business does face (Levinson 1971). These problems, when encountered between members of the same family, are usually intensified due to the interference of emotions and feelings in the process of dealing with them, and hence the belief that family businesses are one of the fertile fields for business conflicts (Harvey and Evans 1994), making conflicts a major area concern for these families (Ward and Aronoff 1994). Some studies see a conflict as an opportunity for growth. They consider it as having a positive aspect (Kaye and McCarthy 1996). Lots of research have been done on the benefits of conflicts (Schweiger et al. 1989; Jehn 1995; Eisenhardt et al. 1997 in Cosier and Harvey 1998). Three major categories of conflict have been defined. These are the task conflict, the relationship conflict, and the process conflict. Among the above three categories, both the task conflict (related to the job and business matter itself) and the process conflict (related to the methods used to conduct a task or a job) can be very beneficial in organizational setting, while the relationship conflict or interpersonal conflict leads to dysfunctional conflict (Jehn 1997a, b). A relationship conflict is often referred to as an interpersonal or affective conflict due to the fact that it involves emotions, and here lies the dysfunctional conflict that is often encountered in family businesses. According to Johns and Saks (2005), an *interpersonal conflict* is “a process that occurs when one person, group, or organizational subunit frustrates the goal attainment of another” (Johns and Saks 2005: 411). Kellermanns and Eddleston’s (2007) study showed that process conflict was not significantly related to performance; however, only in conjunction with a moderator, this type of conflict exhibited a performance effect, while cognitive conflict (or task) was found to be negatively related to family firm performance.

Other researchers used the stewardship theory to demonstrate that a highly altruistic family business is likely to have a collectivistic culture (Kellermanns and Eddleston 2004) or an involvement-oriented organizational culture (Corbetta and Salvato 2004). According to the Oxford dictionary, a steward is a person employed to manage another’s property, especially a large house or estate, or a person whose responsibility is to take care of something. The stewardship theory according to Donaldson and Davis (1991) defines relationships based on behavioral premises. It is considered to have its origins in psychology and sociology

(Davis et al. 1997). This theory focuses on individualism based on the concept of trust among individuals. It also focuses on the stewards' self-evaluation, making the performance of the firm as a major factor in the calculation of the success of the steward. Stewards from this point of view work for the interest of shareholders, aiming to protect and maximize the profits for shareholders (Donaldson and Davis 1991). Their motivation and satisfaction come from the success of the organization (Abdullah and Valentine 2009). In collectivistic cultures, "the belief is that only through joint effort can the best solutions be identified and tested" (Zahra et al. 2004: 365). This collectivistic culture, according to Davis et al. (1997), leads to the cooperation and collaboration when making decisions. Trust, as identified in the stewardship theory implemented in this case, is a major factor in collectivistic cultures, offering participative acts. The process of a participative strategy is reflected by the strong bonds, trust, and sense of loyalty and responsibility associated with altruism. When altruism is low, family members may lack commitment and psychological ownership to the firm (Zahra 2003).

Although conflict has been of interest to many researchers, and more specifically through the role of social sciences in our understanding of conflict, it has not been fully integrated into the context of family businesses contextual effects and norms.

It is common in research to focus on conflicts caused by work roles affecting family roles or vice versa, where family roles affect work roles (McMillan et al. 2011). Pieper et al. (2013) discussed common methods in which the business system and the family system affect each other. Whenever families and businesses mix, the result usually has lots of positive outcomes including the maintenance of family health and prosperity, increase in firm performance, corporate social responsibility acts, and environmental involvement (Miller and Le Breton-Miller 2005; Anderson and Reeb 2003; Stavrou et al. 2007; Dyer and Whetten 2006; Berrone et al. 2010). On the other hand, the combination of family and business too often results in conflicts. A common ground for such conflicts is based on contradictions between egalitarianism in the family and meritocracy in the business, where power is held by people selected according to merit (Pieper et al. 2013).

Although the business offers the family members' needs for a job, income, and personal accomplishments related to personal satisfaction, it also causes tensions because of the requirements it needs, sometimes leading to conflicts and to the deterioration of the business and its performance.

Family enterprises are of a significant impact on the economies as they represent around 65–80% of the businesses all around the world (Gersick et al. 1997). In Europe, during the year of 2008, these family-owned or controlled businesses occupied around 70–80% of the businesses in the region (Mandl 2008). The importance of these entities is also conveyed in the role they play in contributing to national returns. To illustrate further, the USA's percentage of family businesses amounted for 80–90% with a 26–64% of GDP contribution based on the standards applied in the definition of family businesses (Astrachan and McMillan 2003). With the highly noticeable supremacy of family businesses in the economic composition of most countries, academic investigations and interpretations have been more directed toward tackling the topic of family firms. There is a need to shed attention to what differentiates this type of firms and the different aspects which take part in influencing the functionality of these firms (Sharma 2004). To begin with, the definition of family businesses has been a subject of several interpretations and discussions throughout the studies of several different researchers. The establishment of a distinct and coherent definition of family businesses is an essential task to be fulfilled as it paves the way toward future construction of relevant pieces of knowledge on the subject. Several theoretical and functional characterizations of family businesses have been attempted, and many researchers have aimed to analyze and evaluate the already established definitions. The main focus of all the analysis and definition processes has been to differentiate the family businesses from other kinds of businesses or non-family firms. Despite the efforts, none of the articulations done have been accepted widely, however, most of them appear to be centered on the significant duty of family in allocating the vision and governance applied by a firm, and the formation of distinctive funds, capitals, and competencies (Sharma 2004). For instance, according to Astrachan and Shanker (2003), family businesses may have three operational definitions based on the three modes of family involvement. Their general description practices the principles of family's holding of voting mechanism over the tactical track of a firm. The mid-range description embraces businesses with immediate family contribution in everyday tasks. The strictest of descriptions categorizes businesses as family businesses on the condition that family maintains voting control of the firm, and several generations of family members take part in the daily tasks of the business. Based on the mentioned definitions, an estimate of 3–24.2 million family businesses exists in the USA and employs 27–62% of the

labor force and provides 29–64% of the country's GDP (Sharma 2004). Another definition of a family business may be a firm which is owned, controlled, and managed by individuals who are linked through familial connections (Bertrand and Schoar 2006). The presence of the familial affiliation in a firm is a significant impact as it normally guides the orientation, strategies, and vitality of the business. Furthermore, it could represent a source of support to the progress of the company. To further elaborate, family businesses provide monetary and interactive support, offer free work, and collective work to enhance the overall family and business welfare (Van Auken and Werbel 2006).

Businesses worldwide constantly face many conflicts throughout the course of their operating life. Similarly, family businesses are among these specific businesses which have their own share of conflicts. Their sustainability is often susceptible to conflicts which occur between the family members managing and operating their companies. Family members hold different ideals, understanding norms, inspirations, and capabilities which may be a source of varying insights toward tactical verdicts that firms normally should undertake. These result in the most challenging encounter that a firm undergoes; the manifestation of conflict between family members functioning as a team in their own family business. The purpose of this chapter is to expand the comprehension around the topic of conflicts in family businesses and to verify the impact it has on the performance of these enterprises in light of the popular need for further exploration on the matter (Benavides-Velasco et al. 2013; Hermann et al. 2011; Sharma 2004).

It is common that conflicts in family firms are more complex than those happening in other kinds of businesses. The business, the family, and the proprietorship are the three intermingling subdivisions which form the composite structure of a family business (Gersick et al. 1997; Tagiuri and Davis 1996). Consequently, in addition to the problems that would normally arise and that businesses usually deal with, they have to deal with their own interpersonal conflicts. In other words, variances in family and business standards, genealogical competitiveness, discrimination and favoritism, inheritance, control allocation among family members, family members' remuneration, and the preservation of non-familial devotion are all conflicts to be dealt with in a family business (Eddleston and Kellermanns 2007; Kellermanns and Eddleston 2004; Sorenson 1999). The stated issues represent the sides of a double-edged sword. Normally, they cause inflexible challenges and struggles to family

businesses (Leibowitz 1986). On the other hand, these conflicts may also be of certain beneficial results: they can enrich efficacy, improve productivity, encourage innovativeness and originality (Harvey et al. 1998), escalate ideas, inhibit hasty agreements, and lead to more participation and a better affirmative effect on the firm's performance (Eddleston and Kellermanns 2007). On the negative aspect of the occurrence of conflicts, these encounters may rapidly develop to reach a damaging stage which is widely known to be the main reason behind the destruction and failure of the family business (Harvey et al. 1998). In spite of its destructive influences on family businesses, the issue of family business conflicts is still scarce on research and development (Benavides-Velasco et al. 2013; Hermann et al. 2011; Sharma 2004). The absence of thorough investigation on the matter has diminished the improvement of the level of comprehensiveness in the business world mainly the family business branch (Sharma 2004). Hence, it may be argued that there is a certain balance between the combination of conflicts which might occur in a family business in order to maintain a healthy family business operation and relationship.

As previously stated, present studies normally differentiate three kinds of conflict: task, process, and relationship (Jehn 1995, 1997a, b in Pieper et al. 2013). However, it has been established that the performance and contentment of all relevant parties are often reduced by relationship conflict mainly in the framework of family business (Pieper et al. 2013). In other words, the most popular and common origin of harmful effects of conflict is relationship conflicts (Jehn 1995, 1997a, b). This aspect of conflict normally hinders full performance attainment, through shifting the attention from efforts needed for work execution to efforts in reducing coercions, politics, and alliance formation (Eddleston and Kellermanns 2007). Based on the mentioned, family businesses are specifically negatively influenced by relationship conflicts or dysfunctional conflicts as they are prone to be persistent over time with the constant connections within the family members, whether throughout the organizational atmosphere or away from work (Kaslow 1993; Morris et al. 1997 in Eddleston and Kellermanns 2007). Bitterness, tension, hostility, and the view that others have antagonistic intentions are linked to relationship conflict in family businesses (Simons and Peterson 2000). Hence, less time and attention to business necessities is devoted as it is rather being allocated to resolving and controlling the dysfunctional conflicts which leads to a deterioration in the performance of the family

business (Eddleston and Kellermanns 2007). Most of the few mentioned studies done on conflicts in family businesses discuss and tackle the relationship conflict issue in light of its positive and negative influences on the business. This kind of conflict is said to result from and often occur between closer family connections or sensitive relationships, like between siblings or parents and children (Grobmann and Von Schlippe 2015). Relevant findings also emphasized the necessity of the bond between the family and the firm for its classification as a family business and for the ambiguous field it creates: The positivity correlated with the “familiness” it sets in the enterprise and the negativity it generates with the “negative familiness” through the conflicts it causes (Weismeier-Sammer et al. 2013). The gradual rise of aversion between family members occurs as a reaction to the negatively enforced ethical climate of the firm which includes the elements of perceived family harmony norms, distributive justice perceptions, and role ambiguity (Kidwell et al. 2012). The interrelated connection between family and business in the firm reveals that family affairs can lead to prosperous industry results and vice versa (Olson et al. 2003). Therefore, when negatively conveyed, the lacks of clear and fair family norms as well as the absence of caring and expressive ties are more likely to cause dysfunctional conflicts in the business among family personnel (Bennett et al. 2005 in Kidwell et al. 2012). Furthermore, fairness norms are the factor which offers insights on how a family member develops into an essential resource or an obstacle (Kidwell et al. 2012). In family businesses, fairness norms are different than those of non-family businesses. In family businesses, equality is the base of the fairness norms as each relative should be entitled to the same chances and capitals, while in other businesses, it is the merit which governs the rights of each employee should they be competent and devoted enough (Lansberg 1983 in Kidwell et al. 2012). Thus, violations of the fairness norms of family businesses would trigger and lead to rebellions and conflicts between family members, the discussed dysfunctional conflict (Van der Hayden et al. 2005). In addition, role ambiguity is also linked to the relationship conflict aspect of family businesses. Role uncertainty, relevant job inconveniences, and their discouraging results are among the highly researched features in companies (Onyemah 2008). However, their exploration is of minimal importance in family businesses. It is the subject of strong emphasis as it is heavily linked to negatively influencing the performance in comparison with other job-correlated stressors such as role struggles, excess, and diffidence

(Gilboa et al. 2008). The struggles are said to be dormant for a certain period of time during which stories are developed in an atmosphere of hatred and animosity until these stories flame up and accelerate to a level where there is no control exerted on the communication system of those affected by conflicts. The whole process of such a crisis development is yet to be established and understood in the field of family business (McKee et al. 2014). Based on the elaboration on the factors of fairness norms and role ambiguity which negatively influence the family business and cause relationship conflicts, it may be established that there could be a certain correlation between the mentioned factors.

As it may be noticed ahead, there has been an extensive discussion and addressing of one kind of family business conflict which is the relationship conflict. The other two kinds of family conflict which are task/cognitive conflict and process conflict remain even scarcer on research done to examine them. It is said and common that the mentioned kinds of conflict are of a positive impact on the family businesses (Kellermanns and Eddleston 2007). They are job-related conflicts that exclude undesirable adverse emotions, thus, perceived as being valuable to overall productivity and efficiency. The cognitive conflict revolves around misunderstandings that happen regarding the job at hand and the policies and tactics followed, and process conflict deals with the division and distribution of tasks among the right personnel for them (Jehn and Mannix 2001). The cognitive conflict is known to help facilitate and improve the decision-making process as well as the critical evaluation of matters and strategies and the consideration of new and original solutions. The process conflict is known for focusing on the appropriate use of individuals' capabilities to execute the required task at hand; it provides the right allocation of the most suitable individuals to carry out the appropriate tasks needed (Kellermanns and Eddleston 2007). An additional factor which also intervenes in the conflict issues is the generation which owns the family firm and its characteristics and mode of conduct. In firms where a small number of generations operate the business, also known as firms of low generational ownership dispersion, the level of conflicts is found to be higher than that of firms of high generational ownership dispersion, as the latter provides a wider involvement in the decision-making process unlike the former which is characterized by a form of superior performance systems. Yet, it is necessary to point out the fact that in firms where several generations are involved in ownership and operation, there is also a high level of risk and threat

of a misperception of the mentioned advantage. In other words, in such highly dispersed ownership firms, conflicts are to be prevented as much as possible as their occurrence would split the family into cliques according to generations or family sections, leading to the obstruction of the wanted level of performance (Kellermanns and Eddleston 2007). Thus, it may be valid to suggest that the positive outcomes of task and process conflicts may be hindered by the occurrence of the third type of conflict, the relationship conflict.

Intergenerational issues rise in family businesses causing conflicts that result in the creation of competing parties inside the business. Succession, generational differences in opinions and strategies, and change and innovation are few of the major causes of intergenerational problems inside a family business.

Since planning succession is more important than succession itself, the older generation should not underestimate this phase because the lack of succession planning is costly and frustrates next generation members. Here lies a form of intergenerational conflict. From this aspect, preparing for a successful succession prevents lots of large conflicts in the future of the business. That is why future positions and the personnel which will hold them should be clearly specified by the older generation for the prevention of task and relationship conflicts and for the proper handling of the business.

Each generation has its own vision for the functioning of mechanisms and processes inside the business. These are caused by different cultures that each of the generations is prone to, starting from their educational environment, to the change in the culture during the time-phase that each of them grew in, and to the personal opinions evolving from the innate logic that each has. These differences result in a difference in opinions among members, and this difference is usually larger between different generations than between members of the same generation. Strategies are also prone to conflicts, as different generations usually have different strategic visions.

Most of the older generations in family businesses are convinced in the methods they use for the daily functioning of their businesses. They usually relate the success of the business to the direct methods they use for its functioning. New generations usually consider the old methods as outdated and put efforts for innovating them. This in turn causes conflicts between the two generations, and the older generation let the new generation take the full responsibility for the failure or success of the firm

as a result of any innovative method. This sometimes causes the innovative methods to be put on hold because the new generation fears to take the full responsibility for the failure in case it happened.

Setting goals in family businesses is considered to be a tough task due to the overlapping of family and business systems. Goal diversity is shown to be strongly expressed when the generational transitions within the family and business are close; this only leads to more social interaction through which members of the organization contrast their goals. Goal setting is a very important part of any organization because these individual goals will eventually transform to become organizational policies and actions. However, in family firms, such activities are more complex due to the unique systematic interactions between the family and the business itself, where the family can use its authority and power to influence different decisions in the business and switch the business to focus on family-centered goals. These goals will eventually be more noticeable as the family unites strongly to increase its representation within the business.

Case

The American British University

Introduction

This case describes an entrepreneur who founded a community hospital and had a successful venture; he then founded a technical school and enjoyed success as well. Later, he embarked on a university venture, brought together some investors, and gave the management to his daughter-in-law, while his son nominated the chairman of the board. The family enjoys the major portion of ownership at the university, but the remaining shareholders are not happy with how the strategy is executed. The family has the leading decision at the board level with the majority stake, while they have the power to nominate the general manager they desire and provide him/her with their full support. The general manager would be the daughter-in-law, who has the full authority to manage the university, hide some financial discrepancies, and uses an autocratic style of management that is quite different from the founder's style. This case displays how the lack of trust can lead to failure and stress in a family business, which will eventually lead to more intense conflicts in the future. One of the problems is the general

manager deviating from the board decisions, but is appointed again by the board due to the majority ownership that the family enjoys. This case is a good example of conflict caused by poor governance, whereby family relationships take the stand over proper governance which could teach students the difference of the fine line between personal and business relationships. The board fails to appoint an audit committee on the board of directors, a nomination committee, and a governance committee.

The founder of the university Dr. Fouad Libertino is a man of great and long-term vision. He not only foresaw the construction and establishment of his own hospital, but also managed to create and develop a university for himself and his family. He founded the university and transmitted the ownership directly to his children equally. With that process in mind, Mr. Jack Libertino, the founder's son, was hereby elected as the president of the board of directors where he, alongside his brother and sister, has 51% majority stake in ABU. However, his son Jack bought 2% from his brother and 2% from his sister and thus, became the highest shareholder in the ABU. Therefore, he was able, using his presidential powers, to appoint his wife, Mimi, as a general manager who later became a powerful female manager. She abused her positional power to become a very manipulative manager in the university.

Hierarchy in the ABU

During the first year, the appointed president of the university started to find many obstacles put in front of his plans. Most of the regulations and laws were broken or not implemented due to the interference of the general manager. The general manager Mimi started to interfere in the academic process; at one point, there was an incident where she changed the format of an examination that was set by the dean. This created a dispute between the dean and the general manager on matters of administrative affairs. The dean of the school of medicine was Dr. Tony who was fed up with the way that she constantly kept undermining his authority. Therefore, more clashes occurred during her first year of appointment. They faced head-on at first discreetly often in the confines of their offices or on the phone. However, one day they had another heated argument about certain rules placed within the laboratories. It was then

that Dr. Tony escalated the tension to include the entirety of the administration during a meeting. Mimi's husband was furious to see the ruinous state of the management that he decided to take his wife's side instead of being neutral. Dr. Tony resigned shortly after the major quarrel and due to her undisputed reach in the affairs of the president and staff when, in the beginning of the second year, the president of the university also resigned, and it was not until 3 months later, the board of directors appointed a new president.

Management conflict issues

The strategic management of the university is to promote economic, social, and cultural environment that prepares graduates to compete in the real world. However, ABU does not utilize an advisory board in the institution's management chain of hierarchy, although it does have a board of trustees that meets once per year. The members are some from the owners and some from the local communities. The American British University has equal employment opportunities for females and non-family members, and all employees benefit from the compensation contracts. However, there are some part-time instructors who do not benefit from long-term compensation. Moreover, despite the employment opportunities that the ABU provides, for the past 3 years, all employees of the ABU have been employed or recommended by the Libertino family. In fact, many potential and well-qualified people submitted applications for employment or teaching at the university, but were rejected due to the lack of connection with the Libertino family.

Conclusion

The American British University has appointed members based on emotions and relations rather than merit which have caused problems due to the fact that the family completely manages the institution which thought of repercussions. The induction of Jack's wife into the general manager position has diminished any trust other professors or potential investors might have had toward the family and has caused conflict in the family business that could have been prevented. Her duty was to her own self-interest and agenda rather than the university as a whole which eventually caused a conflict of interest between many members of the administration, leading to

task conflicts. Moreover, the university functioned in a matter that disregarded talent that was not ready to be loyal toward the family in charge which also diminishes any form of credibility.

In their study, Kotlar and De Massis (2013) focused on the effect of individual goals of organizational members on the organizational goals that are adopted by the family businesses. They focus on how the involvement of the family in the business results in the adoption of family-centered goals in organizations, in addition to nurturing the restabilization of new organizational goals. It is important to know that in defining the goals adopted by the organization, three important factors should be included. First, who are the people who have the biggest influence on the decisions of the firm. Second, what are the elements that affect the individual goals of the firm. Finally, through which channels/processes will these individual goals be transformed into organizational policies.

For better implementation of goals, the formulation process should not be limited to the top management team, but should involve individuals at different levels in the organization. One problem that results in the process of defining organizational goals is linked to define coalitions (alliance for combined action); these coalitions that are formed in organizations may create conflicts among organizational members and negotiating mechanisms that lead to determining combined actions. The relationship that exists between the organizational goals of the family business and the involvement of the family is expected to be complex. This happens mainly because organizational goal formation lies in the level of the overlaps between the family, the ownership, and the business systems, which will eventually change with time. Thus, understanding how family businesses adopt family-centered goals remains a major challenge in the process of developing a theory of the business.

3.1 CONFLICT AND FAMILY BUSINESS PERFORMANCE

Generally interpreted, performance denotes efficacies in terms of consumption of assets as well as the fulfillment of the business' objectives (Steers 1982). Several diverse agencies of firm performance may be detected in the measurement strategy such as the ratios of accounting, stock market evaluations, and market share. Each measure is valuable and noteworthy within an accurate context, what is significant and essential

is that the measure provides insight into an aspect that is central to the short or enduring sustainability of the business. For instance, the market share measure of performance factor might be of a significant impact and resonance in the field of automotive industries characterized by a small number of producers. However, it is not the case when dealing in the context of agricultural industries where the market share measure is not of any noteworthy significance to producers as each farm has a minor market share. Accordingly, it is critical to choose proper performance meters for the appropriate industry (Davis et al. 2000). Goodman and Pennings (1977) discuss that organizational success is a multidimensional paradigm and that the particular measurements are exclusive to the nature of the business and the objectives of the company. Thus, there are no universally common meters and that the method of assessment of effectiveness and the qualifications of these indicators require a detailed examination of the business and the firm addressed (Goodman et al. 1983). Financial performance, turnover rate, and trustworthiness are all indicators widely and commonly considered in the evaluation of the effectiveness and measurement of organizational performance as they convey a general overview of the level of success or failure of the business in question (Davis et al. 2000). Furthermore, practices relevant to identifying and grabbing opportunities and reshaping the supply base of an organization are often referred to in the aim of clarifying the variances in performance between firms (Teece et al. 1997). These processes have been referred to as dynamic capabilities and a lot of efforts have been constantly exerted to understand their foundation and features (Teece 2007). Generally, it is expected that the dynamic capabilities positively influence firms' performance, however, Shamsie et al. (2009) backed up the affirmation that the growth in dynamic capabilities is not necessarily linked to improved firm performance, instead, it is the circumstance and framework within which these proficiencies are positioned which influences the performance (Wilden et al. 2012). Therefore, rather than the aim of exploring the specific principles for universal effectiveness, it is more valuable to focus on the context set for the dynamic capabilities; the internal and external aspects that may permit or deny the development of the firms' potential and performance (Barreto 2010). Helfat et al. (2009) recommend the assessment of the results of dynamic capabilities on performance through the notion of "evolutionary fitness" as it counts on the appropriate matching of the dynamic capabilities with the context of organizational operation (Wilden et al. 2012). High

evolutionary fitness indicates that the firm is employing its dynamic capabilities in the correct context of operation leading to survival and growth. The firm's survival reveals whether it is successful in adjusting to the peripheral environment, as the firm's growth integrates the degree to which the business has expanded in dimension with time (Helfat et al. 2009). Accordingly, it may be proposed that low evolutionary fitness can cause the deterioration and failure of the business.

Throughout all the discussed aspects of family businesses and the conflicts it faces, there remain certain gaps to be acknowledged and possibly filled with a better understanding of the topic. For instance, there is a contradiction noticed in the discussion of fairness norms as a part of relationship conflict and the process conflict examination; they both deal with the idea of allocating the correct employee for the right task, yet, it is a source of negative implications in relationship conflict unlike being a positive source of outcome within the process conflict. Therefore, further depiction should be considered for a better justification of the matter. Moreover, the methods of performance measurement applied by the researchers and those of comparison with non-family businesses are a subject of questioning as they can vary to a great level causing the immateriality of the research outcomes. In addition, the question of the extent to which the right context is allocated in the process of measurement is to be asked. There is also a scarce discussion relevant to the systems or procedures by which successful family businesses deal with and handle the common existence of conflicts so as not to escalate toward reaching a breaking point, which is also barely sought in research material.

In conclusion, the family businesses field of study is very wide and several factors and characteristics are to be thoroughly addressed for a better comprehensive standing on the matter. They represent a significant part of the economies around the world and are yet to be further established by a universal definition. Many aspects intertwine within the topic which requires a detailed assessment of these features to be able to reach a valuable consensus. Like other kinds of businesses, family businesses face many sorts of conflicts which are even more complex than normal firms. The leading most distinguishing conflicts occur between the family members handling the business. There are three known types of conflicts: task, process, and relationship conflicts. The first two are said to be a positive influence while the last is said to cause negative impacts on the business. It is established that the dysfunctional conflict encompasses the factor of fairness norms and role ambiguity which play a critical role in its

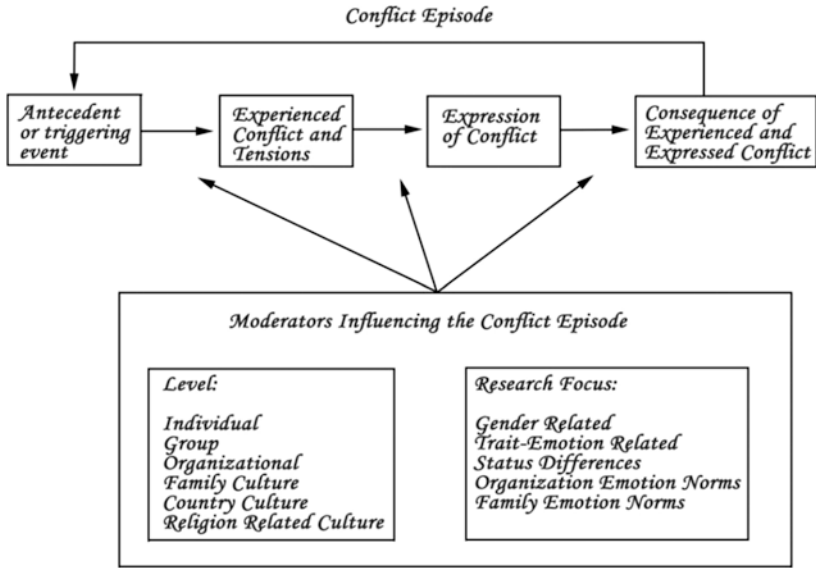


Fig. 3.1 An episodic model of conflict in family businesses

occurrence. Many meters are included in the measurement of family businesses performance. Some are related to financial and material aspects of the company and others revolve around the norms and intangible assets of the organization. Nonetheless, all of these agents are to be considered in the right context for an accurate and feasible performance measurement.

3.2 EPISODIC MODEL OF CONFLICT

Drawing on the above definition of family businesses, an episodic model of conflict is shown in Fig. 3.1 to organize the research literature. A conflict episode is composed of four primary events:

1. an antecedent or triggering event
2. an emotional experience or reaction
3. an expression determined by both the intensity of the felt conflict and effort at regulating expression or behavior
4. an outcome or consequence, which may include the individual's own reaction to the episode as well as the responses of others

This episodic model will be described in family business settings:

Antecedents or triggering events come in different forms. These are unfairness or lack of justice, goal interference, interpersonal conflict, and lack of trust. The experienced conflict or reaction may be subjective, based on perceptions or cognitive, based on reality. The expression of conflict and tensions determined by both the intensity of the felt conflict and effort at regulating expression or behavior may be controlled, non-controlled, or silent. And finally comes the outcome or consequences of experienced and expressed conflict, which may be reflected by anxiety, tension, disputes, and many different other consequences.

Moderators influencing the conflict episode are on the level of individuals, group, organizations, family culture, country culture, and religion-related culture with a research focus related to gender, trait emotion, status difference, organization emotion norm, and family emotion norm.

3.3 EXPRESSION OF ANGER

Silent anger occurs when individuals experience anger, but do not express it verbally to those involved or those who can address the issue (Pinder and Harlos 2001). Silent anger can be thought of as expression in the sense that the emotion is often visible in individuals' nonverbal behavior. Geddes et al.'s (2007) typology of anger expressions is consistent with a commonly used methodological approach depicting three types of anger expression: anger-out (anger expressed through aggressive verbal or physical forms), anger-control (experienced anger mitigated by strategies aimed at calming down and exhibiting patience and tolerance with others), and anger-in (anger directed inward at the self, characterized by inhibition of outward expression; Spielberger 1999).

Managers may be able to address problems earlier, rather than creating an environment where chronically suppressed anger is released in harmful ways. Ultimately, understanding the ways of anger and how it plays out in organizational episodes will increase the possibility that anger expressions lead to functional outcomes for individuals, groups, and organizations.

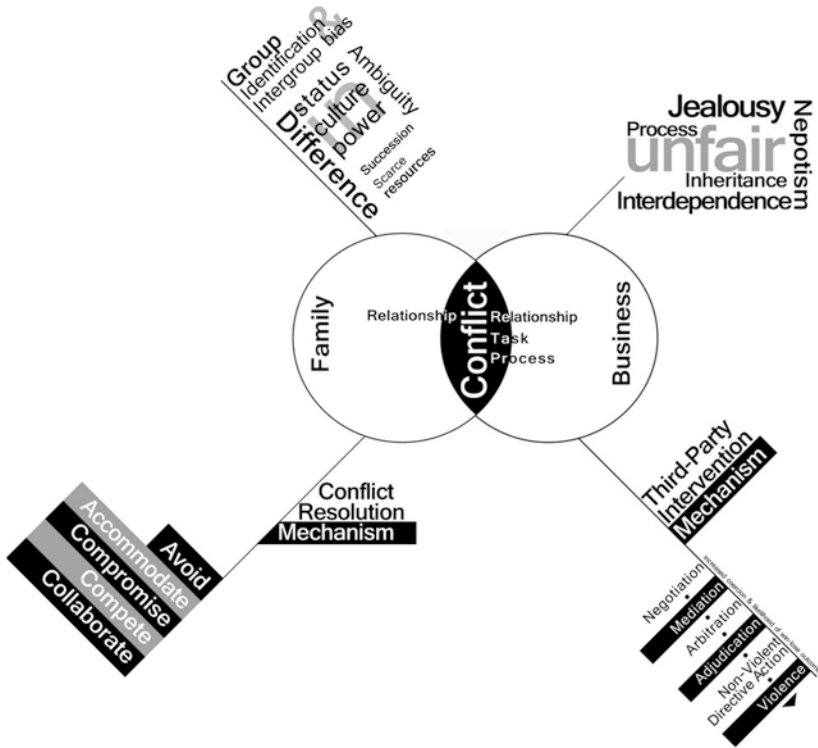


Fig. 3.2 Causes, results, and management methods of family business conflicts

3.4 CONFLICT MANAGEMENT IN FAMILY BUSINESS MODEL

Figure 3.2 illustrates the causes of conflict on family businesses, their results, and the methods of managing them.

As shown in the model above, the causes of conflict management in family businesses are group identification and intergroup bias, interdependence, difference in power, ambiguity, scarce resources, difference in status, difference in culture, succession, jealousy, nepotism, unfair process, and unfair inheritance. These sources of conflict lead to the three forms of conflict: the task, relationship, and process conflicts in family businesses.

Methods of conflict management include avoidance, accommodation, compromise, competition, collaboration, and third-party intervention which includes (in order of increased coercion and likelihood of win-lose outcome) negotiation, mediation, arbitration, adjudication, nonviolent directive action, and violence. Within the third-party intervention, proper conflict management should aim to solve conflicts giving priorities to methods with lower coercion and likelihood of win-lose outcome, thus preventing violent actions.

Jealousy, being more prominent in family businesses than regular businesses constitutes a major aspect of conflicts. Jealousy is both a cause and a result of actions causing conflict. Preventing jealousy in the first place aids in the avoidance of many conflicts in family firms. Nepotism, on the other hand, dealing with favoring certain relatives over the others in the business, especially by giving them certain highly ranked or highly paid jobs and providing them with power, also causes jealousy and leads to major conflicts within the family business. Nepotism along with other acts is considered as an unfair process that leads mainly to relationship conflicts, along with task and process conflicts. Finally, unfair inheritance, sometimes caused by weak succession plans and by nepotism, leads to relationship conflicts within the family that reflect on the overall performance of the family business.

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Gucci Conflict

Abstract Gucci, or the House of Gucci, is one of the most successful haute couture establishments. It was founded by Guccio Gucci in 1921, and it started as family business. In the mid-60s, Gucci adopted the legendary interlocking GG logo, creating yet another chic Gucci visual insignia. The attitude of the father, and the jealousy and envy of the sons and later the nephews were the cause of lot of conflicts that grew through over the years, and which had destroyed the family and the company.

Keywords Gucci · Guccio Gucci · Aldo Gucci · Vasco Gucci
Rodolfo Gucci · Grimalda Gucci · Tom Ford · Frida Giannini
Conflict between Guccio and his sons · Grimalda Conflict
Patrizia and Maurizio · Conflict Divorce

4.1 GUCCI COMPANY PROFILE

Impressed with the luxurious luggage and inspired by the refined aesthetic of English nobility, Guccio Gucci, born in 1882, founded his first leather goods company and small luggage store in 1921 in Florence, Italy. Years later, in 1938 Gucci opened other boutiques in Rome, and later in Milan. The Gucci label enjoyed a lot of success and became throughout the years one of the most prestigious handbags and accessories brand.

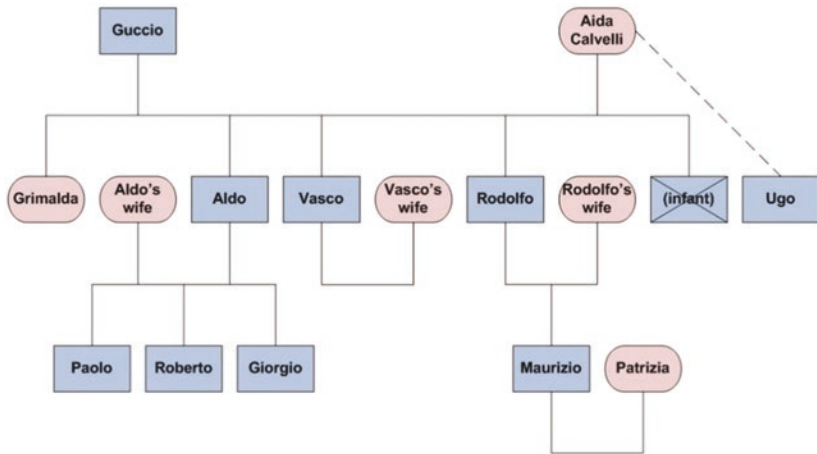


Fig. 4.1 Guccio family tree

Four of his children, three sons and his daughter, worked with him in the company:

- Aldo was his father’s right-hand man, totally committed to the company, and he was involved in the company work since he became adult.
- Vasco was also involved in the company since he became adult, but was an easy-going to the point of laziness.
- Rodolfo joined the family work at his late 30s.
- Grimalda, his daughter, was his favorite child (Fig. 4.1).

4.2 GUCCIO FAMILY TREE

When Rodolfo joined the company, he was given a position equivalent to Aldo’s position despite his lack of experience in the Guccio’s business.

Guccio used to control his children’s ambitions, combining an aggressive temperament with a need for control and was reluctant to discuss any future expansion plans with his children. He prohibited on several occasions, his son Aldo, from expanding the company in any direction contradicting with his own future vision. For him, the company should be run only by “Guccio men,” so he divided the shares equally between

his three sons working with him and excluded his daughter Grimalda even though she had a very good experience in the business.

In 1953, Guccio died suddenly, his sons took over the business. Aldo succeeded in establishing the first office outside Italy, in New York, USA.

Moving the company from a local to an international company, Gucci started to build its global presence as a symbol of modern luxury.

Family disputes started, Rodolfo and Aldo against Vasco, and all the three sons together against their sister Grimalda. But the Gucci House continued its expansion abroad with stores opening in London, Palm Beach, Paris, and Beverly Hills.

In 1975, Vasco died. In order to preserve the company shares between Gucci men, Rodolfo and Aldo bought the shares from their brother's widow. The Gucci shares became divided equally between Rodolfo's and Aldo's families.

The late 1970s and 1980s were marked by internal family disputes, problems within the family increased between cousins, brothers, uncles, and sons with fathers. Aldo, who had with his three sons 50% of the shares, tried to weaken the control of his brother, who had the other 50%, so he developed the Gucci Accessories Collection and relegated the control to his son Roberto, later the new collection was a destabilizing force that brought the Gucci House into crashing down.

In 1982, Guccio became a public limited company, and after the death of Rodolfo in 1983, the company leadership passed to his son, Maurizio, who held 50% of the company's shares. Maurizio allied with Aldo's son, Paolo, to gain control of the Board of Directors. After that, he dismissed his uncle Aldo and moved Aldo and Paolo out of the company, later on Roberto and Giorgio followed them. By the mid-1980s, Aldo was convicted of tax evasion in the USA by the testimony of his oldest son Paolo and he was imprisoned. Maurizio proved to be an unsuccessful president; he was compelled to sell the family-owned company to Investcorp, a Bahrain-based company, in 1988. Maurizio disposed of his remaining stock in 1993 and was voted off the board of Gucci.

In May 1985, Maurizio left his home and informed his wife that he was going to see a friend but the next day, he had sent her a letter informing her that he wanted to end up their marriage. Patrizia's response was "I want to see him dead." Patrizia was awarded the equivalent of \$500,000 annual alimony. Tragically, Maurizio was murdered in Milan in 1995, and his former wife, Patrizia, was convicted of hiring his killers.

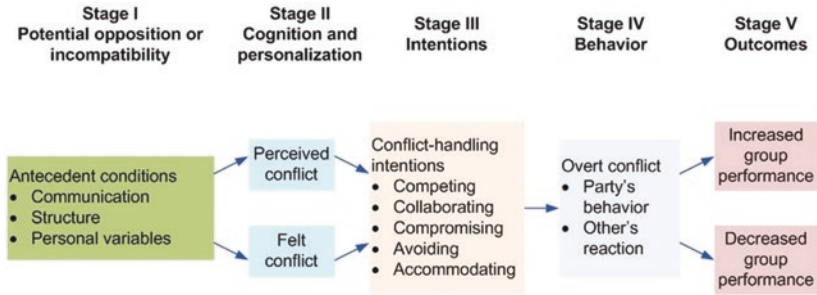


Fig. 4.2 The five stages conflict process between family members

Revitalization for the company came in the form of Tom Ford, who in 1995 took creative control of the dying company and brought it back to its former glory. Ford left Gucci in 2004. Creative control is now held by Frida Giannini.

4.3 CONFLICT PROCESS

The conflict process can be seen as comprising five stages:

- Potential opposition or incompatibility
- Cognition and personalization
- Intentions
- Behavior
- Outcomes (Fig. 4.2)

In this case, we will be focusing on three major conflicts, which happened with the family members:

- Conflict between Guccio and his sons.
- Grimalda Conflict.
- Patrizia and Maurizio conflict and divorce.

4.4 CONFLICT BETWEEN GUCCIO AND HIS SONS

4.4.1 *Stage I: Potential Opposition or Incompatibility*

In the first step of the conflict process, we will define the different root causes that will lead to the conflict.

Different personal variables, personality and attitude, between Guccio and his sons and between the sons:

- Guccio used to control his children's ambitions, combining an aggressive temperament with a need for control, which led to poor communication.
- Aldo was totally committed to the company and was involved in the company's work since he was adult, and he always tried to develop new production lines but they were rejected by his father.
- Vasco was also involved in the company since he was adult, but was an easy-going to the point of laziness.
- Rodolfo joined the family's work at his late 30s after a failure career in other working domain, and without experience in the company's business; he was given a position, in the company structure equivalent to Aldo's position.

4.4.2 *Stage II: Cognition and Personalization*

Conflict can be perceived between the brothers when we know the difference in the characters, attitudes, and experience and mainly the fact that Guccio did not take into consideration the experience and the time that Aldo had put in the company when he divided the shares equally between his three sons. Vasco was a lazy person that did not put too much effort, and Rodolfo had insufficient experience. Aldo was extremely disappointed to be treated with such unfairness.

4.4.3 *Stage III: Intentions*

Those perceptions, in addition to the competition and jealousy between the brothers (the second generation) and later on between the nephews, their parents, and uncles, were destroying the family relation, and every family member was trying to satisfy his own needs and concerns.

The assertiveness intention was dominating on the cooperativeness; three Gucci directors were using the “Competition style” with the others:

- Guccio used the competing style with his sons:
 - Controlling his children’s ambitions.
 - Aggressive temperament with a need for control.
 - No future expansion plans discussion with his children.
 - He blocked Aldo from moving the company to the next level, i.e., becoming an international one.
- After the death of the father, Aldo tried to weaken the control of Rodolfo, by relegating the control of the newly developed collection to his son Roberto.
- Maurizio’s target was to take control over the company, he took advantage of the weak family relation, especially between his cousin Paolo and his father Aldo, to put his uncle out of the company and later on other Gucci family members were next to be dismissed.

4.4.4 Stage IV: Behavior

Throughout the years, conflicts have evolved to reach very serious levels, where family members tried to destroy each other.

- Maurizio put his uncle Aldo first and later all the family members out of the company
- Paolo pursued his father Aldo.

4.4.5 Stage V: Outcomes

The outcomes of any conflict are the consequences of the action and reaction of all the parties throughout the different conflict stages. Usually, the conflict outcomes may be either functional outcomes that lead to increase the company performance, improve the quality of decisions or it may be dysfunctional, reducing group cohesiveness and infighting among group members overcomes group goals.

In general, the conflict between Guccio, the sons, and the nephews was a dysfunctional one and it led at the end to the loss of the company. It is worth pointing out that the conflict did not affect the family business and the company was moving in the right direction.

After the death of Guccio, Aldo found the chance to prove (even to his dead father) that his vision and ambition to reach international market were reachable and profitable, hence he started inaugurating stores in the USA, to make out of the “Guccio and Aldo conflict” a functional outcome.

4.5 GRIMALDA CONFLICT

4.5.1 *Stage I: Potential Opposition or Incompatibility*

Grimalda worked in the company with her father, and she was his favorite child, yet Guccio did not give her any share in the company, because he thought that the company should be run only by “Gucci men.”

4.5.2 *Stage II: Cognition and Personalization*

For Grimalda, the conflict was personalized; she was excluded from the company, even though she is a member of the family and she is working in the company from the beginning; she felt a total discrimination compared to her brothers and especially to Rodolfo.

4.5.3 *Stage III: Intentions*

After the death of her father, Grimalda tried to get equal share with her brothers in the father’s state. She was trying to reach a win-win situation; she intended to change the conflict into compromising and exerted a balanced and moderate approach in an effort to reach a compromised solution for the conflict.

4.5.4 *Stage IV: Behavior*

Grimalda went to the court, as arbitrator, to find a solution for her conflict

4.5.5 *Stage V: Outcomes*

Grimalda, Who Wanted to Gain Equal Share in Her Father’s Estate, Was Squashed by Her Brothers in Court. in Her Case, the Conflict Was Dysfunctional

For her brothers, the conflict was:

- Functional, as they were able to keep together all the shares.
- But they lost their sister.

4.6 PATRIZIA AND MAURIZIO CONFLICT AND DIVORCE

4.6.1 *Stage I: Potential Opposition or Incompatibility*

The root causes of the conflict between Maurizio and his wife were not very clear, but the way Maurizio informed her about the divorce caused Patricia a lot of pain.

4.6.2 *Stage II: Cognition and Personalization*

The impact of the tremendously shocking divorce request on Patrizia has obviously degraded the relationship between her and Maurizio; she became so bitter about it to the point of clearly declaring that she wants to see him dead.

4.6.3 *Stage III: Intentions*

Maurizio thought that by giving a considerable amount of money to Patrizia and by supporting his two daughters, things would go better. He was trying to reach a middle ground and to have a smoother relationship with them. But nevertheless Patrizia was not responsive to his attempts and proved very reluctant to cooperate.

4.6.4 *Stage IV: Behavior*

Patrizia wanted to see Maurizio dead, and that is the highest level of conflict that could be reached.

4.6.5 *Stage V: Outcomes*

The relation between Maurizio and his wife ended in dramatic way:

- Maurizio and Patrizia got divorced and the marriage was over.
- Maurizio was shot dead.

- Patrizia was arrested and charged with his murder, she is to complete her 26-year sentence in jail.

4.7 TEACHING NOTES

Guccio was the founder of Gucci House, which later on became one of the most prestigious haute couture establishment. But he was not willing neither to listen to his children nor to give them the chance to develop their ideas.

In addition to that, his discrimination and unfair treatment have made his sons fight with each other, stirring up deep feelings of jealousy and brother's competition. After his death, his sons involved their own children as well in their over lasting conflict.

Year after year, the family conflict increased, and it was transferred from one generation to another, where family members have not spared any malicious behavior to hurt each other until it eventually led to a self-destruction of all the company.

4.8 QUESTIONS

1. What should be the roles and responsibilities for Guccio as father and as Company founder?
2. How should Guccio's children act, and were they able to save the family business?
3. Problems happen between couples, and sometimes lead to a divorce, but for Patrizia and Maurizio, the outcomes were catastrophic; What should have been done to minimize the negative impact of that divorce?
4. After taking control of the company, Maurizio took a series of poor decisions putting Gucci on edge of bankruptcy. What should he have done?

4.9 ANSWERS

1. On the first level, being a parent, his initial role was to raise his children to love each other by treating them equally without any type of discrimination; to grow brotherhood spirit between them, by encouraging each one's vision and goal, and involving them all into developing each other's aspirations. He was supposed to

support and direct them and most of all to gather them by holding family's reunions regularly. He should have attended to their concerns and needs, by emphasizing on the family's sacred meaning and the power of unity.

On the second level, as head of the Gucci Company he should have run the business more objectively and not based on personal and family concerns, whereby each employee is to be appointed and assessed based on his qualifications and performance. He should have had a wider vision for the business's future, with responsiveness to creative and promising ventures. He as well should have adopted a more proactive management style by assigning some professional consultant, for example, to advise him about expansion possibilities whether on product or geographic level.

2. When the head of the family is out of control, it is quite difficult and sometimes impossible for the children not to be torn; hence, it would had required tremendous efforts from the children to save the situation under such difficult conditions. Ideally, children should have been united and distributed shares and roles equally between each other by taking advantage of each of their different characteristic and different points of strength, their solidarity with their various differences could had been used as the basis of extremely fruitful ventures.
3. Since we do not clearly know the basis of their divorce, we cannot analyze what should have been done to avoid it; nevertheless, one can naturally anticipate what should have been done from there on:

Friends and family members should have intervened with Patrizia to help her get over her divorce; she should have received some specialized psychological treatment.

Maurizio should have taken Patrizia's threaten more seriously and should have not spared one single effort to solve their serious differences; he should not have naively thought that money on its own could solve the problem.

4. Involving a third party with experience could sometimes prove beneficial as much as it could have catastrophic effects at other times; it certainly depends on each case and on different scenarios. In the case of a successful intervention, a third party should prove to have no type of conflict of interest, any lack of credibility, should be highly reliable and respectful, in measure to understand

clearly the meaning of the detailed facts, with no prejudice; the third party should be extremely analytical, very tactful in all approaches, and most of all should have remarkable problem solving skills, with the ability to negotiate a compromising solution in the best interest of all involved.

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What's the Most Important in Human's Life? "Family OR Business"

Abstract The conflict between the L'Oréal heiress Liliane Bettencourt and her daughter, Françoise, demonstrated how toxic family relationships can become when poorly mixed with business and questions of inheritance (Mayoras et al. 2011). The conflict started soon after the father's death, by the claims of the daughter that the photographer Mr. Banier, a longtime close friend to Bettencourt's family, is using the mother's mental frailty to gain more money from her mother, Liliane Bettencourt, the richest women in Europe according to Forbes. The conflict began by raising a lawsuit against the photographer and developed to implicate Liliane Bettencourt and one of Sarkozy's most important ministers in tax evasion and campaign finance violations. The case shows the importance of communication in conflict resolution.

Keywords Family business · L'oréal · Bettencourt · Sarkozy
Francois-Marie banier · Photographer · Conflict · Olivier Metzner

5.1 INTRODUCTION

The best family businesses excel at two things: balancing emotion and reason, and retaining a long-term perspective. Families are about love and emotions, and businesses are about making money and accomplishing tasks.

The name of the business and the names of the family members are changed for personal reasons

So, if a family is to run a business, they must become “professionally emotional.” Any confusion between reason and emotion can destroy not just the business but the family as well. The basic rule in managing family businesses is: what is good for the company is good for the family.

The conflict between the L’Oréal heiress Liliane Bettencourt and her daughter, Françoise, demonstrated how toxic family relationships can become when poorly mixed with business and questions of inheritance. The conflict started soon after the father’s death, by the claims of the daughter that the photographer Mr. Banier, a longtime close friend to Bettencourt’s family, is using the mother’s mental frailty to gain more money from her mother, Liliane Bettencourt, the richest women in Europe according to Forbes. The conflict began by raising a lawsuit against the photographer and developed to implicate Liliane Bettencourt and one of Sarkozy’s most important ministers in tax evasion and campaign finance violations.

The wrong resolution of the conflict demonstrated the 3 years of public verbal attacks between the mother and her daughter. The case shows the importance of communication in conflict resolution. Moreover, reactions to conflict in the right way will help in solving the misunderstanding of different parties in a very short time instead of spending 3 years in court. The competing type of reaction used by both ladies did not help them in solving their conflict. Instead, either collaborating or compromising could be the solution to one of the most famous conflicts in managing family businesses.

5.2 WHO IS BETTENCOURT?

Bettencourt, Europe’s richest woman according to Forbes, has a fortune estimated at \$20 billion (€15 bn) and is one of France’s biggest taxpayers. Her fortune is estimated to amount to about €17 bn (\$22.6 bn; £14.4 bn). Her mother died when she was five, leaving her alone with her workaholic father, Eugène Schueller, a chemist and one-time Nazi sympathizer who made a fortune as the inventor of modern hair dye and the founder of L’Oréal. Liliane went on to marry the politician André Bettencourt, who died in 2007. After his death, their daughter, Françoise Bettencourt-Meyers, decided to take legal action against her mother’s eccentric best friend, the photographer and artist François-Marie Banier.

Françoise Bettencourt-Meyers, 57, the only child of Liliane Bettencourt and her late husband, André Bettencourt, who had already been given her mother's 30% share of L'Oréal, worth almost \$19 billion. Bettencourt continues to receive the dividends and potentially has the right to revoke the gift under French inheritance law.

The relationship between the Mother and the daughter becomes worst from the time the father rest in peace and the family close friend, Francois-Marie Banier, becomes very close to the mother. The daughter thought that Mr. Banier is a predator, accusing him of exploiting the weakness of the elderly mother.

5.3 ROOT OF THE CONFLICT

Françoise and her parents adored each other; their life was full of harmony and love. Liliane is a very sensible person, full of poise. Françoise is a very fine pianist. She has made two records of Bach's work. She is devoted to music and to her children. She acted in a movie named *Criss-Cross* with Pascal Greggory and Arielle Dombasle.

Although Françoise's husband, Jean-Pierre Meyers, is Jewish, and their two sons, now in their 20s, have been raised in his religion, she never renounced her parents' Catholic faith. "She wrote a book about Judaism and Catholicism, but she did not convert," Dombasle told me. "The last time I saw them all together—André and Liliane, Françoise and Jean-Pierre—was 3 years ago, when I received the Legion of Honor, just 1 or 2 months before André died."

It was his photography that had brought Banier into Liliane Bettencourt's life, when he took her picture for the stylish French magazine *Egoïste*. François-Marie took marvelous pictures; his portrait to Liliane was sensitive, intelligent, and charming. In 1991 and referring to *L'Express* magazine, 4 years after Banier snapped her picture for *Egoïste*, Bettencourt wrote her first big check—"250,000 francs" [about \$46,000] for the photo book to accompany the retrospective exhibition at the Centre Pompidou. Banier, who had never shown his photographs in a gallery, aimed straight for the top—France's leading contemporary-art museum—and landed there. His retrospective of 100 celebrity portraits brought in up to 20,000 people a day and was extended for 2 months.

The terrible drama started after the death of André, the occasion that destroyed Bettencourt family. It is like a play of Racine; it has become a tragedy. Liliane Bettencourt Meyers has been completely overwhelmed

and crushed by the turn it is taken. Françoise is a very austere person, who never wanted to be in the limelight.

Banier, the gifted artist, already had a history of friendships with rich widows when he became Bettencourt's confidant and court jester. The one-time golden boy of 1970s, Paris had partied with celebrities from Salvador Dalí and Yves Saint-Laurent to Kate Moss.

5.3.1 How the Conflict Started Between Banier and Francois?

In an interview with French Elle, Françoise Bettencourt-Meyers discussed the beginning of her disenchantment with Banier in the summer of 1993, when he was invited to stay at her parents' house in Brittany. "During the lunch, Banier said some scornful, humiliating things to my father, which shocked my husband and me.... It was at that moment that I knew I could not get along with this person. The following summer, I told my parents that I did not want to be in his presence anymore. And things began to deteriorate little by little." Apparently, as the Bettencourts saw less of their daughter, they saw more of Banier and his friends. André was very close to François-Marie, and Liliane was "charmed" by him, though not immediately. François-Marie changed her life. She was always with politicians and businessmen, and she was obsessed about L'Oréal. François-Marie opened her mind. He was like Pygmalion. But she was also strong-willed, "When she says no, it is a no."

5.3.2 Lawsuit Between the Daughter and the Mother's Photographer Banier

Soon after her father's death, Françoise brought a legal complaint alleging that Mr. Banier was "abusing" her mother's mental weakness. The daughter filed a court case suing Banier for exploiting her mother's frail mental state and abusing her trust to bilk Liliane Bettencourt out of €1 bn (\$1.3 billion) in cash, artworks, and other gifts. Banier, a longtime friend of Bettencourt's, has insisted he did not take advantage of her, but the dispute prompted a string of legal cases. The judge ordered Liliane Bettencourt to undergo examination by three doctors meant to determine her mental and physical health.

5.3.3 *Facts of the Lawsuit Case*

1. Banier has gained high-power relationships from Bettencourt Family

Bettencourt offered to Banier's high-powered relationships—one of these, with the late François Mitterrand, president of France from 1981 to 1995. The Socialist Mitterrand was very close to the right-leaning Bettencourts, going back to the 1930s, when Mitterrand and André Bettencourt shared lodgings in Paris as university students. When he became president, he asked Banier to accompany him on state visits. He was always with him on the plane. He had all his ministers with him, but he always wanted Banier. Mitterrand agreed to Banier's request to be appointed to the Haut Conseil des Musées, "the board of all the museums in France that buy paintings for the state," overruling the Minister of Culture, Jack Lang, who had recommended the wife of an important donor, according to Banier. There were limits, however, to the French president's tolerance of Banier's outspokenness. On a visit to Jordan, Banier said he asked King Hussein, "Why are you killing the Jews?" Whereupon Mitterrand snapped, "It's impossible to say such a thing," and Banier was "switched to another table immediately."

But the cloud of prosecution still hangs over him, and his *amitié amoureuse* with Liliane Bettencourt is in limbo. "The lawyers said they should try not to communicate, which is unfortunate," a close friend told me. "But the good thing is that all of this happened before she died. Otherwise it would be a disaster." That was before summer's end when the queen of L'Oréal announced through her lawyer that she had revised her will and that Banier was no longer her sole heir. On September 14, an appeal court rejected her petition to block further investigation of the material on the butler's tapes. A week later, L'Oréal canceled Banier's contracts. Meanwhile, le tout Paris is more convinced than ever that the Sarkozy regime is in a lot of trouble. "Can you imagine if François-Marie brings down the government?" a jaded society fixture posited over a *salade niçoise* on the Avenue Montaigne. "Now, that would be funny."

2. Suit filed by L'Oréal shareholder alleging that L'Oréal had improperly funneled corporate funds to Banier

It was reported that L'Oréal was paying Banier more than \$900,000 a year as a “creative consultant” under two 10-year contracts that started in 2002. This was accompanied by the news that a shareholder had filed a suit alleging that L'Oréal had improperly funneled corporate funds to Banier. According to Banier, his obligations included preparing an exhibition of his photographs each year, and André and Liliane Bettencourt “went all around the world to attend my openings.” We can observe that Banier was creative and his photographs were attracting quite huge number of speculators.

3. Claims from L'Oréal Staff

Some of Bettencourt's domestic staff were horrified by Banier's style. One reported that Banier urinated in the flowerbeds and called Bettencourt a “bitch.” Another told how he grabbed a lipstick from her saying it was an “ugly” shade.

5.4 DEVELOPMENT OF THE CONFLICT

The conflict started between the mother and the daughter and developed to involve famous politicians and decision makers in the French government.

1. Involvement of Sarkozy party on this family conflict

The feud between the two women led to the claims of tax evasion and illegal donations to Nicolas Sarkozy's 2007 campaign for the presidency.

The peace pact embroiled President Nicolas Sarkozy and his government. The quarrel erupted into a political affair over leak by former Bettencourt employees about how the heiress was managing the family's fortune and led to claims of tax evasion and illegal financing of Sarkozy's conservative party.

Police questioned the former treasurer of Sarkozy's UMP party—then Labor Minister Eric Woerth—in July amid allegations that he received funds from Bettencourt to illegally finance Sarkozy's election campaign. Woerth denied the allegations. Sarkozy called the claims a smear campaign.

The trial broke down, tangled in a web of complex allegations and reports that implicated President Nicolas Sarkozy's government in claims of illegal political funding.

It has renewed accusations that Nicolas Sarkozy's France is an oligarchy, where the president's coterie of extraordinarily wealthy business friends enjoys special privileges in exchange for financial support. Judges continue to investigate allegations of illegal political party funding, influence peddling, conflict of interest, tax evasion, and phone-tapping of the media that have arisen from the Bettencourt case.

These inquiries into potential political corruption could prove damaging to Sarkozy and his bid for reelection in 2012. Already the case has caused outrage by exposing the widening gulf between the super-rich elite and rest of France. And the upstairs-downstairs Bettencourt story—described by several newspapers as “the nation's soap opera”—is now likely to inspire a round of films.

Then secret recordings made by Bettencourt's butler threatened to engulf France's ruling political class. The tapes included her financial adviser instructing the confused Bettencourt to sign cheques for politicians, including Sarkozy. Eric Woerth, the budget minister and treasurer of the president's party, was described as “a friend” to whom she should give money. Woerth's wife, Florence, was employed in the team that managed Bettencourt's riches, a potential conflict of interest given that her husband was in charge of collecting tax. The tapes also revealed nearly €80 m hidden in Swiss accounts, as well as the secret ownership of Arros, a private island in the Seychelles, which appeared to have been promised to Banier.

Bettencourt's former accountant Claire Thibout then told investigators that she had been asked to prepare €150,000 in cash to be given to Sarkozy's campaign fund manager, Woerth, for the president's 2007 election campaign. Thibout added that politicians would routinely visit André Bettencourt and were handed brown envelopes of cash for their campaigns. She told the investigative Web site *Mediapart*: “Nicolas Sarkozy also received his envelope; it took place in one of the small salons on the ground floor, close to the dining room. It generally happened after the meal, everyone in the household knew about it.”

Thibout later retracted parts of her testimony. Sarkozy and Woerth flatly denied receiving any illegal party donations and the latter's wife denied any wrongdoing. Judicial investigations continue. But already a wealth of political damage has been done. When Sarkozy came to

power, he loosened the tax system for France's super rich, arguing that otherwise the wealthy would flee abroad. Bettencourt received a €30 m rebate. Amid public outcry over the Bettencourt case, Sarkozy is now likely to be forced into a U-turn before the next election, undoing his tax reforms.

The Socialist Ségolène Royal, along with much of the opposition, now argues that the Bettencourt affair shows "the Sarkozy system is corrupt."

2. Daughter took legal action against Pascal Wilhelm, the lawyer appointed to manage Bettencourt's affairs if she is incapacitated

"It would be madness for me to be separated from him," Bettencourt said of Wilhelm, in an interview published in the weekly *Journal du Dimanche*. "My daughter is unhappy. She is very changeable. She needs to see a therapist given all her psychological problems." Bettencourt said she refused to see her daughter when she called round this week after lodging the guardianship suit against Wilhelm, whom her lawsuit accuses of conflict of interest, the report said. "It is tiring to receive someone who is psychologically a bit disturbed," it quoted Bettencourt as saying.

Bettencourt-Meyers has argued that her mother's old age puts her at risk of being cheated by her advisers.

3. The Mother took harassment suit against her daughter

"I can no longer accept such harassment by my daughter," wrote L'Oréal heiress Liliane Bettencourt in a statement made to *L'Express* in which she said that she is considering taking legal action against her 57-year-old daughter. "I hear yet again from the press that my daughter would appear before a judge of guardianships to appoint a receiver to replace my asset manager," said Ms. Bettencourt.

"I cannot accept this harassment, or the fact that it spoils the image of L'Oréal through me or our family," she said in a hand-written statement on headed paper of a large hotel in New York. "So I instructed my lawyer Mr. Wilhelm to take the necessary measures to deal with this harassment," says Ms. Bettencourt.

5.5 CONFLICT RESOLUTION MECHANISM

Bringing in outsiders was the technique used in solving the Bettencourt conflict. Both ladies refer to external arbitrator to solve their conflicts. Instead, other techniques were available such as compromising and communication techniques that if used would probably solve the conflict on spot without going into 3 years of assertive verbal attacks through media.

Timing is very important when there is a conflict; the mistake started when the daughter noticed that she could not get along with Banier during the lunch with her parents when Banier said some scornful and humiliating words to her father. The daughter's mistake was to avoid sitting with her parents in his presence, and the mother's mistake was that she did not feel the beginning of the conflict and accepted to see Banier more than her daughter.

Moreover, the way to react to conflict will make a big difference between one case and another. It is very important to know when to react and when to compromise during conflict. Both ladies were competing, neither compromising nor collaborating. If I were Françoise, I would rather communicate my senses and perceptions to the mother, the second party, without spending 3 years in court and disturbing the great image of Bettencourt family in France.

On the other side, if I were Liliane, I could take actions immediately with the daughter by visiting her at house and accepting to receive evidence and truth about her daughter's claims.

5.6 END OF THE WAR BETWEEN THE MOTHER AND HER DAUGHTER

France's richest woman and her daughter have resolved a protracted legal dispute over more than €1 m (\$1.3 billion) that swell into a national scandal and raised questions about the future of the family fortune.

L'Oréal cosmetics heiress Liliane Bettencourt, 88, and her daughter Françoise Bettencourt-Meyers have reconciled. They brought an end to all procedures given this familial reunion. Both women want the new "family serenity" to boost the fortunes of L'Oréal as a company. The reconciliation should allow Liliane Bettencourt "her freedom to live as she wishes."

“They are overjoyed to be together again, even if it took 3 years of judicial disagreements to get to this happy ending,” Ms. Meyers-Bettencourt’s lawyer, Olivier Metzner, told AFP news agency.

The reconciliation paves the way for Bettencourt’s daughter, son-in-law and two grandsons to “play their part in the incarnation of the family business.”

The photographer has renounced many of the benefits he received. And the lawyers renounced any procedure regarding him.

Ms. Bettencourt is believed to have given celebrity photographer Francois-Marie Banier about €1 bn of gifts over a 20-year period.

5.7 AGREEMENT

An agreement was signed between the three parties: The mother, the daughter, and the photographer. The agreement had the following results:

The feud between the two ladies has been settled out of court. The mother and daughter were now talking to each other again after 3 years in which they lived 100 m apart in a millionaire’s ghetto west of Paris but spoke only through personal attacks in the press and legal threats and counter-threats.

The agreement allows the daughter and the mother at last to rediscover family harmony

Both women professed their personal attachment to L’Oréal, founded by Bettencourt’s chemist father Eugene Schueller, a century ago

The mother agreed to banish her photographer friend, François-Marie Banier, who has been accused of “abusing” the old lady’s fading mental powers to relieve her of €1 bn in cash and artworks.

The mother agreed to fire her controversial financial manager, Patrice de Maistre.

The daughter agreed to drop a legal case against Mr. Banier for “abuse of weakness” and to abandon her efforts to make her mother a ward of court.

Mr. Banier will drop his counter-suits against Ms. Bettencourt-Meyers. He is expected; however, to keep his €1 bn in gifts and life insurance policies.

5.8 HOW THE CASE WAS CLOSED?

According to the taped conversations divulged in July, President Sarkozy intervened to try to stop the case from progressing and attempted unsuccessfully to broker a deal.

The settlement of the feud follows weeks of pressure from friends, family members, business associates, and the Elysée Palace. The Bettencourt affair exploded in July into an “*affaire d'état*,” or state scandal, when tapes of Ms. Bettencourt's private conversations suggested that Mr. Sarkozy had personally interfered in the case and that his campaign treasurer, Eric Woerth, had sought campaign contributions from her financial advisers.

A former Bettencourt family accountant also alleged that campaign contributions far above the legal limit had been paid to Mr. Woerth before the 2007 presidential election by the old lady's financial manager, Mr. de Maistre. Investigations into the affair, recently transferred to Bordeaux because of allegations of judicial bias, will now mostly be dropped. However, the investigations into the accusations of financial wrongdoing by President Sarkozy's former party treasurer, Mr. Woerth, will continue.

All the same, the out-of-court settlement of the original family feud will come as a great relief to President Sarkozy. Both sides, and especially Mr. Banier, had hinted at further embarrassing revelations if the case came to court next year. There were also fears that a continuing rift between Ms. Bettencourt and her daughter could destabilize L'Oréal, one of France's most successful companies and the dominant player in the world cosmetics and hair-care industry.

Moreover, it also emerged that Bettencourt (The Mother) personally asked Sarkozy to lean on the state legal system to stop her daughter's case.

Who won the case?

A joint statement by lawyers for the two sides yesterday said: “Liliane and Françoise Bettencourt have settled their differences and put an end to the conflicts which have disturbed their family life and all legal actions which they have started... They reaffirm their commitment to L'Oréal and would like to state that, in this affair, there have neither been winners nor losers.”

Despite this final declaration, the small print of the confidential “joint agreement” suggests that the principal victor was Ms. Bettencourt's

daughter, Françoise. Lawyers said that it had been formally agreed that Mr. Banier, and her financial adviser Mr. de Maistre would “no longer be part of” the old lady’s “entourage.”

The openly gay society photographer will keep the large amounts of artworks, cash, and insurance policies given to him by Ms. Bettencourt in the last decade. Françoise Bettencourt-Meyers had never asked for the return of this money. She had mostly been concerned by the growing influence of Mr. Banier and the rift which she accused him of engineering between herself and her mother.

Françoise’s lawyer, Olivier Metzner, said yesterday that his client and her mother “rejoiced at having come back together, which is all that they ever wanted, even if it took 3 years of legal battles to reach this happy ending.” The affair began in 2007, a few days after the death of Ms. Bettencourt’s husband, André. The photographer Mr. Banier was originally an intimate friend of Mr. Bettencourt rather than his wife.

5.9 COMMENTS AFTER THE CASE FROM THE CONFLICT PARTIES

To Banier, he thinks that he won the case and now carries an official letter stating that he is allowed to photograph people in public places. Almost every afternoon, he said, he sets out on his motorbike for the working-class 20th Arrondissement or the predominantly Arab and African suburbs north of Paris with his old-fashioned Leica and a bagful of Kodak film—he despises digital.

Regarding the claims about the island that Madam Liliane gave to Banier, Banier told the investigators that he hates this island which is full of Mosquitoes and that was given to him without his notice.

Regarding the 1 M\$ of Gifts and Cash money, Banier’s reply was that he could not give a damn about their money?

He wants to go to America to help young artists and old artists with the money that he had. He already gives to abused children; he had 1000 children that he helps at his FM Banier Unit, an outpatient mental health center in the 17th Arrondissement.

Françoise Bettencourt-Meyers has said that her decision to bring criminal charges against Banier was made after she heard from a servant that there was talk about her mother adopting him. Bettencourt-Meyers has

argued that her mother's old age puts her at risk of being cheated by her advisers.

5.10 THE IMPACT OF THE FAMILY CONFLICT INTO L'ORÉAL BUSINESS

As the mother–daughter dispute escalated, Bettencourt raised questions about the future of the world's biggest cosmetics company once her daughter inherits it.

Traders seemed little moved by the development of the conflict, and L'Oréal stock kept its position at €84.35 in Paris trading.

Equity analyst Deborah Aitken of Bryan Garnier and Co said the company has been an “underperformer” recently and predicted the reconciliation would not have a major impact on the overall balance of ownership of L'Oréal. The Bettencourt family currently has a 31% stake, with Nestlé the second-largest stakeholder.

The future of the family firm, L'Oréal, was a key factor in the Bettencourt family truce. The French cosmetics giant had suffered a corporate PR disaster when Liliane Bettencourt, its biggest shareholder, was deemed to be “not of sound mind” by her daughter.

Rumors that the family feud could lead to a takeover by Nestlé had shaken the French business world. Nicolas Sarkozy said he did not want L'Oréal leaving the country. The Bettencourt family holds 31% of L'Oréal, followed by Nestlé with 29.8%.

Under the terms of the family truce, Bettencourt's son-in-law, Jean-Pierre Meyers, will become chief executive of the holding company that represents the family interests in L'Oréal. Meyers was a key in dealing with the controversy over L'Oréal's Nazi collaborationist past that resurfaced in the 1980s.

L'Oréal reports strong results despite family dispute. These results come despite the fact that L'Oréal's largest shareholder, second-generation Liliane Bettencourt (pictured), is being investigated over allegations of tax evasion and apparent illegal donations given to the French government by the heiress.

5.11 TEACHING NOTES

L'Oréal case shows how important it is the face-to-face communication in managing conflicts especially within parties of the same family. Instead of sending messages through the media, being honest with your partner either on life or on business will solve all the problems. I am not seeing any winner from this case, neither the daughter nor the mother won anything. They lost their family image in society. In family businesses, when the family conflicts collapse with the company image, a quick action must be taken from one of the family members to resolve the conflict immediately without going into public and legal affairs.

Instead of claiming that Banier is abusing her mother's trust to bilk Liliane Bettencourt out of €1 bn (\$1.3 billion), the daughter should go to her mother and talk to her frankly. If the mother did not agree with her daughter complains about her best friend Mr. Banier, then she should try to find out evidences and facts that proof her position.

On the other side, the mother should listen and find out if her daughter claims are right. Moreover, if the mother did not agree with that, she should try to find out a way to convince her daughter with the loyalty of Mr. Banier to the family even before her father's death.

5.12 QUESTIONS

1. Is it horrible for the daughter to put her late 80-year-old mother in a scandal like this?
2. Isn't the Mother's right to give her money to whomever she wants? There's enough for everybody, so why not—if it makes her happy?
3. Don't you think having a deal with a great photographer and sponsoring his exhibitions will add value to the company and absolutely could be part of the yearly marketing and advertisement investments?

5.13 ANSWERS

1. My point of view about Banier is that he is a smart and talented person; his first photo to Liliane Bettencourt gave him a prize of \$1.3 billion.

As for the daughter, she had no right to disrupt the image of her mother and to accuse her of being mentally unstable. Such accusations

will be written in the family history, and they would be related forever to L'Oréal name.

Also, they dragged with them highly important people such as President's Sarkozy's and accused him of taking illegal money for its campaign.

2. I think her life was boring. And it was more fun with François-Marie Banier. Getting an expensive gift does not make you a thief. If she gave it, she wanted to give it. Giving is a pleasure like receiving.

Also about the \$1.3 billion, it was reported that L'Oréal was paying Banier more than \$900,000 a year as a “creative consultant” under two 10-year contracts that started in 2002. This yearly amount of money was used by Banier to prepare for his exhibition of his photographs each year. We can observe that Banier was creative and his photographs were attracting quite huge number of speculators.

3. Compared to the most famous Scotch Whiskey, Johnnie Walker signed a deal with one of the most famous architects in Lebanon (Bernard Khoury) to advertise a motivation quotes about his work. I am not seeing any difference between Banier and Bernard; instead, Bernard was doing marketing to Johnnie Walker on public Media and had a legal contract with them. As for Banier, he was a friend of Bettencourt family, and absolutely he marketed and advertised the L'Oréal brand throughout his exhibitions.

On the contrary, Karl Lagerfeld did the same thing for Dior—he gave them the idea for [the fragrance] Poison. It's his job, in a way. People are jealous because it is not an office job, where you go every morning at nine and are bored to death. There is a real friendship between Liliane Bettencourt and Banier. Banier is a famous, skilled, and funny guy who grossed a billion dollar on one admission ticket. I cannot say that Banier seduced people like Bettencourt, as if he were a professional seducer. Maybe they just loved him because they could feel he was one of them.

Finally, for the involvement of Nicolas Sarkozy in L'Oréal case, it seems that Banier acted as a negotiator between Eric Woerth, the former budget minister and current labor minister, and Liliane Bettencourt. Bettencourt interest was to avoid paying taxes to the government (L'Oréal BATNA); in contrary, Eric interest was to secure donations to Nicolas Sarkozy's 2007 campaign for the presidency (Sarkozy BATNA).

5.14 CONCLUSION

Nothing in life is more important than family synergy and reunion. Sometimes, foreigners from outside the family split the family members and make the communication between brothers, sisters, and even parents difficult. Then the conflict that starts small becomes big and requires external arbitrator or legal contributor. I could lose \$1.3 billion out of 17 billion but not destroy my family image or even my name in the community.

I think Madam Bettencourt, the Mother, was a leader who succeeds in keeping L'Oréal on top of cosmetics and perfumes companies in the world. However, she failed in communication inside her family, and she did not act as a leader in managing the conflict with her daughter. On the other side, the daughter was not looking on the outcome of raising a suit case against her mother and the photographer.

Who is more important "Family or Business"? For sure family always comes first and the basic rule in family business is what is good for a company is absolutely good for the family.

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Est. Sam Miorry & Sons

Abstract Founded in the year 1952 in Beirut by Sam Miorry, the Sam Miorry & Sons, jewelry manufacturers and traders establishment, still exists but only in trading and no more in manufacturing. Started by the father Sam, who established a manufacturing house and later three shops in different areas in Beirut and Mount Lebanon regions, after the Lebanese Civil War, he was left with the manufacturing house and one shop in Mount Lebanon. Later when Sam passed on the establishment to his three sons Robert, Samuel and Anthony, it suffered from interpersonal, relationship and process conflicts between brothers and ended up with one, namely Samuel, being excluded from the company. Since it was an unlimited liability partnership company, when Samuel brought huge debt onto the company, the manufacturing house was shut down and sold in order to keep the company and the two other brothers were left with only one jewelry shop.

Keywords Miorry · Beirut · Interpersonal conflict
Interpersonal relationship conflict · Process conflict
Unlimited liability partnership · Debt

6.1 COMMENTARY

This case reveals how a father who was trying to be just and fair toward his three sons by giving them equal shares and allowances, his good intention resulted in failure on the business and family levels. It seems

that love and money can be difficult to balance, making smooth transitions and operations a challenge.

Often, sweeping potential conflict under the rug is what happens in family enterprises. Rather than respectfully addressing problems that could cause strife, they are ignored and allowed to fester until some combination of events makes them impossible to overlook.

Conflict is a normal part of any family relationship. But when you combine standard sibling rivalries or parent–child conflicts with business disputes over money, management, and ownership, both family and business relationships can suffer a terrible beating.

Too little conflict can be just as destructive as too much conflict. It is not wise to “manage” conflict by avoiding it or pretending that it does not exist. It is better to tackle problems head-on and turn conflict to an advantage. Prior to attempting to solve any conflict, it is critical to listen first to fully understand the situation.

Even if a family business is a model of harmony, it is a good idea to think about how to deal with conflicts before they arise. The more open a family is about handling conflict, the more likely the business will succeed *because* of disagreements, rather than *in spite* of them.

Compensation is an important source of conflict in family businesses. Some family businesses try to keep the peace by paying everyone the same, regardless of his or her contributions. This false equality may work in the short run, but it will eventually alienate family members who do not feel recognized and rewarded for their work.

6.2 EST. SAM MIORRY & SONS

Sam Miorry, a 33-year-old dynamic young man, gold and jewelry manufacturer and trader established his own business, Sam Miorry Jewelry, in 1952, in the capital of Lebanon, Beirut. He married Suzan, and they were blessed with three sons Robert, Samuel, and Anthony. He was the sole owner, the CEO, and the boss of the business. The business was booming, especially that at the time Beirut was the most popular city in the Middle East, and Sam knew how to benefit from such prosperous conditions. Besides his showroom in the heart of the capital, he opened two other branches in different regions of the country.

In 1975, when the Lebanese Civil War started, he had to move his business into the so-called Eastern Beirut. His showroom in Beirut and one of the two branches stopped working. He was left with one

showroom and the atelier in East Beirut. By then, his sons Robert and Samuel started working in the business. Later, Anthony also joined them. Sam was happy that his sons are willing to continue the business. He thought of establishing a new company for them, and Est. Sam Miorry & Sons was founded in 1979. Legally, the company was a partnership between the three sons with equal shares, but actually Sam was still there, supervising the business. According to the company's financial circular, the three partners had the right of signature on behalf of the company individually, except for major decisions affecting the company, all should agree. Management was also among the three brothers. Sam had decided to give each, equal monthly allowances and the profit to be divided equally at the end of the year.

6.3 FATHER TO SONS

He was 60 then and he knew that he has to start passing the lead to his sons. The three got married and had two children each. Robert, the elder son, was much like his father in character. He was patient, far-sighted, determinant, and hardworking. He was eager to find new markets for trading, because the war in Lebanon was creating constant instability. Indeed, he started selling their manufactured jewelry to some Arab countries and Robert kept on pursuing this line of the business. Samuel and Anthony were managing the atelier and the showroom respectively.

6.4 THE EMERGENCE OF THE CONFLICT

Samuel was a snob young man and his wife Jasmine was no different. They both wanted to have the best of everything. In time, especially when the children grew up and started asking for more, the monthly allowance, no matter how much increased, was not enough for Samuel, whereas Robert and Anthony were able to manage with it. Samuel started taking more and more money from the company and he became very greedy. Samuel acted so irresponsible, that at the end of the year 1990, the debt ceiling of the company got very high; they were obliged to give up the atelier in order to save the rest of the company.

Anthony, the youngest, was a punctual and hardworking man; he was present all the time in the showroom and was managing well, but he was known to be hot-tempered. He used to feel abused because of Samuel's attitude. He felt that Robert and himself are doing their best to add to

the business or keep the business, while Samuel was doing nothing and spending much more money than they do.

In 1991, the accountant and the auditor of the company were present as mediators, at the family meeting to discuss Samuel's irresponsible attitude and find a way to settle the first conflict. He suggested to deprive Samuel from the right of signature on behalf of the company and from managerial duties, because being a partnership and having unlimited liability, he might get into more trouble and lead the company to bankruptcy. Sam decided to give him his monthly allowance and year-end profit share, but Samuel did not have any access to the company's account anymore. He was given a chance to make things right.

The peacemaking process was not easy or fast. Initial private interviews uncovered the basic history of the family and its dysfunctional nature. The father was old and started losing his eyesight; he could not even supervise the employees anymore. Robert was out of the country most of the time. Samuel and Anthony had very different characters, they could never agree. Here the conflict was not only based on interpersonal relationships, but also on process that how the business should be run. The end result was almost dysfunctional. The two brothers expressed their concern about the consequences of Samuel's behavior on the business and family.

After the first agreement in 1991, things went smooth for some time, but Samuel's greed and irresponsible attitude did not change. Since he had no access to the company's account, he would always bother his father and brothers asking for more cash in advance from his profit share. At the end of the year 1998, it appeared that Samuel has taken in advance much more than his share of the yearly profit, so the two brothers' rage was at its peak.

6.5 THE ADVANCEMENT OF THE CONFLICT

But what made the "barrel of dynamite" explode was another worse incident. One day, Anthony caught his brother Samuel opening the safety box in the shop and taking cash. They did not know how he got the key, but Anthony warned him to leave the cash, because he has no rights in the company's money. Samuel resisted and started swearing. Anthony could not control his anger anymore and he attacked his brother. They started beating each other until the employees called the police and took them to the station.

6.6 CONFLICT RESOLUTION MECHANISM

Once again, the lawyer, the accountant, and the auditor joined the family meeting, this time not to make peace, but to put an end to Samuel's presence in this company. Robert and Anthony accepted to cancel Samuel's debts to the company and give him the year's share; plus they bought his share of the company equally. On the other hand, Samuel accepted the deal because he was a failure in this company.

In 1999, after 20 years of partnership, the establishment became equally divided between Robert and Anthony, who are still in business together, whereas Samuel took his share and opened an office to trade with jewelry boxes. He imports from China and sells in the local market. He is on his own in a small business.

The conflict was resolved in a win-lose mechanism. There was no real need for third-party interferences, because the brothers had come into a decision that Samuel should leave the company. The negotiation was only on the amount of money to be paid to Samuel to buy his share.

6.7 TEACHING NOTES

The key difference between a successful family-owned and operated business that prospers and one that founders and ceases to exist is often the ability to manage the differences in the complex relationships between and among family members and non-family employees. Consider the financial cost of conflict.

Too often, sweeping potential conflict under the rug is what happens in family enterprises. Rather than respectfully addressing problems that could cause strife, they are ignored and allowed to fester until some combination of events makes them impossible to overlook. By then the conflict may be so intense and deep-rooted, or the business may be in such a delicate and precarious position that resolution is much more difficult.

6.8 QUESTIONS

1. What if the company was not a partnership, but a limited liability company?
2. What if Sam did not give all three sons the same compensation?
3. What if the partners were not given the right of signature individually on behalf of the company?
4. What if Samuel was not given a second chance?

6.9 ANSWERS

1. If the company was a limited liability company, Robert and Anthony would have felt more secure and Samuel would have sold his share much earlier. If it was stated in the financial circular that he cannot sell it to a foreigner, the brothers would have bought his share.
2. Sam decided to pay equal monthly compensation for his three sons, regardless of their contribution in the business, thinking that he would be just and fair this way. As a result, the hard workers, namely Robert and Anthony, felt that their work was not recognized and they were not rewarded as such. If he had paid according to each one's ability and input in the business, maybe Samuel would have the incentive to work harder to get more. He got used to getting things easily, so he did not think of making any effort. If Sam prepared a ground for competition among the brothers, it might have had good return on the business.
3. Another reason for failure was granting the signature and management of the company to the three partners individually, which led to the large debts caused by Samuel. At least two partners of the three should sign any check, so that everyone knows where the money is being spent.
4. If Samuel had not been given a second chance and the final deal was done earlier, it would have saved the company from extra loses.
5. After reading this case, we come to a conclusion that it is true what many family-business leaders profess that the key to success is to "run the business like a business!" because, "If we don't run the business like a business, the family won't have a business to run." It is obvious that Mr. Sam Miorry put the family ahead of the business. He was more concerned with the well-being of the family even on the expense of the well-being of his business.

REFERENCE

Interview with the accountant and the auditor of the company.

Malakieh Sweets

Abstract “Families are about caring and businesses are about money—not a likely formula for a successful partnership” (Carlock, R.S., *Why the best family businesses plan*, 2. INSEAD, France, 2009). Does proper planning lead to easy and smooth management? Does it lead to sustaining the family harmony while business performance is at the most efficient levels? This small case discusses these aspects at times when the Lebanese Civil War of 1975 had made its large economic deterioration. It also discusses the recovery of the business and its success. Three major points were the reason for preventing conflicts or problems with the Malakiehs.

Keywords Partnership · Family harmony · Business performance
Lebanese Civil War · Economic deterioration

7.1 INTRODUCTION

Family businesses are usually portrayed as dysfunctional and prone to family conflicts. Recent research proves that family businesses can be the best as well as the worst. This is because they have some particular strength, such as long-term vision, strong values, and committed owners. The worst, because they are more complex than any other business, and they require closer attention, better planning and governance which they do not always receive (Carlock 2009).

In the case of the Malakieh Sweets, we will discuss how successful the business is due to proper planning in securing a smooth leadership transition, which helped in sustaining the business performance as well as family harmony.

7.2 MALAKIEH SWEETS: BRIEF DESCRIPTION

In Bab Idriss, in the heart of Beirut—traditionally known as the business, finance, and culture district—Mr. Aref Malakieh decided to establish a Lebanese sweet store bearing his own name in 1948. Given the high quality of his products and packaged goods, the Malakieh Sweets quickly became very famous. As a result, he decided to expand his line of business. From selling Lebanese sweets only, he became a merchant of chocolate, candy, souvenir, among other products.

In April 1975, the Civil War erupted. The old markets also known as the “souks” have all been ruined. Consequently, the majority of businesses relocated to different other places in the country so did Malakieh who decided to move to its current location, i.e., Noueiry area (Beirut).

7.3 THE MALAKIEH FAMILY

The founder of this successful line of business Aref Malakieh has two sons, Abdel Rahman, aged 68 and Khaled, aged 65. He was married to Leila in 1949.

Abdel Rahman had graduated from Al Makassed Ashrafieh School at 18 years old; he was never employed outside their family business. He was married to Anissa, who passed away in 2010. He has three children: Aref, 18 years old; Leila, 26 years old; and Riham, 24 years old.

Khaled, on the other hand, had graduated from the same school like his brother at 18 years old too; he again never worked outside their business. He is married to Nada. Their children are Walid, 28 years old; Mohamad, 27 years old; Aya, 26 years old; and the twins Omar and Ghida, 16 years old.

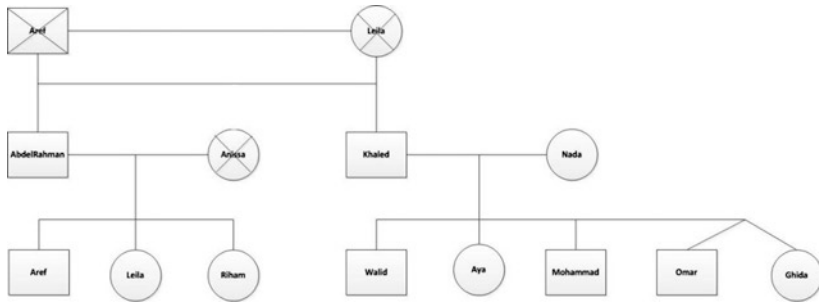


Fig. 7.1 Genogram of the Malakieh family

7.4 GENOGRAM

See Fig. 7.1.

7.5 LIFE GOES ON

Aref Malakieh died in 1989 at the age of 89. He was still “working” at the time of his death. Without problems or conflicts, leadership of the business was moved over by Abdel Rahman and Khaled with equal shares. In other terms, they both hold the same rights and liabilities and grant on their holders similar rights and duties.

In 1948, the business marketing investment was valued at LBP 100,000 at that time Lebanon has had a dynamic economy. Before 1975, the country enjoyed high growth rates, an arrival of overseas capital, and gradually rising per capita income. Although imports were five or six times superior to exports, income from tourism, transit trade, and services from abroad “counterbalanced” the trade deficit. Sales were hurt by the Lebanese Civil War of the early 1975; the economy deteriorated, and general instability was the rule from 1975 to the mid-1980s. The fall down of GDP began with the start of the Civil War; the drop off of the Lebanese currency began much later; currency values declined over the next years. Located in the midst of the battlefields, the Malakieh’s business (similarly to others in the area) suffered during the period from 1975 to the mid-1990s when they decided to move to their current location, “Noueiri.” Since then, the business began to recover and became very successful.

The Malakiehs share the same ideas, mentality, opinions, norms, and values as they were raised in the same family and received the same education. These were the main reasons behind the business success, continuity, and sustainability to date. Women as well did not interfere in the business. Yet, they were more involved in raising the children.

7.6 FUTURE PLANS

Due to their success in the sweets industry and in order to meet the market challenges, they were encouraged to expand their business into different sectors such as designing souvenirs and selling silverware. Furthermore, they expressed willingness to add more types of pastries in the near future such as different oriental sweets as well as a variety of cakes and “petit fours.”

Abdel Rahman’s children are educated but not involved enough in their father’s business. Aref is in his first year at the university. Riham is in her final year of college. Leila works in the Lebanese general forces. Unlike Khaled’s children who are more engaged, they help their father in the shop in all events just as Omar and Ghida who are 13 years old only.

Khaled and Abdel Rahman are planning to open new branches in the near future in order to expand and increase their productivity since there is more demand on their products. For instance, Khaled is considering opening other branches in different areas to be run by his son Walid and his daughter.

7.7 KEYS TO SUCCESS

It is worth noting that no problems or conflicts occurred within the Malakiehs for three different reasons:

1. The second generation is still alive. Both sons are well experienced and know how to manage the shop. On the other hand, and after their father’s death, an agreement has been composed between them outlining the management processes of the shop.
2. The third generation did not yet indulge deeply in the family business.
3. Finally, the women do not interfere in the family business. It is well known that whenever women are involved, many financial problems start to emerge.

7.8 CONCLUSION

The Malakieh Sweets Company is one successful Lebanese family business case, where the central players, Abdel Rahman and Khaled Malakieh, work with total harmony. Nevertheless, we expect that problems will strike once the third generation takes over.

7.9 TEACHING NOTES

7.9.1 *Questions*

1. Was it a mistake to expand the line of business into different sectors like chocolate and candy?
2. Do you think that the owners of Malakieh Sweets should have acted differently after the Civil War? Should they have waited for the area to revive?
3. Explain each of the keys to success listed in the case above.

7.10 ANSWERS

1. The idea of expanding a business cannot be classified into right or wrong. The main issue is to have a strategy of expansion, studying the market and its needs. With Malakieh Sweets, this was not a mistake, and the proof is the success in this expansion even though their major specialty is in Lebanese sweets.
2. I do not believe that they should have acted differently and waited for the area of the old markets to revive. They acted in the right way to save their business. I think that opening a new location was the major fact of saving the business, as no real time can be predicted for the revival of the old souks.
3. The first key explains that the old generation is still alive and it uses its experience to help and supervise the business. The experience of the sons was also a major fact that helped retain the business. Even after their father's death, they knew how to act; they made an agreement for the management of the shop.
The second key was that the third generation was not yet a part of the family business, deviating the focus of the current managers, and taking some of the management time in order for them to learn about the business.

The third key is that women did not interfere. The writers believe that whenever women are involved, many financial problems emerge. I think this was based on previous experiences, especially similar businesses in Lebanon.

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Dakroub Textiles³

Abstract This chapter studies the case of a family business that was founded in the year 1953 in Beirut by an ambitious poor man named Mohammad Dakroub. Mohammad built with his sons a company that generates a business in millions of dollars due to his innovative marketing strategy and smart vision. This case portrays a family business that started with strong family ties and ended up with a conflict and break up in the family. The uniqueness of this story lays in how one of the brothers made his brother accept his wishes even though it was not totally to his brother's benefit.

Keywords Partnership · Customer satisfaction · Succession plan

8.1 FAMILY AND BUSINESS HISTORY

Mohammad Dakroub was born in 1917 from a very poor family. He was obliged to leave school at the age of 13 to work and earn money in a shop that sells garment fabric.

Years passed, being ambitious and clever he decided to start his own garment business. At the age of 36, he opened his first small shop in 1953 in Bab Idriss in the name of “Dakroub Textiles” to sell fabric and

³*The name of the business and the names of the family members are changed for personal reasons.*

material to customers who wanted to sew their own garments as at that time, it was the trend worldwide to do so. As he did not have the capital to start this business, he started borrowing material and money from local suppliers who wanted big returns on their investments and taking loans from banks to generate business as he always felt that there was light at the end of the tunnel.

At the age of 38, he met his wife Fadia Baydoun who was 24 at the time. At the age of 40, his first identical twins arrived. Three years later, Sharif, his third son, was born (1960). Mohammad's responsibilities grew and his business got bigger. However, he was always in debt.

Mohammad's ambitions did not stop there. He took a risk in 1958, closed the shop in Bab Idriss and moved to a better location on the main street of Bechara El-Khoury where he started marketing his business using innovative methods such as selling fabrics on credit. His customers were from household, and his suppliers were local. To promote his business, he advertised solely in local newspapers for lack of funds with a motto "GET WHAT YOU WANT AND PAY BY MONTHLY CREDIT."

8.2 BUSINESS AND FAMILY

Although he was always stressed about his business, his family came first. He put his kids in very good schools. Walid and Khalil went to "La Sagesse" while Sharif (who was always naughty and did not study) kept moving from school to school. The kids grew up very close and the twins even more so. Sharif, the youngest son, always idolized his brothers who looked exactly the same. Mohammad always bought his sons beautiful things: Walid's first car was a new "Charger," Khalil's was an "MG Cabriolet Capotable," and Sharif a beautiful and big motorcycle.

The father became tired of his responsibilities but wanted his family to have a good life and hence kept the business problems to himself. Being of the Shiite religion, he was not strict and conservative but raised his sons to be open to all religions.

After finishing school, Walid went to learn accounting in a technical school whereas Khalil went to do Architecture in ALBA, a famous architectural university in Lebanon. At the age of 20, as soon as Walid finished his schooling, he joined his father as an employee to help him in the business. Khalil, at the time was still studying in ALBA while Sharif went to AUB to do B.Sc. in electrical engineering and later went to USA to do biomedical engineering. Sharif left Lebanon at the age of 23 and

lived for 24 years there. He got his Master and two Ph.Ds from OHIO University. He worked in a famous hospital “Catherine Medical School” where he was referred to as the jewel as he secured many contracts for the hospital (Siemens, GE, etc.,...) His stay in the USA somehow affected the future of the family business.

Because of the instability in Lebanon during 1977 and the following years, Khalil joined his father and brother in the family business as working in the architectural domain was not worth the financial returns. (He also used to help them in the shop while still studying architecture.)

Khalil got married to Hala Salha in 1985, and Carla was born in 1986 followed by Tarek in 1993. His twin brother Walid got married to Fadwa Debouk in 1998 and from Day 1 the family felt that Walid’s marriage was going to cause problems in the family business.

8.3 THE BOOM OF THE BUSINESS

In 1974, the war started in Lebanon. As the situation got worse, the father’s shop which was in a downtown combat zone, he and his two sons managed to move his stocks to a neighborhood depot and took another risk and moved his shop to the residential area of Mar Elias street. It was the only shop on that street. He had a vision and believed that this area will eventually become a commercial destination (which later became so) and hence was a pioneer in making Mar Elias as one of the biggest business streets.

Mohammad in addition to being ambitious, visionary, and a pioneer, he also had his own business values which he dictated to his sons. He wanted the business to flourish yet not on the account of his reputation. To him, the customer came first. To serve the customer well, he always carried the best merchandise at convenient prices in addition to having qualified personnel who gave sound advice to their needs. He also wanted all his sons to work together and be there for each other. He advised them that they should never let anyone interfere in their decisions and always be supportive to each other. Moreover, he encouraged them to start something on their own.

8.4 THE NEW BUSINESS

In 1990, Walid and Khalil started another business to sell upholstery and curtain fabric. They opened their first shop “Dakroub Upholstery and Fabrics” in Mar Elias with a partner who was a colleague in the same

business. The partnership lasted for 5 years until the twins dissolved it and took off on their own. At that time, the father insisted that this partnership be divided into three parts: Mohammad, Walid, and Khalil. Until this time they were buying from the local market.

The business was growing, and the twins were happy. They initiated the importing of the Far East merchandise to Lebanon in 1998. In 1999, they were still working in debt to the Lebanese banks; however, all their loans were in the Lebanese pound. This was to their benefit as when the Lebanese pound dropped, so was their debt. This gave them an excellent upward push. So, when Mr. Hariri came to power and the boom started in Lebanon, this opened new opportunities to their family business. The company “Dakroub Upholstery and Fabrics” started importing fabric from abroad and selling at a very good profit to suppliers. They became famous and their name became well known. As a result of this, their business flourished and they started furnishing hotels and took big projects for the rich and famous people in Lebanon and abroad; cash was at hand and things moved swiftly.

The twins started expanding their business and began working in furniture also. They opened to other segments in the trade. In 1998, they moved their shop (against their father’s wishes as the area was unsettled) to Hamra Street and closed both shops in Mar Elias. This was quite a bigger shop which consisted of three floors, and they named it “Dakroub Furniture.” They manufactured their own furniture by copying designs from the Internet of famous designers and commissioning Lebanese people to do them.

Now, their name was even getting more known and they became more famous.

8.5 THE INSIDE CONFLICT

Their wives joined them in the business. Fadwa was ambitious and dominating while Hala just wanted to help her husband and spend time at work. With Fadwa’s domineering character, this led to a confrontation between the two women and the atmosphere at work started deteriorating. To keep things calm, Khalil asked his wife to leave the business, which she did; however, Walid’s wife refused to leave which eventually led to a conflict between the twins. To Khalil, this was very upsetting but he did not want to fight with his brother so he did not bring up the subject again.

In 2000, the twins closed their Hamra shop and moved to a bigger store in Jnah of 3000 square meters where they rented a big showroom for a period of 23 years and started a new concept calling it “HOME TODAY Galleria.” They even convinced Demashkieh (an electronics and household electrical units shop) to join them so that they can provide to their customers the concept of furnishing a home almost totally.

Until now, all these shops were rented. They did not own any of them. However, the business was doing very well. Mohammad’s wife and the mother of the three sons always tried to keep her family together. She passed away in 2002.

Mohammad passed away in 2003, and the issue of inheritance came to surface!

8.6 INHERITANCE CONFLICT

The family business had to be divided. Sharif, the youngest brother who was never involved in the business and was doing very well in the USA, claimed the third part of this company as part of his legal inheritance from his father as his father mentioned several times before, he passed away that the inheritance should be divided equally among the three brothers. However, Walid and his wife refused this claim and the three brothers finally agreed that Sharif will inherit the parent’s home and some property plus a 4% in the family business while dividing the rest equally between Walid and Khalil. Sharif melancholy agreed but was not happy about this. The company became professional and better known.

During this time, and against Khalil’s wishes, Walid was promoting his wife in the market as an architect and a designer and depending more and more on her. As a result, and because of her determination in splitting the business, she started interfering in the management and the running of the business which created more and more conflict with Khalil.

Thereafter, the twins bought a big showroom in 2006 and called it “HOME TREND” in the same proximity of “HOME TODAY Galleria” with an investment of \$2,000,000. Fadwa took charge of “HOME TREND” and started being the front of the shops although lacking in the basic knowledge of the business. In addition, she had quite a haughty attitude that annoyed Khalil. This made Khalil furious and asked his brother, who was always taking his wife’s side, to split the partnership which was the initial goal of Fadwa.

8.7 END OF PARTNERSHIP

The partnership came to an end in 2008 and not amicably. Walid used emotional blackmail on Khalil in his negotiations of the splitting of the business which made Khalil finally agree to his brother's requests (being so depressed that he and his brother are having this disagreement) and signed papers that were not to his advantage. Due to all of this hassle and disagreements, Khalil suffered emotionally and physically.

The split of the partnership gave an advantage to Walid. Now he owns the showroom property of "HOME TREND" with its assets while Khalil received the rented showroom of "HOME TODAY Galleria" with its assets and business name "Dakroub Furniture." The 50% of share that Walid owned in "Dakroub" relinquished it to Khalil while Khalil's 50% in Dana was taken by Walid.

Sharif and his family returned from the USA in 2008 and wanted to settle back in Lebanon. Not being able to run the business by himself and alone and believing in Sharif's capacity in running and helping with the business Khalil asked his youngest brother Sharif to join him in running the business. Sharif, having come back from the USA and looking for a job to keep him busy (his wife opened a medical center and doing extremely well), accepted this offer and joined his brother Khalil.

8.8 THE RESOLUTION

Negotiations started between those two brothers. Sharif re-iterated that what was done to him previously regarding the inheritance was unfair and that he should have had a piece of the business that was more than the 4% he received. Khalil agreed to his brother's offer by trading 50% share of the business by a piece of property he owns.

So, Walid now runs his business with his wife while Khalil runs his business in partnership with his brother Sharif.

8.8.1 *Genogram*

See Fig. 8.1

8.8.2 *Timeline*

See Fig. 8.2

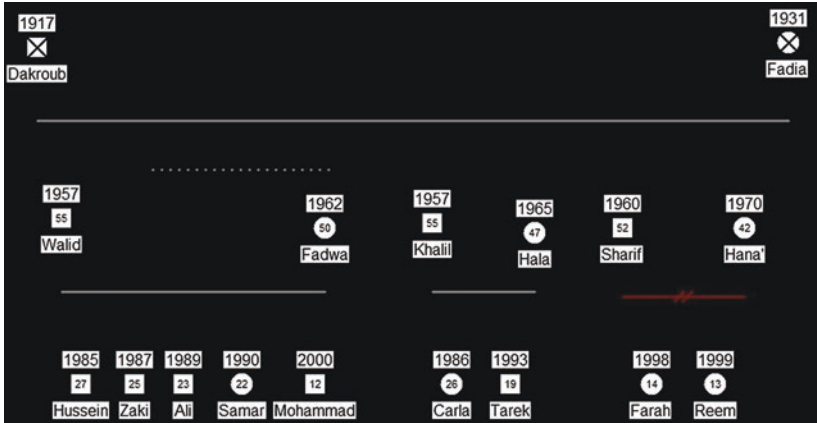


Fig. 8.1 Genogram of the Dakroub family

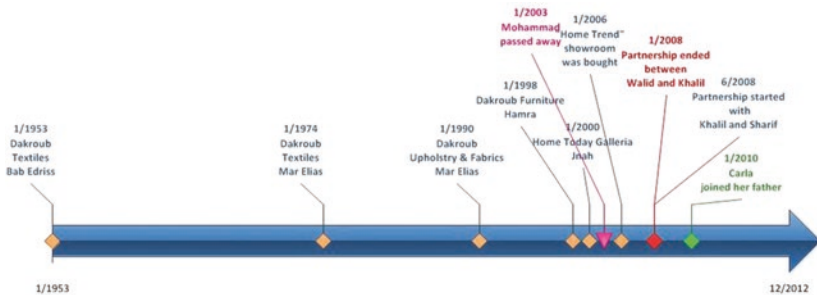


Fig. 8.2 Timeline of business progress of Dakroub textiles

8.9 BUSINESS MANAGEMENT

When Walid and Khalil started their business in 1991, they had only four employees. Walid managed the finance and accounting side of the business while Khalil took over the artistic part. The two complemented each other and worked wonderfully together. They both would be the first to open the shop and the last to leave. The environment in the shop was family like; everybody enjoyed working for the twins.

Walid would be handling all the accounts with the suppliers, banks, and all financial matters while Khalil would be working directly with the clients. They both would travel to choose the merchandise and make

deals with all the suppliers. They made a great team and the business kept growing. In 2010, they had 20 employees working for them.

And they stopped being in debt!

8.10 SUCCESSION PLAN

Now, it is 2012 and both brothers Khalil and Sharif are trying to retire from this hectic business although it has given them back good returns. Khalil is 55, and Sharif is 52. Although still young, however, they both feel that the business cannot grow anymore. They actually do not want to put the effort as they feel that it is a complicated business and they want out because of the political instability in Lebanon although currently they have 40 employees working for them and the business has expanded. At the same time, they both have children and need to make sure that they have left them something. Khalil's kids are 27 and 18, and Sharif's are 14 and 13. Carla who is 27 is enthusiastic and feels that she can take over from her father Khalil. Being an economics major herself, she could see numbers and figures that are apt to grow and hence convinced her father that she is willing to learn the business and take over. Having the right character and the motivation, her father started training her and taking her with him on all his trips. He employed her in 2010 as the "Financial Manager" and currently is giving her a monthly salary of \$2000. His intention is to build her experience gradually to ultimately take over. The brother, Tarek on the other hand, is not interested and is willing to let his sister take over while he eventually would help only when needed.

Sharif's kids are still young and both seem to be only interested in studying medicine like their parents. Walid who is separated from Khalil's and Sharif's business is planning for his own family succession and his business "HOME TREND."

On another note, while continuing this research on this family business, it has come to our attention that because of certain changes that are arising between "Dakroub" and "Demashkieh," and the perseverance of Carla coupled with her enthusiasm has injected a renewed interest in Khalil to start on new endeavors so as to prolong the life of his family business to his daughter and son.

8.11 FINANCIAL STATEMENT

See Table 8. 1

Table 8.1 Income statement and balance sheet of Dakroub textiles

<i>Income statement</i>			
Income & expenditure	2007	2008	2009
Income			
Sales revenues	3,808,070,200	4,455,165,000	5,197,813,500
Non-operating revenues	25,699,300	58,038,200	0
Total income	3,833,769,500	4,513,203,200	5,197,813,500
Expenditure			
Purchases	1,426,427,200	1,719,841,200	2,055,518,300
External charges	1,155,229,900	1,392,299,700	1,525,132,400
Personnel expenses	252,085,900	366,455,100	394,005,700
Taxes & similar	34,028,500	47,340,700	21,197,000
Depreciation	464,211,000	508,435,400	581,130,000
Non-operating charges	33,655,600	63,245,600	67,497,100
Total expenditures	3,365,638,100	4,097,617,700	4,644,480,500
Profit for the year	468,131,400	415,585,500	553,333,000
<i>Balance sheet</i>			
Balance sheet	2007	2008	2009
Fixed assets			
Property, plant, equipment	3,606,973,700	4,337,769,700	4,226,734,600
Current assets			
Stocks	60,500,000	64,131,100	66,577,500
Receivables	1,283,939,800	1,496,386,100	1,886,887,200
Cash and cash equivalents	225,265,700	124,874,200	160,714,400
Total assets	5,176,679,200	6,023,161,100	6,340,913,700
Long term liabilities			
Equity capital	600,131,400	547,585,500	685,333,000
Current liabilities			
Partners account	3,314,125,100	4,679,561,700	4,746,592,400
Payables (suppliers)	1,235,033,800	770,453,200	864,641,800
Misc. Accounts payable	27,388,900	25,560,700	44,346,500
Total liabilities	5,176,679,200	6,023,161,100	6,340,913,700

8.12 RECOMMENDATIONS

Khalil is an exceptional father. He loves his children and wants them to be happy. He worked hard in his life to make a good life for his family although it has been a tough road and that is not what he wants his children to experience. So, he sat one day with his children and told them the following:

I love you my daughter Carla and my son Tarek and want you to be happy. I have made my life and am happy with what I have accomplished. It has been a long journey for me and I am satisfied. One day, I will retire and will be handing the business to you. Do what you want. Keep it, build on it or even sell it. It is my legacy to you but you are free to do what you want with it. However, if you keep it, I need you to work with the same values that I have built this business. The customer and the family come first.

Carla is currently engaged to be married but has told her father that she intends to continue with the family business. Tarek is still not interested, and Farah and Reem are still young.

8.13 QUESTIONS

1. Do you think that Sharif's departure to the USA and having lived there for quite a long time affected the future of the family Business? And How?
2. In the absence of a succession plan, what will happen to the business in 10 years when the rent of the showroom will be over?
3. Will Carla be able to continue with the family business and succeed? How?

8.14 ANSWERS

1. Yes, as the inheritance would have been divided equally from the beginning into three ways. As it is now, Walid has received the biggest portion.
2. Succession planning increases the availability of experienced and capable employees that are prepared to assume these roles as they become available. The "replacement planning" for key roles is the heart of succession planning. Effective succession or talent-pool management concerns itself with building a series of feeder groups up and down the entire leadership pipeline or progression (Charan, Drotter, Noel, 2001, Wikipedia).

Analyzing this case, one would presume that if Khalil puts a written succession plan with his daughter (who is the only one currently interested in the business) and Sharif, this will set a clear road for the next 10 years in the business and after. This would make sure that future conflict that might rise among the four heirs would be avoided. In fact, Khalil and Sharif should sit and discuss what

should take place and who should lead this business in the future from the children.

3. Carla is a smart young lady, motivated and seems ambitious. One would deduce that she would succeed especially that she is learning everything from her father day by day. She might change the course of the business or might go in partnership with others, nevertheless a bright future is awaiting this girl who will eventually choose the right track for her to continue with the name of “Dakroub.”

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Aleea Steel SAL⁴

Abstract Aleea Steel SAL, a Lebanese steel company, has forged its way through the tough times. Founded in Beirut 45 years ago by Mr. Alex, the company expanded to become a successful family business in Lebanon and the Middle East. Aleea Steel is evolving, increasing its share in the local market as well as overseas by focusing on improving their products and perfectly keeping up with the market's demands. Despite the minor conflicts of interest and control over the business, Aleea Steel is still flourishing under the umbrella of Mr. Alex and the atmosphere of trust and solidarity between the family members.

Keywords Beirut · Market's demands · Conflicts of interest · Control Trust · Solidarity

9.1 BACKGROUND

Aleea Steel is an old established industry since 45 years, a leader and pioneer in steel work in Lebanon. It was originally a partnership between Mr. Alex (50%), Messrs. Antoine (25%) and Emile (25%).

Aleea Steel business has been successful. Mr. Alex had the vision to expand and make it a family business. Following negotiations, Messrs.

⁴*The name of the business and the names of the family members are changed for personal reasons.*

Antoine and Emile sold their shares in the company to Mr. Alex in the year 2000 for \$800,000, which was fully settled till 2003.

Mr. Alex restructured the company from partnership to SAL, and the ownership to include him Alex (80%), his wife Marie (5%), his brother George (5%), and his son Gaby (10%).

Aleea Steel SAL began to introduce stainless steel in order to meet the demand for resistant steel in the market, and they started to concentrate and specialize in stainless steel works. Eventually, the manufacturing was switched from steel products to stainless steel products. They became specialized in manufacturing and installation of stainless steel tanks, mixers, and other machinery used by the food, beverage, cosmetic, chemical and pharmaceutical products processing factories in the local and foreign markets.

Aleea Steel SAL production process and business are run through their factory, warehouse, and offices located in Sad El-Bauchrieh, industrial area.

Mr. Alex (80% owner) assigned his son Gaby, a young mechanical engineer, as production manager of Aleea Steel SAL by the end of 2000. Mr. George (Alex's brother) is directly responsible for the factory.

Mr. George introduced his son Elie, young with BS in sciences, for the quality control of the industry. Mr. George wanted through his son to have more influence on the overall production process and the company.

9.1.1 Financials of Aleea Steel SAL—Balance Sheet as of December 31, 2011

Sales in 2001 reached up to \$3,223,000, with profit margin on sales of 20% amounting to \$644,600. Exports constitute 45% of sales, covering the Middle East, Europe, and Africa.

Aleea Steel SAL liquidity situation is healthy. It has accumulated positive working capital of \$1,951,189 and is able to self-finance its operating requirements.

Aleea Steel SAL has fully settled the long-term loan of \$600,000 obtained in 2000 over 7 years, which was used to finance purchase of seven water jet machines (\$300,000) and to part finance acquisition of partners shares (Messrs. Antoine and Emile) in Aleea Steel (\$300,000). The remaining portion of the acquisition of partners' shares in Aleea

Table 9.1 Balance sheet of Aleea Steel

<i>Assets</i>	<i>US\$</i>	<i>Liabilities</i>	<i>US\$</i>
Cash and banks	19,801	Bank loans	213,758
A/Cs and notes receivable	1,497,113	Trade payables	33,031
Inventory	643,596	Total current liabilities	246,789
Other current assets	37,468	Long-term bank loans	–
Total current assets	2,197,978	Shareholders' A/C	1,220,021
Real estate	550,000	Capital	414,200
Machinery	810,000	Accumulated profits	1,032,369
Total fixed assets	1,360,000	Profits of the year	644,600
		Total net worth	3,311,190
Total assets	3,557,979	Total liabilities	3,557,979

Table 9.2 Income statement of Aleea Steel

	<i>US\$</i>
Sales	3,223,000
Cost of sales	1,611,500
Expenses	966,900
Net profits	644,600

Steel for \$500,000 was settled by Mr. Alex between 2000 and 2003. (Total purchase price was \$800,000).

Profits are retained in the company “Aleea Steel SAL,” and net worth is adequate at \$3,311,190.

9.1.2 *Balance Sheet as of December 31, 2011*

(See Table 9.1).

9.1.3 *Income Statement as of December 31, 2011*

(See Table 9.2).

9.2 ALEEA STEEL SAL OWNERSHIP STRUCTURE

(Table 9.3) Mr. Alex (currently 65 years old) is the founder of Aleea Steel SAL. He is a man of long-term vision and has the desire to maintain the family business. Mr. Alex purchased the 50% shares of his

Table 9.3 Aleca Steel ownership structure

	<i>% Ownership</i>
Mr. Alex	80
Mr. Gaby	10
Mrs. Marie	5
Mr. George	5

partners, Messrs. Antoine and Emile, and transmitted 5% to his wife Marie, 5% to his brother George, and 10% to his eldest son Gaby. Mr. Alex wanted his son Gaby to be involved in the business and assigned him as production manager of the industry. Mr. Alex kept 80% of the shares for himself.

9.3 MANAGEMENT

Mr. Alex is the Chairman & General Manager of Aleca Steel SAL. His responsibilities are wide, including production, sales, exports, commercial activity, and relationship with banks and suppliers. He is authorized to sign alone on behalf of the company.

Mr. Alex is assisted by his family members.

- Mr. Gaby, mechanical engineer, is the production manager of the company.
- Mr. George is responsible for the factory.
- Mr. Elie is responsible for the quality control.

They are supported by five engineers for production, a well-experienced technical team of 46 employees for factory, plant installation, and maintenance, and five administrative employees.

Two sales representatives are located in Germany, one in Saudi Arabia and one in Egypt for running their export business.

All the employees are well qualified and experienced, and employed by Mr. Alex with the assistance of his son Gaby.

However, Mr. Elie (George's son), who is responsible for the quality control of the factory, has tried to have factory employees to his side, and in this way he and his father have more influence on the overall company operations. But, such attempts did not succeed, as Mr. Alex is well

controlling the company, and his son Gaby is well managing the factory employees and the production process.

9.4 GOVERNANCE STRUCTURE

Aleea Steel SAL shareholders elected the following board of Directors.

- Mr. Alex–Chairman and General Manager
- Mr. Gaby–Manager
- Mrs. Marie–Member
- Mr. George–Member

The above members of the Board of Directors are reelected every 3 years. Mr. Alex (80% owner) is appointed as chairman and general manager by the board meeting. He has voting control and has power over the strategic direction of the company. Also, the Board of Directors has given Mr. Alex the borrowing authority on behalf of the company. The Board of Directors' decisions are well executed by Mr. Alex, general manager of the company.

9.5 GROWTH OF ALEEA STEEL SAL

Mr. Alex's issue has been the growth and long-term sustainability of the family business. In 2000 and 2001, Aleea Steel SAL invested in purchase of new machineries and in factory expansion, all financed by cash generation of the company. In addition, Aleea Steel SAL introduced and purchased 7 water jet-computerized machines for cutting stainless steel, iron, and marble, unique in the local market.

In 2001, Aleea Steel borrowed from local banks the long-term loan of \$600,000 over 7 years, used as follows:

Purchase of 7 water jet machines (above mentioned): \$300,000. To part finance acquisition of partners shares (Messrs. Antoine and Emile) in Aleea Steel: \$300,000.

Aleea Steel SAL has been successful in manufacturing and installation of stainless steel equipments for many plants and industries in the local markets as well as foreign markets. Aleea Steel SAL is exporting its manufactured stainless steel equipments to Germany in Europe,

Saudi Arabia, Egypt and Jordan (two big markets), Syria (previously) in the Middle East, Ghana in Africa, Romania and Bulgaria in Eastern Europe.

They have good name in both local and foreign markets due to their know-how, high-quality products, and commitments. Aleea Steel SAL is currently a leading manufacturer in its field in Lebanon and the Middle East. It uses high quality and worldwide recognized raw materials and accessories in the production of machinery. It works using state-of-the-art equipment, continuously updating machinery according to new technologies, and relying on highly trained and skilled workforce while cooperating with a team of qualified engineers and experienced technicians.

9.6 DIVERSIFICATION

Mr. Alex had the vision to go to diversification in the family business. On the track of expansion, and the need in the Lebanese and Middle Eastern markets for stainless steel, Mr. Alex has established by the end of 2002 a trading company “AX Trading SARL” dealing in import and wholesale trade of stainless steel products and accessories: fittings, sheets, pipes, tubes, bars, valves, pumps for food, beverage, cosmetic, chemical and pharmaceutical industries. It is operating through offices and warehouse in Sad El Bauchrieh.

AX Trading SARL is the exclusive agent of several European companies in Lebanon, Syria, Jordan, Egypt, and Saudi Arabia.

AX Trading SARL is a diversified family business. Mr. Alex has 85% of the shares, and he has transmitted 5% to his wife Marie and 10% to his second son Steve.

Mr. Alex is the Chairman and General Manager of AX Trading SARL. He has assigned his second son Steve, young with BA in Business, sales and operations manager of AX Trading SARL, under his supervision.

AX Trading SARL 2011 financials reflect healthy situation.

- Sales have reached up to \$1, 475,180 with profit margin on sales of 22%.
- It is able to self-finance its working capital requirements.
- Company net worth is adequate at \$1,768,777.

9.7 SUSTAINABLE COMPANY

Aleea Steel SAL is a sustainable company. Their mission is to satisfy customer requirements and expectations while following set of values.

- Maintain the highest level of professionalism, integrity, honesty, and fairness in their relationship with their customers and suppliers.
- Help their customers gain competitive advantage in their markets.
- Provide superior quality works in terms of performance.
- To keep this leading company growing and developing.

9.8 CONCLUSION

Aleea Steel SAL was founded by Mr. Alex, who made a successful family business, a leading company in its field in Lebanon and the Middle East. Aleea Steel SAL has the right plan and strategy to keep name and reputation, increase market share in Lebanon and expand in the foreign markets.

Mr. Alex could well manage the company, executing all the board decisions. Mr. Alex involved the second generation in the business. His eldest son Gaby is the production manager of the company with 10% ownership. Also, Mr. Alex established a diversified trading company “AX Trading SARL”, a family business. He transmitted 10% share ownership to his second son Steve and assigned him manager of sales and operations of this trading company.

Aleea Steel SAL has well evolved with the change of time and global business environment.

9.9 COMMENTARY

Mr. Alex as Chairman and General Manager of Aleea Steel SAL has managed and expanded the family business successfully. He has majority of shares (80%), voting control of the board, and power over the strategic direction of the company. The board members are family members, who are reelected all the time, giving the managing authorities to Mr. Alex. This later has well executed all the board decisions. Messrs. Gaby and Steve (Mr. Alex’s two sons) are young, well educated, and experienced managers in the family business, to whom more managerial responsibilities can be delegated.

There was some conflict of interest and control on the business from Mr. George (Alex's brother), who has minority shares (5%), and his son Elie. This was controlled by Mr. Alex, whom both his brother George and nephew Elie trusted.

9.10 TEACHING NOTES

9.10.1 *Questions*

1. Are there signs of poor governance found in this case?
2. Should the board be composed differently?
3. Is there a problem of leadership, and what to be done for the future leadership?

9.11 ANSWERS

1. There are no signs of poor governance in this case. The decisions are taken by the board members, who are family members. They cared much for the business and made the decisions in the best interest of the company.
2. The board members were reelected in the same manner every 3 years. The board members were family members, same shareholders. The board to be composed of family members and independent directors, in order to ensure professionalism on the board of directors.
3. The leader Mr. Alex was trusted. He managed very well the company with high values of professionalism, honesty, fairness, trust and respect. Presently, Mr. Alex is 65 years old. He should delegate the responsibilities and leadership/management of both companies Alea Steel SAL and AX Trading SARM to the second generation—to his both sons and to keep his supervision only. Also, he should give more responsibilities to his nephew in the company, such that the second generation continues to keep the company growing and developing, while maintaining the same mission and values.

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- Interview with Mr. Alex, Chairman & General Manager, owner 80% of Aleca Steel SAL.
- Interview with Mr. Gaby, Production Manager, owner of 10% of Aleca Steel SAL.
- Interview with Mr. George, Responsible of Factory, owner of 5% of Aleca Steel SAL.

Suleiman Corporation Family Business⁵

Abstract Amid the international challenges translated into economic crises, investments loss, scarcity of resources as well as lack of talents and qualifications comes family business as a specialized and unique business field. A lot of research and theories talked about family business, and most agreed that most of the businesses started as family businesses for the past centuries. Also, evidence has shown that family business tends to have a lot of strengths and outperforms normal businesses. However, many challenges and weaknesses are inherent in such businesses rendering them to failure after two or three generations. However, this could not be generalized, for there are multiple success stories that prove the otherwise, and here comes the success story of the Suleiman Family.

⁵*The name of the business and the names of the family members were changed for confidentiality.*

“On Any Issue, Family Gets Precedence over Business”

Based in Sultanate Oman, the Suleiman Family is the owner of Suleiman Corporation with a huge portfolio of diversified businesses ranging from trading, contractors project, agents as well as retail. Needless to say, the big international connections as well as business alliances that Suleiman Corporation has fostered throughout the years as part of its expansion and development strategy. This project tackles Suleiman Corporation’s success story, Suleiman Family Business History, the Family dynamics, the success recipe, the challenges as well as the learning experience.

Keywords Crises · Scarcity of resources · Failure · Success stories · Suleiman

10.1 INTRODUCTION

When talking about business, no one can but agree that it is changing everyday being influenced by multiple factors such as economics, politics, and international fiscal and monetary policies. Business by itself is of different types, big and small, industrial and services, and stock, securities, and foreign exchange; however, most of the businesses started as small trades established by families and most of them resided within the family itself. This group of professions is known nowadays as Family Businesses (FBs). Nonetheless, it is difficult to come up with one definition or meaning of FB as it depends on the definition of the word “family” itself, for it has cultural connotations as well as religious dimensions. However, the commonly used terminology of FB is that they are identified as any businesses having one or more family members as a significant owner with substantial commitments toward the overall business well-being and survival (La Porta et al. 1999). Also, another definition of FB is a business with adequate voting family members to control the strategies and practices of such organizations (Miller 2006).

Such a model has a lot of differences from other types of businesses, whereby more interlinking relationships are present between decision makers and family businesses. Many debates that as part of globalization and various driving forces “change” is a must for FB.

That is why FB(s) need to improve, be more structured, and above all have a complete new set of regulations and standards that are relevant, evidence based, and catered for their cultures. It constitutes around 45–50% of the international businesses that is why it is already a wide field for research (La Porta et al. 1999). Some other sources state that they constitute around 70% of the world organizations (MENA Family Businesses 2011). However, all of them have one major and common dominator which is the interlinking and unclear relationship between management and ownerships. This relationship was tackled by multiple theories such as the Agency Theory, Resource-Based View, and the stewardship theory. However, apart from the multiple FB challenges, this did not prevent them to have successful journeys. There are savvy names for such success such as Wal-Mart, Ford, Samsung, Hyundai, Siemens, Fiat, and Carrefour (MENA Family Businesses 2011). Also, in the MENA region, you have major FB of net assets of around USD 600 billion (MENA Family Businesses 2011). While in Europe the figures are more,

there are around 1 trillion euros turnover, FB constitutes around 9% of the European Union's GDP and secures more than 5 million jobs.

These pieces of information reveal that the global market rotates around FB and as well most of the innovative business ideas they start by individuals who might carry on the tradition and hand in the responsibility to future generations. Consequently, FB nowadays is facing many challenges:

- a. Survival, continuity, and succession planning, especially when there is an immediate loss.
- b. Governance, leadership, and strategic planning priorities especially among siblings.
- c. Financial survival in facing of global integrations, ventures, and international competitions.
- d. Day-to-day operations control and monitoring.

This is backed up by a lot of literature reviews. A lot of studies showed that the FB has been understudied as a field of management and accounting only for a mere 1% of management articles in the management field (Dyer 2003). Others assessed FB performance and productivity in terms of multiple theories including the Agency theory (Niskanen et al. 2010) and Resource-Based Theory (DeNoble et al. 2007; Habbershon and Williams 1999). The Agency theory talks about the ownership and the relation with an agent and how to effectively control the operations using various techniques including employing external auditing agencies (Niskanen et al. 2010). Also, a lot of literature talked about the differences between FB and non-FB. Based on Resource-Based View framework (RBV), the already known advantages of FB over non-FB are: that FB has one language of FB, the flexible atmosphere, tend to be more motivational and build commitment as well as loyalty. However, this was critiqued and debated in the same study plus others for missing other controlling factors (Habbershon and Williams 1999; Niskanen et al. 2010). In terms of quality of services, there are rare studies that tackled this directly and reflected it with respect to the Agency Theory or RBV. However, there are few that tried to assess the FB best practices with respect to the strategies. One study has introduced the configuration perspective, whereby it is suggested that businesses will perform adequately when their priorities and practices are in alignment with the set strategies (Miller 2006). Through this concept, it touched on a TQM component which is quality improvement planning. For me, this is a wide gray topic that based on the research can be solved by each case alone and with the

help of consultants (Brockhaus 2004). Currently, the research talks about family strategic planning, family tensions and relationship issues, succession planning, and transition business (Brockhaus 2004). Others tackled FB characteristics and survival; some studies showed that fewer than 30% of FB make it to the third generation and fewer than 15% make it to the next (Ward 1987). As for the Middle East experience, up to my knowledge and extensive research, few studies assessed the FB in this part of the region; the most important was a study about retail business in Lebanon and Kuwait (Welsh and Raven 2006). However, the literature has always been in debate whether family businesses are better and more efficient than regular businesses, but what is for sure is that most businesses do not survive beyond second or third generation.

10.2 BACKGROUND

Suleiman Corporation is a full-fledged family business that has been in operations since 1866 and currently based in Sultanate of Oman. Although, the business started as trading back then; however, the story started when Karim Abdullah Suleiman made a pilgrimage to Mecca stopping along the way to visit his representatives and traders. In 1958 at the age of seventeen, Karim joined the family business eagerly to work and to assist his father, the late Haji Abdullah Suleiman, who was the chairman of Suleiman Corporation at the time and also patriarch of the family. The new recruit was sent to Kuwait, where the firm was mostly engaged in retailing. There, he saw the possibility inherent in the oil production; so back in Oman he convinced his family to establish a stronger presence in Kuwait. This decision determined the fate of the enterprise for the next several decades. In 1948, he established the Kuwaiti branch of Suleiman Corporation as a small operation handling foreign exchange, films, perfume, and motor oil. But the success there was where a ghee (cooking oil) shortage and an increase in demand. The shift of management happened in the early 1960s when the Kuwaiti company was operated by Ahmed and Abdulrahman Suleiman, whose talents helped family business to acquire a virtual monopoly on basmati rice from Pakistan. However, in the early seventies, the Kuwaiti government decided to become its own supplier and distributor of subsidized foods. Suleiman Corporation saw the wisdom of diversification. It was not until the 1970 accession of Said Bin Taimur's son Sultan Qaboos that Oman's transformation began. Under the new rule, Suleiman Corporation started to acquire a regional presence through its commodities trading.

Also, its expansion strategies made Suleiman Corporation have international affiliations in various fields such as the motor vehicle, contractor, and consumer goods industries.

Currently, Suleiman Corporation is a diversified group of companies with interests in property, trade, industry, and services. In terms of governance, Suleiman Corporation enjoys a corporate form of management that delegates authority, as well as encouraging autonomy. This was a key aspect of Suleiman Corporation companies, which began as divisions, acquired experience in-house and evolved into independent entities.

Throughout Suleiman Corporation's corporate history, each generation of the Suleiman family has left its mark. The business now runs into the fifth generation under Mr. Issa Karim Suleiman, the group's deputy managing director (Suleiman Corp. Family Business and Sustainability 2008). He is supported by a group of directors whose aim is to achieve projects that may be looked upon by future generations as milestones in their country's development.

10.3 SULEIMAN CORPORATION BUSINESS

Suleiman Corporation's core business remains and foremost is the real estate business. This section represents major assets of the company as it incorporates extensive and valuable development, re-development, planning, and designing projects.

Also, Suleiman Corporation is a leading consumer goods distributor. It promotes locally manufactured products through a distribution network that extends throughout the region. In addition, the company developed and launched its own "Suleiman Brand" line of imported foodstuffs. Furthermore, Suleiman Corporation is directly involved in the manufacture of paints, textiles, furnishings, dairy products, and building materials including concrete and fiberglass pipes. As for the service area, Suleiman Corporation developed one of the most sophisticated information technology businesses in Oman, the first to "Arabize" management software packages in the region, and has an important foothold in telecommunications. Currently, Suleiman Corporation is focusing more and more on environmental services. The reception facility in Fujairah in the United Arab Emirates is in its final phase to collect and process oil wastes from ships passing through the Gulf of Hormuz. All of this is leading Suleiman Corporation to become a primary family business not only in Oman but also in the GCC and India.

This family business's sustained legacy is attributed to multiple successful decision-making, management styles as well as proper working environment.

10.4 WORK ENVIRONMENT

- a. Sultanate of Oman: Being part of the Gulf Cooperation Council, the Sultanate of Oman has a coastline of 1700 km stretching from Musandam—"Strait of Hormuz"—in the north to Yemen in the south, with a population of approximately 2.2 million and overlooks the Arabian Gulf. Oman produces approximately 800,000 barrels of oil a day, which is its main source of income, in addition to gas, small industries, and fishing (12). Also, under the reign of Sultan Qaboos, the Sultanate of Oman offers attractive incentives to foreign investors, which include:
 - No profit tax on capital returns
 - No restrictions on capital and profit transfers
 - No restrictions on foreign exchange
 - Low corporate profit taxes
 - Full convertibility of Omani Rial

Both the government and the private sectors are working closely toward Omanization of its workforce and to implement the same effectively; Omanis are being trained in all categories. Tourism in Oman also has a vast potential; the Sultanate has drawn up a strategy called Priority Action Plan (PAP) through which tourism is being promoted.

- b. The Suleiman Family:

The business has undergone a great amount of diversification (Suleiman Corp. Family Business and Sustainability 2008) which leads the family members to start thinking about merging businesses to gather to have more synergy. Also, there are too many authoritative heads and managers working alongside with directors in charge in the same division. So to make the business more seamless, seven business clusters were established and the director-in-charge line was removed. Rendering that each cluster has its own board of directors (BOD) as well as the GM/CEO. These BOD contain only family members to oversee the operations and family interests. This structure was clear from the beginning, as a Family

Constitution has been already established to govern the work of the group. As per this constitution, each family can nominate two members to the board of the group.

10.5 FAMILY STRUCTURE

The Suleiman family as indicated before is a large family governed by the fifth generation of the direct siblings. However, the current genogram presents interesting facts that is associated with both the governance structure and the successful operations of it (Fig. 10.1).

A. First the General Characteristics:

1. That all the direct siblings of the father Mr. Farid Mohammad Suleiman are presented by their siblings directly or indirectly. This is in alignment with family outlook for having modern and young generations running the business.
2. There are no women represented in the BOD; however, the husbands of some of the direct granddaughters are present in the BOD. But, these husbands are the direct siblings of the grandfather, for example, Mr. Amin Ali Suleiman who is married to Mrs. Naziha, daughter of Mrs. Nagham Farid Suleiman.

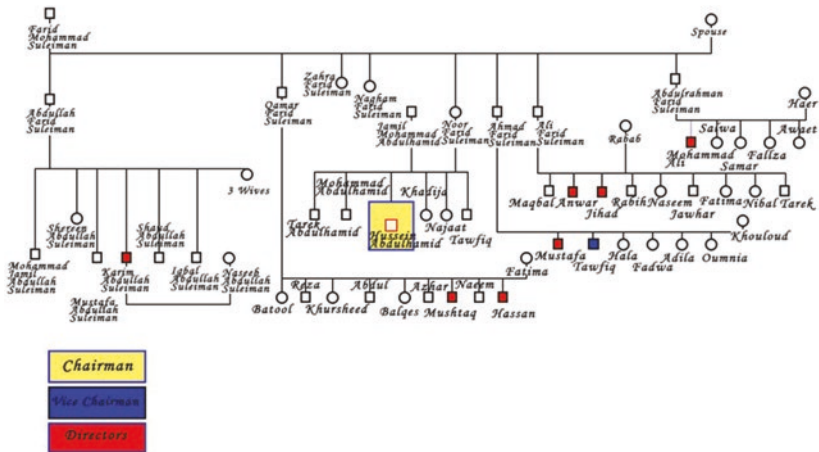


Fig. 10.1 Suleiman Corp. business hierarchy

3. As part of women empowerment as well, the current chairman is the son of the direct daughter of the father. Mrs. Noor, who is the spouse of Mr. Jamil Mohammad Ali Abdulhamid, has given birth to Mr. Hussain Jamil Abdulhamid who is currently the chairman of the board.
4. Some direct siblings are presented by two children such in the case of Mr. Ahmad F. Suleiman and Mr. Ali Farid Suleiman, whereby both are represented by two siblings; this is because one of each sibling is married to a daughter from other direct sibling. This is very important for homogenous and synchronization of decisions.

B. Second the Strength Points:

1. The inclusion of all siblings in the BOD.
2. The choosing of the qualified people in the proper positions.
3. The diversification of lines of authorities to render decentralization of decisions instead of centralizing everything in the hands of the eldest children.
4. Empowering women through choosing a direct sibling as the chairman.
5. Abiding by traditions and customs; however, fostering development and listening to young generations (Fig. 10.2).

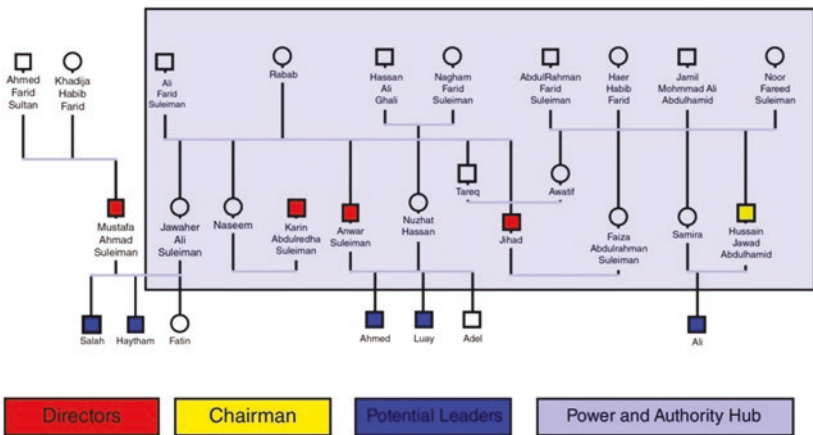


Fig. 10.2 Genogram of the Suleiman family

C. Third the Hidden Family Dynamics and Power Hub:

The above genogram indicates the following interesting facts:

1. The power hub and authority lies greatly within the siblings of Mr. Ali Farid Suleiman as he has two directors as direct siblings who are Mr. Amin and Mr. Jihad as well as two directors married to his daughters who are Mr. Mustapha Ahmad Suleiman and Mr. Karim Abdullah Suleiman. Not only that, his son Mr. Jihad Ali Suleiman is the brother-in-law of the Chairman Mr. Hussain Abdulhamid; their wives are sisters. Also, a major attention should be paid as well to Mr. Tarek Ali Suleiman who is married to Mrs. Amina Abdulsalam Suleiman. Needless to say that Mrs. Awatif as well is the sister of the two most powerful ladies Mrs. Samia Abdulhamid and Mrs. Fawzia Suleiman. This could be a platform for a very powerful click or hub if that could lead to both positive and negative effects on the family. From a point, it constitutes the majority of the power and authority and acts as a pseudo-leader, and on the other hand, it might skew decision making to certain personal benefits. Also, it might act as a China wall in front of lateral and vertical communications with the chairman.
2. There is a potential effect on the chairman's decisions and work as the Power Hub can influence his operational process.
3. There are multiple potential leaders for this business that are the direct outcome of this power hub. That is why succession planning should be planned carefully as well as is that it should be kept in this power hub as it acts as a security zone. Of course, after taking into account the credentials and qualifications of these siblings.

D. Other Aspects:

The direct and indirect siblings of the family constitute around 59 siblings. These are the grandchildren of the modern founding father Mr. Farid Mohammad Suleiman. They are divided as 34 males and 25 females. Also, out of the 59, 54 children are married. This marriage is characterized by both intra-familial marriage and from outside. The direct intra-familial marriage is difficult to detect at this stage as no adequate information is present. However, counting on the family names of the spouse, it could be deduced that around 12–14 families are formulated intra-familial.

10.6 SUCCESS RECIPE

Suleiman Corporation mandate has been always clear since its inception, to facilitate foreign direct investment and import skills and technology that support the company and the national economy (La Porta et al. 1999). The Suleiman Corporation understood from the beginning the importance of having special structure as well as mode of action for family business. That is why they started to establish a Family Council which meets once mid-year.

The Family Council has been discussing all matters without restraints and transparently since 1996, when it first started as an informal meeting over lunch till it matured till the current formal status. However, this was not only the success ingredient, in addition the following exists:

- c. Management and Governance Style: differentiating between business affairs and family affairs. This was instituted in the following motto that is adopted by the Suleiman Corporation “on any issue family gets precedence over business.” This is paramount for the Suleiman Corporation, for family bonds and networking has an upper level over business. But this did not forbid the family from succeeding as it as well tried to find a balance between business and family affairs. For this purpose, multiple entities were developed which are the Board of Directors (BOD), Family Council, and Management Committees. The BOD has clear responsibilities to manage the Suleiman Corporation business, and it meets on quarterly basis. As for the Management Committees, they reported to the directors with clear guidelines. The BOD keeps a close eye over the CEO and the managers’ work to see if it is in alignment with the family business vision. As for executive directors, they are required to maintain business performance. Next is a table that summarizes the differences between the Family Council and the BOD (Table 10.1):

10.6.1 *The BOD Members Are*

- d. Openness: The primary objective of the family members is that there are no secrets. Transparency and openness are regarded as two great values for the Suleiman Corporation to be successful (Fig. 10.3).

Table 10.1 Difference between Family Council and BOD

<i>Activities</i>	<i>Role</i>	
	<i>Family Council</i>	<i>BOD</i>
Strategic planning	<ul style="list-style-type: none"> ● Business structuring and planning ● HR performance review and development ● Resource planning 	<ul style="list-style-type: none"> ● Business strategy ● Alliances and partnerships ● Diversification and planning
Sustainably and growth	<ul style="list-style-type: none"> ● Investments decisions ● Business review ● Project planning and approval ● Acquisitions and joint ventures decisions 	<ul style="list-style-type: none"> ● Profitability ● Market share analysis ● Budget and controls ● Product development ● Supplier development
Management	<ul style="list-style-type: none"> ● Budgeting review ● Conflict resolution 	<ul style="list-style-type: none"> ● Operations review and control ● Process review and internal audit

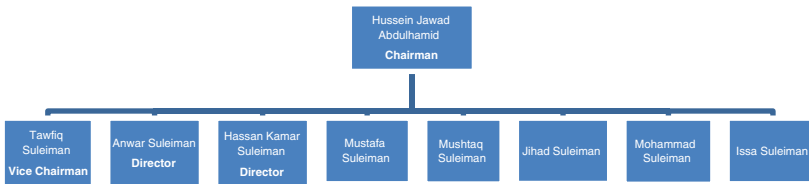


Fig. 10.3 Members of the board of directors of the Suleiman family business

- e. **Commitment to Human Resources:** Suleiman Corporation is committed to human resource development. Aside from the in-house training programs, the company’s many successful joint ventures with prestigious international partners have helped build local competencies in management, marketing, and specialized industries. The main goal has been always to recruit highly ranked and professional managers as business drivers and advisors to the BOD.
- f. **Corporate responsibility:** Social responsibility is another hallmark of the group with environmental conservation and social awareness high among its prevailing values. Suleiman Corporation

has started to formulate corporate social responsibility (CSR) activities.

- g. Less Bureaucracy:
- h. Managing family affairs in a structured manner, whereby there were clear plans for each family member.
- i. Planning of succession: Suleiman Corporation has put onto their mind the importance of succession planning. This is evidenced through barring the responsibility of educating the entire directors' siblings as well as incorporating them slowly but actively in group business. This process starts with basic business encounter and continues as trainees and evolves as general managers or directors all in a period of 10 years. Also, the Suleiman Corporation maintains a keen eye on skilled next generation members for assuming leadership positions.
- j. Long-term vision: Being proactive in the business arena is another key success factor for the business development and expansion.
- k. Enhancing shareholder values: Making everybody happy through continuous business enhancement has been regarded as an important tool for business sustainability.
- l. Benchmarking and Training: This family business has followed two main tasks for success: benchmarking and training. One of the many training sessions that were held for the Suleiman Corporation was a successful one about Family Business and Sustainability done at Haidarabad, India, in 2008. This training was held by the Suleiman Corporation Director Mr. Jihad Ali Suleiman. The training tackled many issues including benchmarking with elite top companies such as the Laird Norton Companies which is 146 years old and the current governance is under the seventh generation and with over 300 family members.
- m. Cultural Dependence: The Suleiman Corporation leaders have emphasized many times, that their great success is attributed as well the Middle Eastern culture, which is a blend between the West and the East. Capitalizing on this, Suleiman Corporation has established great connections within both regions of the world in order to develop their businesses.
- n. Business Ethics: Suleiman Corporation has always endorsed and fostered the concept of business ethics. It has been a matter of pride for the business not to have been awarded any litigation or lawsuits against the Group.

10.7 FUTURE BUSINESS CHALLENGES

In the future strategy for Suleiman Corporation is on working on how to manufacture most of the products that they are importing from outside by the local Omani market.

1. Large families: Currently, Suleiman Corporation has 140 stakeholders direct and indirect family members, and it is the fifth generation that is reigning over the Family Business.
2. Family Dynamics and interpersonal relationships. Although the family business is presented in a proper dynamic way. However, allowing women to participate directly would be an added value for the family to continue its success story.
3. According to an interview with one of the family members Mr. Jihad Suleiman, the most important challenge is to deal with the new generations; which are the direct siblings or the in-laws, how to train and coach them, and how to incorporate them into the family business.

10.8 TEACHING NOTES

10.8.1 *Questions*

1. What are the key success factors for the Suleiman Corporation?
2. Was succession planning process a successful project?
3. What were the most important challenges faced by Family?

10.9 ANSWERS

1. Key success factors are:
 - a. Family Power and Authority Hub. The Suleiman family with its family dynamics and intra-familial marriage managed to make use of such process to create a balancing power Hub for the continuous growth and sustainably of the business.
 - b. Respect for each family members. This was a mandatory value that is held dear by everybody.
 - c. Proper Family Structure. Family Council and Board of Directors that convene regularly.

- d. Communication all the way. This is important for two reasons: exchange of necessary information and transparency.
 - e. Professional teams with the right and clear authorities.
2. The succession planning is regarded as an important method to reduce family business tensions. The current process employed is regarded as a successful one, as it involved the following;
- a. Educating and Training
 - b. Engaging and Involving
 - c. Assigning Responsibilities and Controlling
 - d. Assuming Leadership positions as managers or executive directors

Through this, the Suleiman Corporation gave the young members of the family to participate in running the company and making them acquire the necessary skills through continuous training.

3. Challenges:

- a. Growing Family Base due to increased number of siblings.
- b. Transparency and communication could be developed further into formalized structure.
- c. Professional teams should be always up to the future challenges.
- d. Expansion and Growth diversification, due to multiple family members' interests.

10.10 CONCLUSION AND RECOMMENDATIONS

In conclusion, Suleiman Corporation has undergone prosperous history of business development and achievements. They defied most family business trends which are failure after two or three generations. This success is attributed to multiple methodologies and processes adopted by the Suleiman Family. However, the most important are as follows:

- Transparency among family members.
- Proper family governance structure.
- Communication all the way.
- Continuous and expansion of businesses.

- Decentralization.
- Training and development of staff.
- Focusing on competent Human Resources.

But the most important is the family marital dynamics that is well instituted in the Suleiman Family and which yielded a Power Hum that could be considered as a safety zone.

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