

A Work Project, presented as part of the requirements for the Award of a Master Degree in  
Management from the NOVA – School of Business and Economics.



**BERMANNE**  
**WHEN THERE IS NO ROOM FOR ALL**

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## **Abstract**

This project introduces the real case of the family business Bermanne, in 2012, along with real decisions regarding the future of the firm as it struggles to survive past second generation and has a third generation eager to join. From the founder and CEO's perspective, the case illustrates the dilemma in which he finds himself in. Needing to take the best decision for the company's survival but not wanting to hurt his family's feelings. The case will guide through the family and firm's history and reasons why the business became an important asset to all family members.<sup>1</sup>

**Key Words: Family Business; Socioemotional Wealth; Role conflict; Family Protocol**

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\*All names, dates, locations, and exact values have been disguised. Nonetheless, when relevant for the analysis, their relative proportions were preserved.

## **WHEN THERE IS NO ROOM FOR ALL**

It is the beginning of the year 2012, Albert woke up early to make his weekly 1 hour drive from Nazaré to Lisbon, and, as he gets into his car, he notices the dark sky and the storm getting closer and closer. Watching this, he can't help but feel that the weather is perfectly mimicking how the day is going to turn out.

Once Albert is on his way, he immediately starts rehearsing what he is about to tell his sons. At the age of 73, Albert is still the active CEO of Bermanne, a construction company, and, even though he has 3 sons actively working as top managers of key areas of his company and sharing most of his responsibilities, he does not think it is the right moment to step down.

He spent his entire life creating and building a company that was meant to be passed down to his children and now that he is close to retirement and to handing the business to his three sons, the company stopped growing. He refuses to leave this crisis for his sons to manage, the company was meant to be a gift for them and not a problem for the family, therefore, he will not turn away from the business until he is sure that he has a healthy company to hand down and he is more than comfortable in using his personal savings to invest in the company if needed .

“Why did the country have to go through a recession right now?” His company had been growing since the 1970's but since the beginning of the 2008 recession, they already had to shut down one business unit, and now, he is about to go into a meeting with his sons to discuss the closure of yet another business unit.

It is not just the future of the business that is at stake but also the future of the family. With the company getting smaller and smaller and the family getting bigger, is there enough room to keep the 3 sons running the business without getting on each other's nerves and without having to fight to be the leader?

## **The beginning of it all**

**Albert** – Always the entrepreneur, Albert started creating his own businesses at the age of 14. At the time, he started renting buses and planning excursions from his town to others.

Then, in 1958, at the age of 20, it was time to enter the family business and, so, he entered with his own capital as a partner in his father and uncle's ceramics business, at the time called "Oven". In 1960, he married Marie Anne. However, his entrepreneur days were far from over, as said by himself "I've always trusted Marie Anne as being my great confidant and main consultant when it comes to business, she was always involved in every decision" – a true business partner.

In 1963, he created a company to commercialize construction materials in partnership with an acquaintance of his who already had knowledge about the business, with only the 4<sup>th</sup> grade of studies, he had to opt to pursue a business that he already knew something about. In 1966, he sold his shares of this company to open yet another company to commercialize construction materials, this time, imported. The focus were porcelain mosaics from Japan. However in 1974, with the 25<sup>th</sup> of April, many walls were built to imports, which led to the end of the business.

Once more, it didn't end here, in 1972 Albert started Bermanne – Urban Developments. The name came from Albert and Marie Anne put together, showing once more the importance of his wife in the business. From then on, the business kept growing, and so did the family. Marie Anne and Albert had 4 children and encouraged all of them to pursue the family business while putting the family first. In Albert's words "I wish that in each moment of each generation prevails the spirit and determination, not only of maintaining the family wealth but also of keeping it's constant growth. Moreover, I wish that between all generations predominates Friendship, Fraternity, Justice, Solidarity and Mutual Respect". And so, his 3 sons started working in the business, while his

daughter moved abroad and did not join or has any interest in working in the company in the near future and his wife Marie Anne became the one who glues the entire family together.

**Albert Jr.-** Being the first born, Albert Jr. knew from a young age that his life would always lead him to his father's business. Since he was a kid, he showed interest in architecture and even though he ended up studying management, his father's business seemed like the perfect opportunity to connect his passion with his work. Moreover, he and his siblings were always involved in the company by doing summer internships there, going into fairs to promote the business and so on. It seemed only natural to join the business and that is what he did as soon as he got out of college. Today, he and Thomas co-direct the commerce of wood modular houses, after being the ones who started this department.

**Carl** – The second born, only one year apart from Albert Jr., followed the path of his older brother. As it seemed to run in the family, Carl showed an interest in all businesses owned by the family, either working at the office on the weekends or following his father on business trips. He was sure he would one day run a business as well. Therefore, management seemed like the obvious choice for him. As he was finishing his degree, his father, as he had done with his older brother, made him an offer to enter the family business. The business was growing fast and people with an education in management and with an interest in the business were needed. Carl thought about his dream of one day running a business and realized he had just been given a fast track ticket to do just that. Thus, Carl joined Bermanne and, today, directs the wood materials unit.

**Thomas** – Unlike his older brothers, Thomas did not have any intentions to work in his father's company, even though he had also been involved since he was young in Bermanne. His dream was to be a lawyer, and that's what he did. He took a law degree and worked as a lawyer once he was done with it. However, it didn't last long, only 2 years had passed when he understood that law wasn't his calling but he wasn't sure what was. At that time Bermanne was growing exponentially

and his father had been pushing him to join the business since he finished his degree. The way Albert saw it – Thomas had always been an extremely extrovert kid and had always been comfortable talking to anyone in any situation, therefore he would be great at managing clients. Moreover, he could see that his son was not happy and wanted to be able to give him the same chances he had given to his oldest sons. Consequently, after being convinced by his father for months, Thomas eventually joined the business. After all, the company would one day be his too so he should at least give it a chance, and that's just what he did.

## **The Grand Economic Crisis Challenge<sup>2</sup>**

### **- World's Economy**

In 2011 the world economy had grown over 3.8% against 5.2% in 2010, showing a deacceleration of growth. This fall was sharper in advanced economies while in emergent economies, the average growth was still at 5.4%. China, kept growing at 9.2% (even though, it fell from the 10.4% growth in 2010).

The economic crisis in the Euro Zone and the austerity policies and limitations on credit access also conditioned the European growth. Despite the Euro Zone having achieved a growth rate of 1.6% in 2011, the last trimester was already lower, therefore the prediction for 2012 is for a slight recession of 0.5%. The average inflation rate in the Euro zone was of 2.7% (against 1.6% in 2010), mainly due to the growth of energetic prices. The price of oil also suffered an increase, increasing 8% against the previous year.

All in all, it is expected that the world's economy in 2012 continues to recover from the recession but slower than in previous years. Emergent markets should continue to show high growth rates while advanced economies should show short growth rates.

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<sup>2</sup> All the information was retrieved from internal corporate documents and from Instituto da Construção e do Imobiliário. (2013).

## - **The Portuguese Economy**

In 2011, the pressure from the financial markets towards Portugal intensified, which led Portugal to access Troika, an European economic and financial assistance program. The economy is predicted to have contracted 1.6%. Portuguese Banks continue to have difficulties in accessing financing in international markets, which also drives for limitations in financing to the private sector. Exports of goods and services kept high taxes of growth, specifically sales to emergent markets in Africa, Latin America and Asia.

## - **Construction Industry in Portugal**

The construction sector, being a sensitive sector to the national economy, felt the effects of the crisis and saw its situation deteriorate, particularly regarding the volume of the business, their contribution to national investment, and the weight of this industry in the national job market. The number of companies going bankrupt in Construction has been growing in the past 2 years. Moreover, the variation of construction for residential buildings has been negative in the past 5 years and decreasing faster than other European countries (Appendix 2 and 3)

Unfortunately, the predictions for 2012 do not look as one would wish. The sector will continue to face unfavorable conditions and, therefore, it is advised as a short term solution that companies in this sector internationalize to either African or American countries.

## **So, How's The Business Doing?**

### • **Organizational Structure**

Bermanne is a Construction company divided into 5 business units. Through the last few years Bermanne has been switching its core business from Ceramics to Wood and therefore the weight of each business unit has been changing rapidly. In 2011 the weight of ceramics was 0% (against 20% in 2006), Porcelain Mosaics 3% (against 5% in 2006), Urban Development 9%

(versus 25% in 2006), Wood materials 46% (versus 40% in 2006) and Modular Wooden Construction 42% (versus 10% in 2006).

The ownership of the company also changed. In the past Bermanne belonged to Albert and his wife. However, when Marie Anne passed away, Albert kept 60% and his 4 children inherited 10% each. Today, on top of their role in the board, Albert oversees Ceramics, Urban Development and Porcelain Mosaics; Carl oversees Wood materials and Albert Jr. and Thomas oversee the Modular Wooden Construction, the first as chief of production and the second as sales director.

- **Ceramics Unit**

The ceramics unit can be considered the backbone of the company, it was started by Albert's father and uncles, and after years of working alongside, Albert bought the business. This unit consisted in the production of bricks and tiles and was the first of Albert's businesses to become part of Bermanne.

However, the demand for bricks and tiles depends directly from the number of new constructions, and, as seen before, it had been decreasing in the past 10 years (Appendix 3). Therefore, with the decrease in demand, a decrease in production followed (Appendix 4). Eventually, this decrease led the company to take the decision of pausing the factory activity in 2010 until further notice.

- **Urban Development**

Urban development was the second business unit to exist. After having the ceramic unit stable, it seemed only logical to move to construction. Therefore, in 1972 this new business unit was created with only one land in Barreiro to use for construction.

The unit kept growing by slowly buying more and more land, mainly in the suburbs of Lisbon, constructing Residential Buildings, and then selling it. However, as the economy stopped



growing and the Banks were not able to support the private sector, this business unit is now only focused on finishing the projects that are happening today and selling each building as soon as they are finished. Unfortunately, until the economy recovers, it does not seem that there is an opportunity of growth for this business unit.

- **Wood Materials Unit**

As the urban development unit started, another opportunity emerged from it. The commerce of construction materials and imports of woods. Therefore, the Wood Unit was born in 1973 to take advantage of this opportunity and it slowly turned into the core business of the firm. After importing wood from Angola, Bermanne also started importing lumber from Brazil and logs from the African west coast. Then in 1990, facing the demand from the construction industry, Bermanne started producing wooden floors and, later, diversified to also include wooden doors and structures.

- **Modular Wooden Construction Unit**

In 2006, given the success that the wood unit was having and the potential it showed, one more opportunity appeared, modular wooden construction, one of the firsts in Portugal to invest in it (Appendix 5). Therefore, the wooden unit was divided in two leaving materials for construction, such as flooring and doors for Carl to manage, and the modular wooden construction started being led by Albert Jr. and Thomas, and, so, it kept on growing until 2010.

Here is when the plot thickens, in 2010, when it seemed that both wood units (Wood Materials and Modular Wooden Construction) seemed to be the only ones still surviving the crisis and somehow even growing, there was a devastating fire in the facilities of the company.

This fire took place in the part of the factory where the most valuable stocks were kept and destroyed a great amount of it. Furthermore, a new showroom which had just been built and was about to start being used was also devastated by the fire. As a result, both the stock available and

the sales of the same year and the year after were affected by this fire (Appendix 6) and even though the company had insurance, it still lost approximately 5 Million Euros in Revenue.

- **Porcelain Mosaics**

In 2004, Albert had an idea of reinvesting in a business that he had been passionate about in the past – Importation of Porcelain Mosaics – this time from China instead of Japan. This unit imports Chinese porcelain mosaics to both incorporate it in the buildings constructed by the urban developing unit and resell to the Portuguese market, since they were cheaper than the ones produced in Portugal. However, the creation of customs duties in between 45% to 75% to these products in the year 2011 increased the prices in such a way that led to the loss of the comparative price advantage that existed when compared to European mosaics. Albert is now on his way to a meeting with his sons where the closure of this business unit will be discussed.

### **Even When It's Business, With You It's Always Personal**

When it came to the relationship between Albert and his sons, or the relationship among his children; Albert had always been very proud of how there were no conflicts between all of them after joining the company, he had already heard the phrase “keep your family and business apart” many times but until recently, he did not think it could apply to him.

As in all businesses, many times there were disagreements between Albert and his sons, but nothing out of the ordinary, usually they would see eye to eye on everything. However, as their roles changed in the business and as the financial crisis approached, their views on how the business should evolve started to diverge, which had also started to affect their personal lives.

Recently, Albert had witnessed an argument between Albert Jr. and Thomas about the direction the Modular Wooden Construction was taking; Sales were growing faster than what Production was able to handle, a problem which could easily be discussed between the sales

director and chief of production, but they got so caught up in the argument about who was wrong (just like two siblings fighting) that nothing had been properly discussed. Furthermore, two days later the family had a family dinner and Albert Jr. and Thomas could barely look at each other.

But he knew the problem was not just between his sons, he had realized that every time any of his children had questioned one of his decisions, he would not even try to discuss it with them, as business partners do, he would simply do as he thought best. Could it be that he was not able to take his children as serious business partners? How could that be affecting the business?

### **Everybody Wants In**

At the age of 73, Albert has already 11 grandchildren. From these, 3 of them are finishing College and expect to have a place in the company in about 4 to 5 years. The next 3 grandchildren fall shortly behind and all want to be a part of the family business too.

As said by Alfred III, “We spent our lives hearing that we have a family legacy and that we are meant to take care of it and make it grow. We spent our childhood playing in the firm office, we helped in various firm events since we were 12 and were involved since we were 16 on Family Meetings, hearing our parents talking proudly about their job. Now we want the chance to show them that we too can make the family proud by doing a good job and taking the company name further than what has been done so far. Bermanne is part of what makes our family the way it is and we do not want to leave this legacy behind.”

Moreover, in 2005 a family protocol was created where it stated the requirements for entering the family business - “a minimum of 21 years old; at least 3 languages spoken; a master degree in a relevant area for the business; 3 years of experience in another company and a vacancy in the company”. The 3 oldest cousins all took this into consideration during their studies and are now about to enter the job market in order to complete the requirement they are missing. Hence,

the 3 of them expect to have a place in the company once the 3 requirements are completed and haven't thought about the possibility of not having a vacancy.

## **Dilemma**

Almost 40 years have passed since Albert started Bermanne, and, unlike his previous companies, this one was meant to last forever and to be passed on from generation to generation. However, what seemed so simple 7 years ago while creating the family protocol, does not seem so simple anymore. What can he do not to disappoint his family's ambitions and desires while also saving his company?

When it comes to the business there are only a few options he can take. The Porcelain Mosaics unit needs to shut down and the focus needs to be the wood unit. But there is still a problem of how to keep himself and his 3 children all working together without ruining their relationship, a need to quickly diversify in order to limit the dependency that the company has to the construction industry and a need to find out what to do about his grandchildren which want to join the business. Albert knows that the firm is not supposed to be a job agency for the family and that his priorities should be the wellbeing of the firm and not the creation of jobs for his grandchildren but he finds himself struggling on how to explain this to his family.

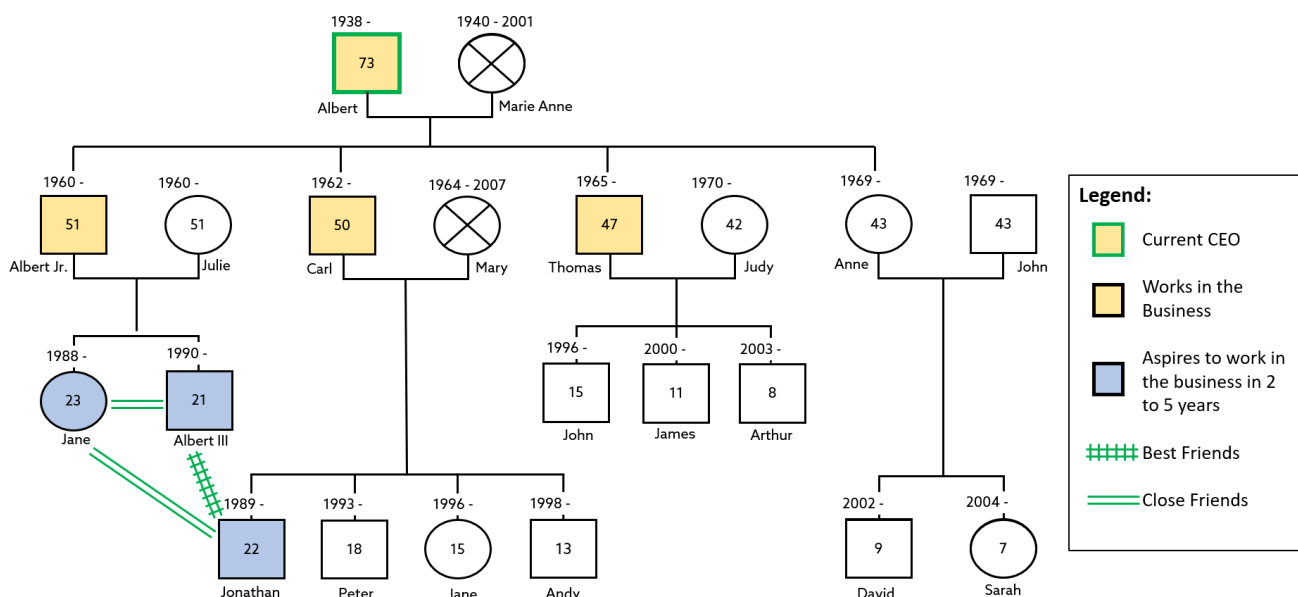
As Albert is wondering about these issues, he remembers a case study he once read about a family venture fund created by a Colombian Family Business<sup>3</sup>. This fund had been created to encourage the next generation to pursue new entrepreneurial ideas for the current business while starting their own entrepreneurial careers (Appendix 8). Albert had been thinking on a way to invest 200.000€ of his personal savings in the firm, could this be the answer Albert is looking for?

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<sup>3</sup> (Zwellger, 2017)

# APPENDIX

## Appendix 1 – Bermanne Genogram in 2012



## Appendix 2 – Comparison of Construction Industry Real Growth Rate

	2006	2007	2008	2009	2010	2011	2012 (p)
Portugal	-5,3%	-0,4%	-4,8%	-9,8%	-6,2%	-10,0%	-14,6%
Euroconstruct Countries	3,7%	2,3%	-3,7%	-8,8%	-3,3%	0,2%	-4,7%

Source: 74 Euroconstruct Conference

(p):predicted

## Appendix 3 – Comparison of Residential Buildings Construction Growth

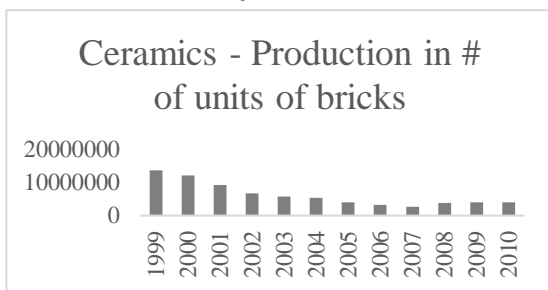
Residential Buildings - Production Variation

Portugal	2006	2007	2008	2009	2010	2011	2012 (p)
New Construction	-8,5%	-4,0%	-13,0%	-30,0%	-20,0%	-13,0%	-25,0%
Renovation	-0,5%	-1,5%	-2,5%	-3,0%	-1,0%	-3,5%	-5,0%
Total	-5,9%	-3,2%	-9,7%	-20,8%	-12,1%	-8,5%	-15,1%
Euroconstruct Countries	2006	2007	2008	2009	2010	2011	2012 (p)
New Construction	6,1%	-2,1%	-16,4%	-22,8%	-6,5%	3,3%	-5,9%
Renovation	2,4%	3,5%	-0,2%	-3,6%	1,4%	1,3%	2,0%
Total	4,3%	0,6%	-8,5%	-12,5%	-1,9%	2,1%	-3,5%

Source: 74 Euroconstruct Conference

(p):predicted

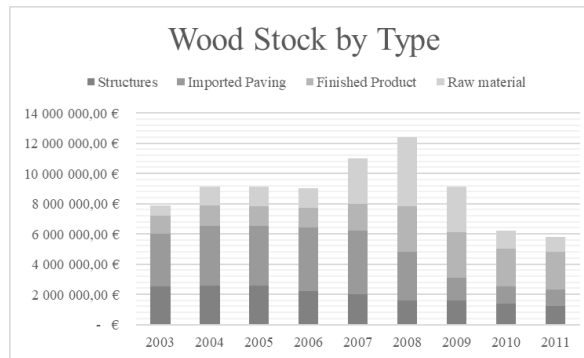
## Appendix 4 – Production of Bricks over the years



## Appendix 5 – Modular Wooden Houses



## Appendix 6 – Evolution of Wood Stock before and after Fire



## Appendix 7 – Table of Contents from Bemanne’s Family Protocol

Bermanne Family Protocol - Table of contents	
1. Message from the founder	9. Requirements of entrance, evaluation and dismissal for family members
2. Objectives and Goals of the Family Protocol	10. Shareholders' agreement and dividend distribution policy
3. Definitions	11. Code of Conduct and Behaviors
4. Scope and Nature of the Family Protocol	12. Loans and Project Financing for family members
5. Family Assembly	13. Conflicts of interest
6. Family Council	14. Prenupcial agreements
7. Board of Directors	15. Succession
8. Consulting Board	

## Appendix 8 - Case Study Family Venture Fund in a Colombian Family Business

### Family venture fund in a Colombian business family

The owning family of a large multi-divisional family firm in Colombia decided to set up what it called the 'Seed Fund'. This fund was established for two reasons: (1) to fuel new entrepreneurial ideas for the current business operations, and (2) to help next-generation family members start their own entrepreneurial careers. In establishing the seed fund, the family defined the following objectives:

- Promote the development of new, independent companies by family members.
- Establish next-generation family members' entrepreneurial credibility with family, employees, customers, suppliers and other parties.
- Build entrepreneurs' self-esteem.
- Develop skills and allow experiences.

The fund is structured in the form of an irrevocable and sustainable revolving trust. The management of the trust is given to a group of three investment bankers, all nonfamily members, who have no other role in the family's or the firm's governance. Family members are entitled to propose a business plan to this committee and may receive a loan of up to \$70 000 per business idea. The three trustees decide on the approval of the loans, which are to be paid back with an interest rate that is roughly 50% below the market rate. The seed fund supports business ideas exclusively; it does not support family members' education or any other nonbusiness-related activity.

The performance of the loans is monitored by a bank and by the three trustees. Once a year, the family council meets with the trustees; at this meeting, the council receives an overall report on the trust, but no details about the individual loans or companies.

Over the years, the seed fund has helped to start up multiple new businesses in the retail, restaurant, agriculture, industrial production and auto repair industries, all of which are controlled by family members.

# **TEACHING NOTE**

## **Overview**

This case is based on the real story of a family firm, moving from the 1<sup>st</sup> to 3<sup>rd</sup> generation while downsizing. It is presented through Albert's eyes (founder of the firm), while he attempts to save the company and tries to prevent future family struggles which he believes are bound to happen. The main purpose of this case is to put the student in the role of the founder in order to demonstrate the complexity of the decision-making process lived in a family business, the relevance of socioemotional wealth and the duplicity of roles which exist when working with family members.

## **Target Audience**

This case was designed for Family business courses of undergraduate and master programs in Management as a support tool for the understanding of the following concepts: Socioemotional Wealth, Role Conflict, Family Governance and Family Protocol. Nonetheless, in order to take part in the discussion and to take full advantage of it, students should already have some familiarity with the concepts above and use the suggested background readings in order to deepen their knowledge (TN Appendix 1).

## **Learning Objectives**

After solving the case, students should be able to:

1. Explain the behaviors and dynamics that characterize family firms;
2. Understand the impact socioemotional wealth has on decision-making in family firms;
3. Identify the different role conflicts that can arise in Family Firms and know how to mitigate them
4. Comprehend the importance of Family Governance to prevent family disputes

## **Suggested Questions for Discussion**

### **1. What would you do if you were Albert and how would it affect the family and the business?**

The first question should be used to set the discussion and to put the student in the shoes of the protagonist to let him understand the constant duality of roles that any family member working in a family business must face (Memili, Chang, Kellermanns, & B., 2015) and how to make the right decision under these conflict of roles. It is suggested that the professor asks questions with only two possible answers, and that students raise their hand if they agree with the first or second answer. Afterwards, both a student who raised their hand for the first answer and one for the second should explain why they agree with that answer and how it would affect both the business and the family. The professor can then use the answers from the students to write a list of pros and cons for both decisions on the board in order to foster the debate. The questions used could be the following ones or others that arise from the discussion. Firstly, should he keep the 3 sons in charge of both wood units or should they restructure? Second, should he try to diversify the business? Third, should his grandchildren join the business or not?

### **2. Consider the third generation's desire to join the company, even though the company is going through a financial crisis and explain it using the Socioemotional Wealth model**

Students should first define Socioemotional Wealth (SEW) as nonfinancial goals pursued in a family firm, in other words as the total stock of affect that a family vests in a firm or the emotional attachment to the firm (Zellweger, 2017) and mention that the existence of SEW is what differentiates family firms from other firms (Morgan & Gomez-Mejia, 2014).



Secondly, students should take from the part “Everybody wants in”, how attached the three cousins are to the firm which has been founded by their grandfather and in which their fathers worked their entire life. Even though the three-generation rule would suggest that the third generation is usually more interested in taking advantage of the benefits of the business than actually working in it, in this case, the third generation has strong ties to the company, partly due to having been involved in the business since they were children, by spending time at the office, helping in events and being invited to family meetings (The Family Business Consulting Group).

Finally, students should mention how the socioemotional wealth model suggests that family firm owners may opt for the preservation of SEW when making decisions, even when their economical goals do not match their socioemotional goals. This will happen as a result of the family firm owner having to balance not only financial gains and losses but also emotional ones (Morgan & Gomez-Mejia, 2014). This choice to willingly “sacrifice and experience negative emotions in the short term for the betterment of the firm and family in the long-term” explains why the loss aversion in respect to SEW, which usually leads to lower risk taking, can in some cases lead to higher financial risk taking – which can explain why Albert III, Jane and Jonathan would choose to work at a firm which is downsizing even when they could go to other firms with higher salaries and with lower risk (Morgan & Gomez-Mejia, 2014).

Alternatively, students could also use the FIBER dimensions presented by Berrone, Cruz and Mejia to explain this issue by measuring each dimension of SEW using the proposed items from the study (Berrone, Cruz, & Gomez-Mejia, 2012). For Family Control and Influence (F), the student can mention that the company is entirely owned by family members. The dimension Identification of family members with the firm (I), can also be viewed when Albert III says “Now we want the chance to show them that we too can make the family proud by doing a good job and

taking the company name further than what as been done so far”. For the dimension Binding social ties (B), nothing is mentioned in the case therefore, nothing can be concluded from it. For the dimension Emotional attachment of family members (E), it can be presented by various parts from the case study such as Albert’s action of inviting all his children to join the business because he wanted to give the same opportunities to all or his thoughts in the dilemma section when he does not want to hurt his family’s feelings. Finally, the dimension Renewal of family bonds to the firm through dynastic succession (R), can also be seen both in the introduction when Albert reflects on how he meant to create a company that would be passed down from generation to generation and also on Albert III quote when he states that he always heard that the third generation was meant to keep the company.

**3. After reading Deconstructing Socioemotional Wealth from Miller and Le Breton-Miller, describe what type of behaviors you can identify in this case which could indicate either restricted or extended SEW priorities and how can they influence the company’s decisions?**

The student should first explain, based on the article Deconstructing Socioemotional Wealth, what is the difference between restricted and extended SEW priorities and how they influence the performance of a firm. Fundamentally, while Restricted SEW refers to priorities centered in the current wellbeing of the founding family and can at times go against the interests of nonfamily stakeholders and the firm in the long run; Extended SEW deals with priorities meant to benefit the firm, the family and all stakeholders in the long run (TN Appendix 2).

In this case, students should look at all the behaviors presented in the case by family members and explain which ones could suggest restricted or extended SEW priorities as shown below. After analyzing these priorities, students should conclude that Bermanne might not have a future if the family prioritizes Restricted SEW Priorities instead of Extended ones.

Quote from Case	Restricted or Extended SEW Priority
“He spent his entire life creating and building a company that was meant to be passed down to his children” – pg. 3	Extended SEW Priority – Mr. Albert shows with this thought that he his priority has always been to have a healthy firm in the long run.
“wanted to be able to give him the same chances he had given to his oldest sons” – pg. 6	Restricted SEW Priority – this thought from Mr. Albert might mean Thomas was not hired because he was the best fit for the job but because it was the best action for the family
“Hence, the 3 of them expect to have a place in the company once the 3 requirements are completed and haven’t thought about the possibility of not having a vacancy.” – pg. 11	Restricted SEW Priority – the fact that the third generation is waiting for a placement at the firm, even if it is not needed at the moment, can point to a restricted SEW Priority
“Albert knows that the firm is not supposed to be a job agency for the family and that his priorities should be the wellbeing of the firm and not the creation of jobs for his grandchildren but he finds himself struggling on how to explain this to his family.” – pg. 12	Can be seen as either Restricted or Extended depending on what Albert’s actions are going to be facing this dilemma.
“This fund had been created in order to encourage the next generation to pursue new entrepreneurial ideas for the current business (...) Could this be the answer Albert is looking for?” – pg. 12	Extended SEW since it would show reinvestment in the business.

**4. What are role conflicts and how are they present in this case? Name at least 3 ways for family members to better deal with these conflicts?**

Role Conflicts exist when people have more than one role at the same time, and the expectations from one role are incompatible with the ones from the other role (Memili, Chang, Kellermanns, & B., 2015). When it comes to Family firms, it becomes critical to know how to manage these

conflicts given the constant duality of roles performed by family members. Looking at the three-circle model (TN Appendix 3), it can be seen that in family firms one person can many times have the role of family member, owner and manager.

In this case, the student should take from the part “Even when it's business with you it's always personal”; the role conflict which Albert Jr. and Thomas are experiencing, a conflict between their role as a brother and their role in the firm, either as Chief of Production or as Sales Director. The student can also mention that sibling disputes are common conflicts in family firms, especially when there are different hierarchies playing in the different roles, for example when one of them is a subordinate to another (Levinson, 1971).

Moreover, the student should also identify the role conflict which Albert recognized in himself in which is role as a father and grandfather, of keeping his children safe and making the decisions he believes will benefit them the most, is getting on the way of his role as business partner and CEO, in which he should consult his children on business decisions since they are also his business partners (owning 40% of the business) and not hire his grandchildren unless there is room in the company for them.

Then the student should acknowledge that there are several ways to deal with these issues and specify 3 of them. This could be done, for example, by reviewing the “family code of conduct” (appendix 6) or creating a “sibling code of conduct”, which should be crafted by the family council and presented as a policy on commitment, values, expectations and communication (The Family Business Consulting Group). Another option would be to hold family meetings regularly (e.g. each month) for the discussion of such issues while also committing to spending family time outside of the office or possibly scheduling family retreats (Alderson, 2015). A third option would be the use

of Consultants, experts in conflict resolution, in situations where the conflict is escalating, to help the family dealing with that dispute (Alderson, 2015). Another solution could be restructuring the organization so that family members that often collide can avoid working so closely. Finally, a fifth solution could be the creation of formal locations where it can only be discussed personal or business related issues – in the office, it can only be discussed business related matters and at home only family related matters (Harland, 2015).

**5.1 Looking at the Family Protocol from 2005 and the third-generation desire to join the company, what could Albert change in it to prevent future conflicts? What is the importance of such document and why could it prevent conflicts between family members?**

The student should first define a family charter or family protocol as a non-legal binding document that emotionally binds family members to a joint governance of business, ownership, family and wealth (Zellweger, 2017). This document "can codify essential rules, responsibilities, and obligations relating to the ownership and management of the business, as well as set out the values that will guide family members' conduct in the broader community" (BCG, 2015). And even though it always addresses certain issues, it should be created differently in each situation.

In this particular case, it is important to change the requirements for entrance of family members in the firm in order to fully explain the possible involvement of the third generation in the firm and to modify expectations regarding the same, assuring this way a fair process for all (Carlock & Ward, 2001) -TN Appendix 4. Moreover, to make sure that no conflicts can arise from this document, members from all generations should be included in drafting it.

Then, the student should make recommendations on how to change this section based on the case and their own research. One first example could be, as said in the case, creating a venture fund for the third generation and a rule that states that in order to join the company, family members

must first create and manage a start-up using the venture fund (Appendix 7). This solution could both solve the current lack of positions at the company and present as a solution for the need to diversify. Another idea would be to increase the number of years required to work elsewhere before joining the family business or only accept family members after having been promoted at least once in the company they work for and having 2 years of experience in a management position. Moreover, the benefits of such action, such as the increase in credibility before company employees, gain of outside knowledge and the opportunity to explore different career paths (Klein, 2016) should be explained. A third solution, would be to announce in a family meeting that the firm is at full capacity and that from now on family members would be notified when an opening at the firm appears. Later, in the family protocol, it should be included in the Family Employment policy, that family members can only apply for positions when notified about the opening for such position. Furthermore, to each position available, family members will only be considered if they have the skills and knowledge necessary to that position.

Finally, the student can mention that by making harder rules for family employment, Albert faces the risk of the next generation losing interest all together in the business and not wanting to join the firm even at a later time (The Family Business Consulting Group).

## **5.2 What can be done to keep the third generation interested in the business even if they do not actively work in the company?**

Several measures can be taken in order to keep the family interested in the business. Firstly, next generations should be exposed and educated about the family business and family legacy formally through family meetings, internships and orientation programs, or education programs, or informally on visits to the business and storytelling by older generations.

Secondly, even when older, family not active in management should be invited to know more about how the business is doing. This can be done through an annual shareholders meeting/ family assembly where shareholders can ask questions about the business, followed, for example, by a quarterly newsletter sent to shareholders sharing achievements, challenges faced by the firm and overall performance. Moreover, active family members must also understand that non-active family members are a source of ideas and advisement since they have knowledge about the firm's history and family members' personalities. Therefore, it is advised that active family members share as much as they can with non-active members and listen to what they have to say (The Family Business Consulting Group). Finally, the entire family should understand the importance of justice and learn about resentment control, honesty and how to properly listen (The family Business Consulting Group).

### **What Actually Happened**

As of late 2019, the case is still not completely solved by the firm. At the moment, Albert has retired and his 3 sons are running the firm. The company focused on wood and permanently closed the ceramics and porcelain mosaics units. The third generation entrance to the firm was postponed until a later time but nothing was decided regarding when that should be, which lead to a disinterest by the third generation in working in the company. Therefore, the opposite dilemma which Albert faced (having more family members wanting to do with the business than what was needed), is now being faced by his children. The second generation is designing a succession plan but having trouble deciding who should lead the company since no member of the third generation is yet involved or tends to be involved in managing the company. A study will therefore be conducted regarding what should be done in the future, including the hypothesis of having a non-family CEO governing the company or even selling the company.

## Teaching Plan

The case study should be answered as a group homework and discussed during two separate classes. Before the first class students should read the case. In the first class, the professor should start by asking a student to introduce the case by mentioning the issue at stake and describing the family involved in the business. Then question 1 should be asked to set the start of a debate about the dilemma the protagonist finds himself in. Afterwards, a theoretical background should be presented to clarify basic concepts and definitions which have not been discussed before, namely the FIBER dimensions of SEW and Restricted and Extended SEW, and to resolve any remaining doubts students might have.

In between classes, students should prepare and answer questions 2 – 5 using the recommended readings, and hand it in writing to the instructor before the second class. During the second class, questions 2 - 4 should be discussed and the professor should give feedback on what should have been answered in each question. For question 5, each group should present their most original idea and why it would be the most effective, which should be followed by a class poll on what the best idea is. The winning team should earn, with this poll, 0,5 extra values on the grade of this assignment (on a grading system from 0 to 20). Finally, the instructor should summarize the lessons learned from the case and let the class know what happened to the firm.

<b>Part</b>	<b>When</b>	<b>What</b>	<b>Duration</b>	
1	Class 1	Case Introduction by a Volunteer	5 min	35 min
		Question 1 - raise of hands and discussion	15 min	
		Theoretical Background and launch of homework	15 min	
Homework		Answer Questions 2 - 5	2 hours	
2	Class 2	Discussion answers 2 - 4	15 min x 3 = 45 min	1h25
		Answer 5 + Voting	30 min	
		What really happened and lessons learned	10 min	



## Teaching Note Appendix

### Appendix 1 – Suggested Background Reading

The following list can be used both by the instructor and his students to prepare or deepen the contents taught in this case:

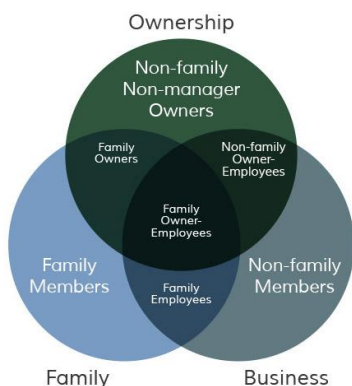
- Question 3 - (Miller & Briton-Miller, 2014) – Restricted vs. Extended SEW
- Question 4 - (Memili, Chang, Kellermanns, & B., 2015) – Role Conflicts
- Question 5 - (Zellweger, 2017) – Chapter 5 – Governance in the family business

### Appendix 2 – Difference between Restricted and Extended SEW

	Restricted SEW	Extended SEW
Typical SEW priorities	Permanent job security and access to business resources for all current family members	Long-term well-being of motivated later generations able and willing to nurture the firm
Focal stakeholders	Immediate family	The family over time, the business and all its stakeholders
Related theories	Agency and behavioral agency theory, family altruism	Stewardship theory, stakeholder theory, sustainability
Governance arrangements	Family dominated leadership and governance—regardless of capability	Competent, motivated family members only; balance between family and nonfamily executives and directors
Strategic outcomes	Strategic conservatism or stagnation, sparse investment in the business, risk aversion, family extraction of funds from business	Generous investment in products and processes; continuous reinvestment in the business and its renewal
Commercial outcomes	Inferior growth and longevity	Superior growth and longevity
SEW outcomes	Nepotism, entrenchment, family control of firm	Family pride in offerings and in relations with stakeholders and the community

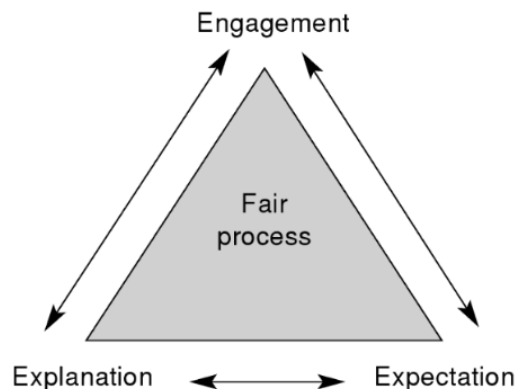
Retrieved from (Miller & Briton-Miller, 2014)

### Appendix 3 – The 3 Circle Model



Retrieved from (Cambridge Family Enterprise Press, 2018)

### Appendix 4 – The Elements of Fair Process



Retrieved from (Carlock & Ward, 2001)

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