**GRIDLOCK AT BAY GRAY, INC.**

**Teaching Note**

**Overview of the Incident**

The critical incident (CI) focused on a contentious July 6, 2012 meeting to break the gridlock concerning a 2011 company buyout decision. The Bay Gray, Inc. (BGI) founder retired almost two decades ago and awarded two of her three daughters equal ownership to run the small family firm. The middle daughter, Rebecca, became CEO based on her prior work experience and MBA and all three daughters worked in the firm at times. Family-business conflicts grew despite Rebecca’s eighteen years of attempts to resolve the conflicts in a lasting, effective manner. BGI revenue peaked in 2008 and decreased during the 2009-2011 recession, but the firm maintained operating profits. Rebecca hired a consultant to find a buyer for BGI and all owners verbally agreed with the buyout deal in 2011; but, her younger sister “backed out” of the deal leading to gridlock. Afterwards, the board of directors (BOD) developed six alternatives that would allow Rebecca and her older sister to exit in a manner that compensated all owners for their past efforts and provided continued employment for employees that wanted to stay. The BOD designed six alternatives to remove the owner’s buyout decision gridlock without additional legal fees and the alternatives became the sole agenda for the July 6, 2012 BOD meeting. This CI ended minutes prior to start of the July 6 meeting. An emotionally distraught Rebecca tried to write down one of the six alternatives she thought was best to escape the gridlock and not tarnish the BGI legacy.

**Research Methods**

This decision-based critical incident (CI) relied on field research such as pertinent data that was gathered from: 1) interviews with the CEO, 2) data provided by BGI at the request of author, 3) information from BGI records and 4) public domain sources in areas of family business, small business and entrepreneurship. The real location, firm name, employees, consultants and customers were disguised to protect the anonymity and competitive position of the small firm. The CEO required the CI to be disguised and she granted a publication release.

Classes best suited for this decision CI are upper division undergraduate and graduate level courses in family business, small business and entrepreneurship as well as classes with modules in conflict management and decision-making. The CI decision focus is the six alternatives developed by the BOD for July 6, 2012 and which alternative the CEO should select to meet the goals of all stakeholders and break the owner’s decision gridlock. Students are expected to ponder the role of family conflict and decision-making forces as they develop recommendations.

**Learning Objectives**

The student learning focus involves cognitive and skill growth to link pertinent concepts, models and theories in areas such as systems theory, decision-making, family business and conflict management. Appendix A of the TN is offered to display the key relationships between two learning objectives and three discussion questions with associated levels in Bloom’s Taxonomy (<http://www.officeport.com/edu/blooms.htm>). After reading the CI, student should be able to:

1. Analyze and recommend alternatives available to stakeholders when a small family business

is sold. (Q #1, Q #2)

2. Evaluate the role family-business conflict play in decision-making at small family firms like

BGI. (Q #3)

**Discussion Questions**

The specific questions are:

1. What viable alternatives existed, for the CEO (Rebecca Gray) in July 2012, to meet her

personal interests and the interests of other key company stakeholders?

2. Which alternative is the best to balance the interests of all stakeholders?

3. What role did the family conflict play in the decision to sell BGI?

**Relevant Theory and Literature**

While two minority (%) BGI owners created decision “gridlock” after a 2011 buyout decision by all owners; this is not a board governance or a quantitative, financial CI. A short list of pertinent theories and models that cover the main focus of family conflict and non-quantitative decision-making are proposed as background for addressing the learning objectives and three associated discussion questions. Planned behavior and decision matrix concepts from the OB literature together with stakeholder analysis and impact analysis from the strategic management literature are offered for discussion questions #1 and #2. Financial, social and human capital theories are intermixed in discussion questions #1 and #2 with stakeholder category impact analysis to create a practical, non-quantitative decision matrix (see TN, Table 1) for six BOD alternatives built around the family business behavior of key stakeholders in the CI. Stakeholder leadership and conflict style scores are available in the CI, Table 1; hence, research related to relationships between leadership, conflict management and teamwork are applied in discussion question #3. The traditional Sustainable Family Business (SFB) model is the usual starting point for analyzing family business dynamics and SFB is covered first in this application of teamwork and conflict management models (Stafford, Duncan, Danes, & Winter, 1999). Two-sided models such as SFB have been questioned in the literature as highly compartmentalized and lacking integration (Danes, Stafford, Haynes & Amarapurkar, 2009; Distelberg & Sorenson, 2009). Davis (1982) offers a model that contains more items (family members, employees and owners) yet, lacks integration. Poza and Daugherty (2013) indicate Systems Theory can be used to integrate three overlapping, interacting and interdependent management, family and ownership subsystems in a practical manner. Hence, a more complete and integrated Poza and Daugherty (2013) Systems Theory is used in discussion question #3 to further analyze and evaluate family business strife shown in the CI. The CI provides a context for examining discord between siblings, the personal and company goal-oriented intentions and interests of stakeholders as well as a description of their agency, transactional and self-serving behaviors. Thus, other behavioral theories related to family conflict in the literature such as Stewardship, Agency and Sibling Rivalry theories are tapped to support the multi-faceted family business conflict analysis in discussion question #3.

**Answers to Questions**

1. What viable alternatives existed, for the CEO (Rebecca Gray) in July 2012, to meet her

personal interests and the interests of other key company stakeholders?

**The Decision Process**

Since this is a CI rather than a multi-dimensional case, the decision focus is based on selection of one of the six alternatives presented in CI, Table 2 and the analysis is narrowed down to the decision “impact” and associated models. Insufficient financial and other pertinent data exist in this CI to perform meaningful quantitative financial or decision theory analysis. Courtney, Lovallo & Clarke (2013) indicate problems regarding decision-making that most managers face are not a lack of appropriate tools but matching the right tool to the situation. Family business and OB/Management literature indicate decision-making processes that are objective, transparent and participatory and address the risk factors involved in problems have a better chance of solving problems and acceptance (Handler, 1994; Osland, Kolb, Rubin & Turner, 2007). Sharma, Chrisman & Chua (2003) relied on this notion to craft the theory of planned behavior in the specific situation of succession planning in a family firm, noting the probability that a behavior will occur is dependent on the intention of an individual to engage in that behavior. This “planned behavior” concept was extended in this instance to cover buyout decision-making behavior of a small, family court reporting firm’s BOD as they developed six alternatives to break a buyout decision gridlock. Hence, the author’s sample response in TN, Table 1 is framed around six alternatives the firm’s BOD developed as a last ditched effort to sustain the legacy of BGI and achieve company and individual goals of low financial risk and low legal cost and high equity outcomes, job security and family harmony from the perspective of each stakeholder.

The sample decision matrix displayed in TN, Table 1 focuses on the impacts each alternative provided in the CI, Table 2 are likely to have on each internal BGI stakeholder and the overall firm. Since the CI did not indicate a priority for any alternative, the numerical sequence of the six alternatives displayed in TN, Table 1 is random. “Impact” can be measured in a number of different ways; thus, impact is categorized in this non-quantitative analysis based on standard categories such as financial, social and human capital and the implications to each internal constituent are discussed (Danes, et. al, 2009). The proxies used in the CI and author’s sample response for stakeholder intentions related to financial impact are cash, buyout income, job income, future employment prospects, tax consequences and legal costs. Specific examples for these financial proxies as they relate to each stakeholder and BGI are provided in the Company Background, Meetings and Focus Summary sections of the CI. Pennings, Lee & Van Witteloostuijn (1998) conducted a study concerning the effect of human and social capital on firm dissolution and concluded there was a strong relationship between these two categories and firm outcomes. These two measures of capital are infused in the author’s stakeholder impact analysis. Proxies related to stakeholder intentions for social capital are portrayed in the CI and TN, Table 1 as the BGI legacy, family and professional relationships and behavioral proxies for human capital are depicted as job knowledge related to job control, opportunity to leave the firm, continued involvement with BGI and the level of job duties and responsibilities. Alternatives #1, #3 and #4 are explored in more detail because they are more dissimilar in content and impact. Due to the small ownership percent (%), the positive financial impact of alternatives #2, #5 and #6 for Martha, Samantha and Kayla are small and not specifically mentioned in Table 1. These three alternatives are only slightly better for Rebecca than alternative #3 and unlikely that Kayla and Samantha would support them because less cash would be left in the company to use.

Alternative #1, “File suit against Samantha for Breach of Contract” is the same alternative as displayed in CI, Table 2. This action is likely to have different impacts for each stakeholder. On the surface, it appears the threat of legal action would force Samantha to comply with the 2011 buyout agreement. Yet, the CI suggests the impact on family members to alternative #1 is most likely based on family and reputation relationship intentions or behaviors that are usually included in the social capital category. At first, Martha, Rebecca and Jamie supported alternative #1 in the CI, but later alleged it would add to family discord and harm BGI legacy and behaved as if they did not support alternative #1. It is unlikely that Samantha, Kayla and Gail would support alternative #1 because it is in direct opposition to their self-interests rooted in basic human capital intentions. Since Gail has only an employee role, she would not be party to a breach of contract suit based on firm ownership. BGI impact has little to do with relationship intentions and more to do with added legal fees related to a breach of contract suit and the cost and inconvenience with replacing Samantha in the firm. Thus, intentions would most likely lie in the financial and human capital areas and TN, Table 1 lists these major BGI impacts as “Replacement of Samantha (human capital) and up-front legal costs (financial capital).” The CI Background and Meetings sections describe proxies such as family relationships as the main source of conflict and suggest over emphasis on social capital helped to create the gridlock.

Alternative #3, “Buy the terminated stock of Jamie and Rebecca” invoke financial and human capital interests and intentions for most stakeholders. A clear-cut financial decision by the BOD (Rebecca, Jamie and Martha) would result in the buyout agreed to in 2011 and others would have to “live with” the decision. Jamie’s intentions and behavior are portrayed in the CI as strictly financial and she no longer works in the firm and is uninterested in returning. The Company Background and Meetings section of the CI reveals remaining stock owners; Rebecca, Samantha, Martha and Kayla have mixed intentions and behavior surrounding alternative #3 that fit into all three capital categories. Proxies for Rebecca’s intentions are income over time (financial) and opportunity to exit on her own terms (human). Samantha’s intentions are described in the CI as ownership (financial) and continued job control and employment (human). Proxies for Martha’s intentions are described as some small income based on her small 1% ownership (financial) but more importantly her interest in legacy (social). Gail is not a stockholder and would be minimally impacted by stock transaction but her primary interest in alternative #3 is related to impact of the stock transactions on her guaranteed future employment (human). Thus, the overall impact on BGI fits into all three capital categories, financial, social and human.

Alternative #4, “Replace Rebecca with Part-time Financial Mgr. and promote Kayla to VP Operations” has more human capital impact than the financial. Since Jamie is no longer employed at BGI, her motives are financial but alternative #4 would result in less cash available for payouts to others than to Rebecca. Jamie and Rebecca would receive less cash income in the short run but Rebecca loses her CEO salary and gains freedom from job duties and the conflicts mentioned in the CI. Family continuity gained in alternative #4 allows Martha to retain focus on BGI legacy that is important to her. Proxies related to job control and continued employment are shown in the CI as important to Samantha, Kayla and Gail. BGI gains short term focus on financial capital but less emphasis on the strategic issues Rebecca emphasized as CEO.

Table 1. Stakeholder Impact Analysis of BGI July 2012 Decision Alternatives

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Name | Alternative #1 | Alternative #2 | Alternative #3 | Alternative #4 | Alternative #5 | Alternative #6 |
| Company Action | File suit against Samantha for Breach of Contract | Sell BGI to the Company that made previous offer | Buy terminated stock of Jamie and Rebecca | Replace Rebecca with Part-time Financial Mgr. and promote Kayla to VP Operations | Pay cash settlement to Rebecca who retires but retains BGI stock and BOD membership | Purchase all of Rebecca’s stock and she retires |
| Stakeholder Impact |  |  |  |  |  |  |
| Rebecca | -Harm future relationship with Samantha | -More immediate buyout income  - Accelerate CEO exit opportunity | -Receive income over time  - Accelerate CEO exit opportunity | -Receive less 2012 CEO salary  -Receive income over time  - Accelerate CEO exit opportunity | -Receive income over time  - Accelerate CEO exit opportunity  -Continued BGI involvement | -Receive income over time  - Accelerate CEO exit opportunity |
| Jamie | -Harm future relationship with Samantha | -More immediate buyout income | -Receive income over time | -Receive small, uncertain future income because less cash for owners other than Rebecca | -Receive small, uncertain future income because less cash for owners other than Rebecca | - Receive small, uncertain future income because less cash for owners other than Rebecca |
| Samantha | -Harm future family relationships  -Loss of job  -Potential legal costs | -Loss of job control  -Smaller immediate buyout income  -Less job income  -Uncertain job future | -Ownership % increase  -Increased Mgt. control and duties  -Guaranteed BGI employment | -Increased duties but slower Mgt. control  -Guaranteed BGI employment | -Potential harm future family relationships  -Increased duties but slower Mgt. control, income  -Guaranteed BGI employment | -Smaller immediate buyout income  -Increased Mgt. control and duties  -Guaranteed BGI employment |
| Martha | -Harm future family legacy and relationships | -1% stock = Negligible immediate buyout income  -Loss of BGI legacy | -Receive income over time  -Retain BGI legacy | -Receive small uncertain income over time  -Retain BGI legacy  -Uncertainty due to temporary fix | Receive small, uncertain income over time  -Retain BGI legacy  -Maintain hope of family harmony | Receive small, uncertain income over time  -Retain BGI legacy  -Maintain smaller hope of family harmony |
| Kayla | - Increase in job duties | -Loss of job control  -Smaller immediate buyout income  -Less job income  -Uncertain job future | -Ownership % increase  -Increased Mgt. control and duties  -Guaranteed BGI employment | -Increased VP duties but slower Mgt. control  -Guaranteed BGI employment | -Receive income over time  -Increased duties but slower Mgt. control  -Guaranteed BGI employment | -Smaller immediate buyout income  -Increased Mgt. control and duties  -Guaranteed BGI employment |
| Gail | - None | - Loss of job due to duplication with new firm | -Guaranteed BGI employment but no financial loss | -Expanded job duties  -Guaranteed BGI employment but no financial loss | -Expanded job duties  -Guaranteed BGI employment but no financial loss | -Expanded job duties  - Guaranteed BGI employment but no financial loss  - Uncertain future |
| BGI  Company | -Replacement of Samantha  -Up-front legal expenses | - Legacy decreases because BGI ceases to exist  -Transition activity  -Tax concerns | -Original buy/sell deal accepted  -More Income infusion  -Clear strategic Mgt. direction | -Increased cost of financial Mgt.  - No focus on strategic Mgt. direction | - No focus on strategic Mgt. direction  -Reduced cash for other owners | - No focus on strategic Mgt. direction  -Reduced cash for other owners but slower than alternative # 5 |

Source: Company Documents and CEO Interviews

All students should recognize the decision focus is based on the six alternatives in the CI. The average student should recognize a lack of quantitative data exists in the CI and move their analysis toward less quantitative approaches such as the category impact analysis displayed in TN, Table 1. Additionally, these same students should recognize that each stakeholder is likely to have different goals and different outcomes for each alternative. For example, “Impact” can be viewed in many different ways (see TN, Table 2) and above-average students may develop novel recommendations using categories or proxies that were not included in the author’s sample response in TN, Table 1.

Table 2. Impact Categories

|  |  |
| --- | --- |
| 1. Short –run financial | 6. Increased job responsibility |
| 2. Long-run financial | 7. Increased work-life imbalance |
| 3. Loss of employment | 8. Increased individual uncertainty about the future |
| 4. Legal cost | 9. Increased dysfunctional conflict |
| 5. Loss of job control | 10. Decreased strategic focus |

Source: CEO Interviews

The CI did not indicate whether BOD decisions were based on individual decisions to determine a BOD majority or some other method. The myriad of group self-interests such as majority and minority owners, family and non-family owners, mother versus siblings raises the question whether group or block voting was involved in BOD decisions. Thus, group processes such as brainstorming or nominal group technique should be considered. Each group method would add complexity to the six alternatives and yield multiple impacts beyond the scope of this question.

Rebecca has a MBA and business experience as a manager and is the most likely internal stakeholder with the background to develop a more sophisticated and complex quantitative decision analysis. If the company was larger and more dollars were at stake, it might have motivated Rebecca to use more complex decision analysis or hire an outside consultant for the BGI dissolution decision. However, an “A” student might point out the advantages of more complex analysis and use one or more of the more approaches listed in Appendix B.

2. Which alternative is the best to balance the interests of all stakeholders?

TN, Table 1 provides the impact of the six BOD alternatives and the major factors in the decision criterion. The decision criterion mentioned previously are company and individual goals of low financial risk and low legal cost and high equity outcomes, job security and family harmony from the perspective of each stakeholder. Hence, the criterion with lowest negative impact on stakeholder goals in terms of conflict resolution would most likely lead to ease of implementation and determine the best decision-making criterion. These two factors are closely related to conflict resolution and are discussed for each alternative to arrive at the best selection. As mentioned later in discussion question #3, Thomas (1977) contended that each one of the five conflict management styles based on his Thomas-Kilmann Conflict Mode model has advantages and disadvantages. All six BOD alternatives are compared using this conflict management model and impacts gleaned from discussion question #1. Alternative #1 is the most conflict oriented and potentially costly in financial, human and social terms. Alternative #2 is another “in your face” conflict oriented choice without the threat of legal action. Alternatives #5 and #6 perhaps lessens the conflict with Samantha and Kayla because they maintain employment and some level of job control but the payouts to Rebecca and Jamie are less and there is no threat of legal action. Alternative #3 appears to be more consistent with the “consensus” form of conflict resolution and alternative #4 appears to be the best “compromise” alternative. Alternatives #4 results in each stakeholder achieving part of their goals and the low risk involved in alternative #4 for all stakeholders gives it a good chance for implementation. Alternative #3, CI, Table 2 includes similar content as the rejected buyout agreement by Samantha and Kayla without sizable financial outcomes for stakeholders other than Rebecca and Jamie. While alternative #3 achieves the goals of the company and corporate officers, Rebecca, Jamie and Martha, the job control and employment interests of Samantha and Kayla need to be protected and management guidance is needed.

Although the CI decision focus is the six BOD alternatives, above average performing students are likely to consider other alternatives and models. The best decision could easily change should the number of alternatives widen or the decision method or criteria change. For example, (Thomas, 1977; Osland, et.al, 2007) suggests that “all things being equal” consensus is usually better than compromise, but it could be argued that compromise is a better choice than consensus in this instance and alternative #4 is a better choice than alternative #3 when family outcomes is the focus (Sorenson, 1999). Moreover, it could be argued conflict resolution is not the best proxy for measuring impact. The Sharma, et.al, (2003) Planned Behavior theory suggests it is unlikely alternative #3 would be implemented in the absence of Rebecca, Jamie or Martha playing a “behind the scenes” surrogate role in BGI. Additional models and decision alternatives beyond the intended scope of this question are discussed in TN, Appendix B.

3. What role did the family conflict play in the decision to sell BGI?

Since the OB/Management literature points out internal factors are more likely to determine firm success than external factors, internal factors became the focus. Family business models that involve internal factors such as leadership and conflict management were explored to link to BGI assessment data on these factors (McGahan, 1999; McGahan & Porter, 2005). The family business literature covers a number of research studies and models that address family business boundary issues. These studies (Stafford, et. al, 1999; Sorenson, 2000; Zody, Sprenkle, MacDermid & Schrank, 2006; Distelberg, 2011; Poza & Daugherty, 2013) indicate that managing any business can be a challenge, but managing a family business can be especially challenging because family sensitivities bring extra levels of complexity to the decision-making of managers in these firms. Some general family business and specific BGI challenges are:

1. Family firms are particularly vulnerable to family conflict. There are multiple sources of potential conflict that can damage a family business. The CI demonstrated challenges related to sibling rivalry and other family relationship dynamics related to CEO stewardship contributed to escalating family discord and impacted BGI business decisions such as the buyout.

2. Family firms have historically had the reputation of rewarding family members regardless of skill and merit. The BGI critical incident shows that several family members have profited from pay and work practices beyond that of traditional employees and this might have shaped their future expectations concerning outcomes from the buyout decision and management of the firm.

3. Family firms often have conflict between generations. This implies family relationships have a long term orientation, which can be an ingredient for success and failure of the firm. Few family firms continue in tact beyond the second generation (Handler, 1994; Marshall, 2001). The CI shows founder, Martha Gray, has a stronger emphasis on stewardship, family harmony and the BGI legacy than her daughters. Conflict between family members in different generations with different goals, defection of experienced management and overhang of the recession shown in the CI suggests that BGI in its present form most likely will not survive the second generation.

Research support for the notion that success of family enterprises is closely linked to managing the interactions and overlaps between business and family relationships encouraged the author to apply this concept to BGI (Distelberg, 2011; Sorenson, 2000; Stafford, et.al., 1999; Zody, et.al., 2006; Osland, et.al, 2007; Poza & Daugherty, 2013). The CI Introduction and Appendix A indicate the CEO at BGI, Rebecca, tried many approaches that failed to reduce rising family business conflict. The traditional Sustainable Family Business Model (SFB) and more integrated Systems Theory are examined to provide a basis for detailed analysis of the links between conflict management, teamwork and several BGI stakeholder views of the six alternatives discussed in question #1 and question #2.

**The Sustainable Family Business (SFB) Model**

The family business boundary factors contribute more to internal issues for family firms than other types of firms (Distelberg, 2011; Sorenson, 2000; Stafford, et.al., 1999; Zody, et.al., 2006; Osland, et.al, 2007; Poza & Daugherty, 2013). Conflicts exist in most organizations but there is usually a “spill-over” effect of conflict in family firms that tend to exaggerate conflicts when the business and family overlap is not well-managed (Stafford, et.al., 1999). Stafford, et. al. (1999) developed the idea in their popular Sustainable Family Business Model (SFB) that takes into account both the external and internal forces that impact a family firm and helps to manage complexities within the specific context of a family firm. Stafford, et.al. (1999) denote the business side is important for survival and the family side is equally important for maintaining relationships that enable business success. For example, Stafford et.al. (1999) mentions that family members who lack interest, skill or experience to perform required tasks for a family firm are “protected” with continual employment, salary or benefits that is not made available in non-family firms. Stafford, et. al., (1999) indicate the successful management of this business family boundary is also related to leadership and profitability. Previously cited studies differ in terms of methodology and strength of conclusions; but, they agree on the importance of family firms to balance the interests denoted by family and business relationships (Distelberg, 2011; Sorenson, 2000; Stafford, et.al., 1999; Zody, et.al., 2006). The CI describes (see CI, Appendix A) a situation where Jamie was “carried” by the firm without appropriate leadership skill or interest and the less than adequate leadership skills of family member Samantha and non-family member Kayla were tolerated. Several instances were described in the CI where Gray family conflicts spilled over into business decision-making and threatened the continuity of the current CEO and sustainability of the firm. The CI suggests that escalating conflicts appear to be deeply rooted in past family relationships. Therefore, past Gray family conflicts need to be analyzed as part of the 2011 buyout decision and the research based SFB model was included in assessing the “survival” and “relationship “impacts on the six BOD decision alternatives (see TN, Table 1).

**Teamwork**

Lane (1989) indicates that effective organizational development (OD) consultants combine applied psychology with principles of sound business management to help families learn to make good business decisions and maintain positive family relationships. CI, Appendix A reflects that as early as 2006, Rebecca knew the escalating conflict was getting out of hand and she arranged for all BGI employees and owners to engage in team building sessions. An external OD consultant provided team building sessions and gathered both leadership and conflict style assessments data as part of the BGI training. Rebecca’s recollection of each stakeholder’s leadership and conflict management style scores is listed in CI, Table 1. Some possible sources of conflict were revealed in the OD sessions and were indicated in the Company Background section of the critical incident. The CI, Appendix A indicated the teambuilding sessions abruptly ended in 2007 and recommendations that were made based on the leadership and conflict style data as well as work structure were rejected. Thus, the OD intervention did not result in helping the Gray family to effectively manage family business conflict or improve decision-making.

Additional analysis of the Gray family business conflict can be made based on Stewardship, Sibling Rivalry and Agency theories mentioned in the Relevant Theory and Literature section. Davis, Schoorman, & Donaldson (1997) indicate that traditional “Stewardship” theory takes the view that managers are motivated by organizational goals and cooperative behaviors rather than by self-serving goals. Family firm owners may assume the role of stewards for reasons that create a bond of trust, goodwill, psychological ownership and other sources of social capital (Eddleston & Kellermanns, 2007; Poza & Daugherty, 2013). Hence, the intermingling of personal and family resources to help BGI by Martha and Rebecca was mentioned in the CI and their intentions could be easily explained with Stewardship Theory. Martha, the BGI founder, clearly played the role of steward in BGI as she built the company. She also continued to view her role as a steward in the court reporting community because she maintains close ties to others in the industry. Rebecca appears to view her role not only as CEO but as a steward of the family; the firm and the community and other’s display of self-interest may have increased her level of disappointment and contributed to the family conflict. Since the CI mentions these efforts by Martha and Rebecca were not always positively perceived by others, stewardship efforts ceased to help reduce family business conflict. Perhaps the fact that office space used by BGI was owned by Rebecca as mentioned in CI, Appendix A, fueled thoughts in others that Rebecca’s intentions were more transactional and self-serving than based on stewardship. The sister’s views of each other as expressed in the CI appear to be deeply rooted in birth order expectations and the perceptions of some siblings that Martha showed family favoritism in the past. These views could be explained through Sibling Rivalry theory. A traditional view of sibling rivalry is family birth order and business expectations. Often the oldest family member is expected to take over the business but the CEO at BGI was the middle-daughter. When birth order expectations are combined with parental helping duties while growing up, it often causes resentment between siblings that is played out in the business setting. Possibly Jamie’s entitlement views expressed in the heated discussion with her mother moments prior to the July 6 BOD meeting are related to birth order and her mother’s expectations. Birley (2002) recognized that children coming from the same family often have directly opposing views about entering the family firm and they may change their minds about entering the family business at a later time in their lives. This may partially explain the basis for conflict between Jamie, Rebecca, Samantha and her mother. Perhaps it was too much to expect an OD consultation to unravel the deeply rooted layers of conflict between family members in a few teambuilding sessions. Agency theory could be used to explain the focus of non-family members and Samantha on job control issues (Eisenhardt, 1989; Habbershon, 2006; Poza & Daugherty, 2013). Agency relationships are usually transactional and based on your “role” or what you can “get out of a situation.” Decisions by BOD members are expected to be agency based in terms of their interests (Eisenhardt, 1989; Habbershon, 2006; Poza & Daugherty, 2013). Work-life balance was an attractive BGI job benefit for employees and was agency-based but over reliance on it benefit to the exclusion of shared leadership and effective decision-making most likely added to conflict.

**Application of Conflict Assessment Data**

As earlier mentioned, conflict is one of the primary internal issues in family firms (Distelberg, 2011; Sorenson, 2000; Stafford, et.al., 1999; Zody, et.al., 2006; Poza & Daugherty, 2013). Numerous research studies have used the taxonomy of five conflict handling modes identified by Thomas based on “assertiveness” and “cooperativeness” dimensions and indicated positive and negative consequences are usually associated with each mode or style (Thomas, 1977; Osland, et.al., 2007). As mentioned in discussion question # 2, Thomas (1977) contended that each one of the five conflict management styles based on his Thomas-Kilmann Conflict Mode model has advantages and disadvantages. Specifically, conflict management studies have indicated each of the five styles can be effective in certain situations but all things being considered, the collaboration or consensus style is most effective because of the positive relationship to outcomes such as satisfaction, self-esteem, trust, respect and affection (Thomas, 1977; Sorenson, 1999; Osland, et.al., 2007). Competition is negative for both family and the business, collaboration contributes to positive outcomes for family and business but the compromise and accommodation styles contribute only to positive family outcomes (Sorenson, 1999). In this circumstance, the style scores in the CI, Table 1, suggest it is unlikely that consensus or collaboration can be achieved or would be implemented by the surviving managers, Samantha and Kayla. Thomas (1977) indicated competing and avoiding styles were inconsistent with leadership and effective teamwork in normal situations. The Sorenson (1999) study of fifty-nine family businesses concluded that collaboration, accommodation and compromise conflict resolution strategies produced more positive family and business outcomes than competing (forcing) and avoiding strategies and this notion was applied to the style assessment data in the CI. The style scores in CI, Table 1 suggest that in general Jamie and Samantha’s conflict resolution styles did not contribute to teamwork or reduction in family-business conflict. The Sorenson (1999) study suggests that Rebecca, Martha, Kayla and Gail had conflict resolution scores that were more consistent with teamwork and conflict management. Therefore, all other things being equal, these four aforementioned individuals have the best chance to effectively manage future conflicts at BGI. The impact of conflict was used as one criterion for selecting the best alternative in discussion question #2. Each one of the six decision alternatives involves potential conflict and Rebecca has the most effective style. Yet, when a decision alternative does not involve Rebecca for implementation, Martha, Kayla and Gail have the better conflict resolution styles. If Martha wants to get more involved with BGI, she would be the best of the three to resolve conflicts. However, if Martha remains relatively uninvolved, Kayla has a similar conflict resolution style as Martha and when compared to Gail, she has the advantage of being a stockholder with some limited management experience. Leadership is crucial if one of the experienced managers such as Martha and Rebecca leaves and effective conflict management is one important aspect of leadership (Handler, 1994; Sorenson, 2000; Marshall, 2001; Zody, et. al, 2006; Poza & Daugherty, 2013). A mix of conflict styles, demonstrated leadership at BGI and application of Agency theory should make Kayla the best internal choice to succeed Rebecca except for the fact she is not a family member and she owns less stock than Samantha or Jamie. This raises a crucial question concerning the overlap of management and ownership roles in family business conflict. Most family business authors stress the two roles should be delicately managed in family firms and some use Systems Theory to support the belief (Habbershon, Williams & MacMillan, 2003; Distelberg & Sorenson, 2009; Poza & Daugherty, 2013).

**Systems Theory**

The Relevant Theory and Literature section points out limitations of the Stafford, et.al. (1999) two component Sustainable Family Business (SFB) model, the Davis (1982) three component model and merits of the more complete and integrated Poza & Daugherty (2013) Systems model. The SFB family component could be deemed a subsystem and the business component could be split into two subsystems (management and ownership) to form a three subsystem model. The Davis (1982) three-circle family model (members, employees and owners) generates six vital relationships in a family firm but a truly integrated system would yield more relationships. Often the goals or interests of the stakeholders integrate their relationships. For example, management and owner subsystems often overlap but owners are traditionally more interested in the growth in stock value and return on invested capital while managers are more interested in leadership, operations and competitiveness in the firm and their own compensation and careers (Poza & Daugherty, 2013). It can be gleaned from discussion of the Stakeholder Decision Matrix in TN, Table 1, these three interests or subsystems can be complementary or in conflict.

Several authors indicate that Systems Theory represents a theoretical approach that is used in the scholarly study of family businesses today (Habbershon, et.al., 2003; Poza & Daugherty, 2013). Poza & Daugherty (2013) articulate a more integrated approach and the model is comprised of three overlapping, interacting, and interdependent subsystems (family, management and owners). Each internal subsystem maintains boundaries that separate it from other subsystems as well as the external environment where the family firm operates. In order for the family firm to operate in an optimal manner, each subsystem must be integrated so that the entire system functions in a synergistic manner. Systems Theory proposes that if management decides to “do nothing” there is a natural progression toward entropy or system disorder. Similarly, Poza & Daugherty (2013) contend that all three subsystems (family, management and ownership) have to increase their internal capabilities in order to successfully cope with change or the family business will move toward excessive conflict and dysfunction. We contend change will naturally result from the external business cycle and industry and internal factors such as leadership, teamwork, conflict, management and ownership mentioned in the CI. System Theory usage for new generations joining the business with different work styles, ownership and management interests in key stages such as growth and decline has different impacts. With each new generation, differences on issues, priorities and problems can be greater among different members of the family firm and ultimately lead to dysfunctional conflict. The extent to which a family effectively manages differences in goals, styles and opinions is an important part of the Systems Theory model. Thus, the ongoing stewardship and success of the family firm is dependent on family harmony and the systems framework is a good way to integrate important factors and reduce the gridlock at BGI. For example, should the BOD decide to choose the best alternative #3 in discussion question #2, the resulting higher percentage of ownership by Samantha and Kayla together may be enough clout to reduce the current conflict because they could now out vote previous BOD members as their percentage ownership declines in the future.

Theories and models that were not mentioned in discussion question #3 such as advisory boards, sibling teams and other conflict management models might arise in the class discussion and “tested” for suitability for the BGI circumstances. For instance, a neutral person approach that might help reduce BOD, ownership and family conflict is an outside advisory board. If the outside board is “advisory only” it would most likely be less effective in making change because the outside proposals could be ignored. On the other hand, outsiders with voting rights on the BOD could nudge all parties toward consensus and the best alternative. The act of “giving up power” could be perceived as an act “of good faith and fair dealing” by the majority owners and a peace offering in the form of “power sharing” to the minority owners. But, a practical thought for anyone that proposes these approaches is, who would want to join such a financially stagnant, small family firm that has growing conflict based more on emotion than interests? One student response might be use of sibling teams or committees for family firms such as BGI with sibling mistrust issues. As a counter argument, an “above average” student should introduce “timing” or the organizational life cycle issue and failure of the past OD intervention. A sibling committee might have worked earlier in BGI’s team development stage but due to mistrust, diverging personal and business goals and escalating family conflict, it is not likely to be an effective approach at BGI in July 2012. Other conflict management models exist that are not limited to the five styles and assumptions of independence in styles inherent in the Thomas-Kilmann Conflict Mode model could be explored (Thomas, 1977; Sorenson, 1999; Osland, et.al., 2007).

**General Discussion and Additional Issues**

Many management, small business and entrepreneurship textbooks include chapters on family business that cover the main issues these businesses face. Additionally, there are a number of textbooks, practitioner books and guidebooks that devote the entire book to challenges related to managing a family business (Leach & Bogod, 1999; Kenyon-Rouvinez & Ward, 2004; Alderson, 2011). Poza & Daugherty (2013) is a recent, scholarly-focused textbook that covers a wide range of topics on family business management including many of the concepts utilized in this TN. In graduate classes or classes with greater than ninety minutes devoted to the critical incident, the instructor might decide to assign material from one or more of these textbooks as background readings on the relevant topics of family business management prior to assigning the critical incident and discussion questions.

Although this CI has not been thoroughly class tested, a similar family business CI has been successfully used by the author in classes of less than ninety minutes without a prior reading assignment (see TN, Appendix B). If a class has a decision-making module, student teams could be asked to defend each BOD alternative or their own alternative in terms of additional financial, social and human capital proxies that were not presented in the CI. Likewise, students could be asked to speculate regarding what happens after July 6, 2012 and the instructor can share the following Epilogue. TN, Appendix B offers additional alternatives and decision-making models.

**Epilogue**

Rebecca had the formal education, work style and prior work experiences that would support development of more complex qualitative and quantitative decision-making models. However, the emotional weight of her eighteen years at BGI, failure to get closure on the buy/sell agreement that was based on her financial analysis and the small size of the company moved Rebecca in a different direction. She developed a non-quantitative decision matrix similar to the one provided by the author in TN, Table 1. But in the end, Rebecca did not create an objective, quantitative decision based on the six alternatives in the July 6, 2012 BOD agenda or use the non-quantitative decision matrix she developed. The last family conflict that Rebecca overheard between her mother and older sister, Jamie, prior to start of the July 6, 2012 BOD meeting was too much for her to handle. Rebecca decided not to attend the BOD meeting and immediately resigned from the firm. She quickly wrote out a resignation and handed it to her mother as she left the house. The informal resignation letter included giving her mother a proxy to vote her 35 percent ownership at any future BOD meetings and she did not ask for any BGI severance compensation. Samantha, Kayla and Gail have been running the firm and Rebecca indicated that she has had no contact with her sisters since July 6, 2012. At her request, Rebecca did not take part in any BGI board activities for the balance of 2012 and the only contact she had with the firm was through occasional social contact with her mother. Rebecca was surprised that she received $1000/month through the mail for the remaining six months of 2012, received an end of year company financial summary and the required 2012 business and personal income tax forms. Since her resignation, Rebecca has not received any company benefits such as health care coverage on the company plan. After six months of the family members’ inability to reach an amicable agreement, Martha attempted to resolve the “gridlock” by taking back all the stock in the firm. She asked Rebecca to help her draft an agreement without the involvement of lawyers to accomplish this goal. In February 2013, Rebecca and Martha drafted a letter to all BGI stock owners requesting that 100 percent of company stock immediately revert back to Martha. Most BGI owners signed the new agreement within a few weeks; however, Jamie was the last owner to sign the agreement in June 2013. Martha is now in her eighties and has little interest in running the firm she founded, Kayla and Samantha are running the firm as caretakers and both Jamie and Rebecca are adamant they have no desire to return to the firm.

**Appendix A**

**Learning Objectives**

Table 3 displays two learning objectives developed to cover the breadth and complexity of the key issues in this critical incident and they are associated with the appropriate cognitive levels in Bloom’s Taxonomy and the two discussion questions (Naumes & Naumes, 2006). Instructors can change the sequence of discussion questions to meet their individual teaching plans, as well as adjust the questions to different learning levels and learning styles confronted in each classroom situation.

Table 3. Learning Objectives and Associated Discussion Questions

|  |  |  |
| --- | --- | --- |
| Learning Objectives | Associated Discussion Questions | Associated  Cognitive Taxonomy |
| 1. Analyze and recommend alternatives available to stakeholders when a small family business is sold. | Q# 1.What viable alternatives existed, for the CEO (Rebecca Gray) in July 2012, to meet her personal interests and the interests of key company stakeholders?  Q# 2. Which alternative is the best to balance the interests of all stakeholders? | Level # 6, Evaluation, Level # 5, Synthesis Level # 4, Analysis |
| 2. Evaluate the role family-business conflict play in decision-making at small family firms like BGI. | Q# 3. What role did the family conflict play in the decision to sell BGI? | Level # 6, Evaluation, Level # 5, Synthesis Level # 4, Analysis |

Source: Model Retrieved from: <http://www.officeport.com/edu/blooms.htm>.

Appendix B

**Additional Teaching Approaches**

As previously stated, this CI has not been completely class-tested and additional student and instructor perspectives might be anticipated from a content and process standpoint. Therefore, a few of these potential perspectives are offered.

**Content.** Additional content areas were not explored in this TN because critical incidents are highly focused and insufficient supporting data was available. As pointed out in discussion question #1, more than six viable business alternatives may exist for BGI stakeholders. If students are encouraged to develop and select alternatives beyond the six created by the BOD, four traditional business alternatives are likely to be proposed by students:

1. Do nothing

2. Look for an additional buyer

3. Downsize the company

4. Reorganize the firm in a financial manner

Gail is not considered in any of the following alternatives because she is a part-time employee and non-owner. “Do nothing” is a traditional decision theory alternative that suggests issues and challenges might simply; “go away” over time. This alternative is not the same lack of knowledge or neglect; it is a conscious choice to avoid decision-maker intervention. It often happens because outside and inside forces cease to exist, the status quo become tolerable to stakeholders or other forces cause them to adapt without intervention by decision-makers. Protagonists in the CI appear to be gripped in a downward spiral of family business conflict the CEO failed to alter with shared leadership and other management methods and trained OD specialists could not interrupt. Hence, the gridlock is likely to get worse and not better without positive BOD action. It is interesting to note, this “Do nothing” approach is consistent with the concept of “Negative Entropy” introduced in the discussion of Systems Theory where systems move toward dysfunction when left alone. The second traditional business alternative, “Look for an additional buyer” is similar to alternative #2 proposed by the BOD. A positive factor is the new buyer should not be tainted by the vestiges of reservations and relationships that minority owners; Samantha and Kayla, associate with the original buyer. This alternative has a chance to satisfy all stakeholders; if, this new buyer views Samantha and Kayla as competent to run the firm in the absence of Rebecca, the new owners do not want to get involved with day-to-day operations of the firm, they allow Samantha and Kayla to exercise their desired level of job control described in the CI and the financial deal is competitive. The third traditional alternative, “Downsize the company” is popular in businesses today. This alternative is similar to alternative #4 but it is different in that it allows the BOD to eliminate the gridlock by eliminating the employment of Samantha and Kayla. Likewise, this could be viewed as a straightforward employment issue that company management has a right to decide. There could be some marginal employment law or board governance issues connected to this approach; but if the BOD does not breach a contract with the buyer or fail to follow the provision of the deal with stakeholders, the layoffs should go smoothly. Since Samantha and Kayla are minority stockholders in BGI they could be simply outvoted by the other stockholders. This option would most likely not be implemented for several reasons. The SFB model previously suggested family firms use employment as a safety net for family members in extremely negative situations (Stafford, et.al., 1999). From a practical perspective, unless Rebecca agreed to stay in a transition period, the institutional memory and industry experience of all BGI stakeholders would be lost. Moreover, downsizing the company by eliminating the jobs of Samantha and Kayla would destroy the legacy Martha desperately wants to maintain and would most likely increase the family conflict beyond dysfunction. The fourth traditional alternative, “Reorganize the firm in a financial manner” is different from the third alternative in another manner. This alternative does not preclude downsizing but there might be other methods to reduce the cost structure of BGI and make it more efficient than simply reducing jobs. For instance, management could consider reducing the salaries currently paid to court reporters, it could hire less experienced and less expensive court reporters, it could reduce the hours and benefits of the current office staff, it could reduce operations through lower rent and less expensive office equipment, it could increase the price charged to clients and management attempt to increase the number of clients. Of course, there are combinations of these management and accounting methods to consider that are beyond the intent and scope of this discussion. A buyer of BGI is most likely to implement some of these measures to reduce the cost structure and increase profitability but the current ownership is unlikely to implement any of these measures. After all, the CI hints that Martha founded the company based on employee-friendly employment practices and one attractive aspect of working at BGI was the employee job control and hours as well as positive relationship with court reporting contractors and clients. A skeptic might view all four alternatives to be doomed for failure because the gridlock is rooted in unresolved family relationships and not the fairness of any business deal.

Non-quantitative versions of two “decision quality” models could be proposed and linked to leadership and conflict management styles. Osland, et.al. (2007) indicates the Time-Driven Model is a short term focused, non-quantitative decision method. This model is also constructed as a matrix based on seven questions that decision-makers answer in a sequential order and tracing the answers through the model’s decision matrix, which operates like a funnel (Osland et al., 2007). The process starts with a specific situation/problem in mind and the decision-makers answer the questions as either high or low and continue answering each relevant question until eventually he/she arrives at the recommended decision-making processes and leadership style. Osland, et.al (2007) propose the Developmental-Driven Model has a long term version of the Time-Driven Model that can be linked to maximum developmental consequences and leadership style. A plethora of research studies exist that explores the effects of gender related issues in family business (Cole, 1997). Since all the BGI owners and employees were female, there is sufficient research evidence to suggest this would be a reasonable avenue for examination. The conflicts within BGI are multi-faceted and involve more than two parties assumed by the Thomas-Kilmann model. Therefore, students might explore larger team oriented models to provide additional insight for three party BOD decision making and dysfunction the larger size family generated conflict identified with the six BOD decision alternatives in question #1.

As previously mentioned, more complex decision support methods and tools such as capital budgeting, statistical simulation and quantitative scenarios are possible (Courtney, et.al, 2013). Each method requires either additional information or additional assumptions for the four alternatives above or the six alternatives in TN, Table 1. Although each method is beyond the intent and scope of this question, an above average student with an interest in quantitative decision–making applications could make an argument for using these approaches with the BGI critical incident. Therefore, a thumbnail sketch of how each method could be used with the proper information and assumptions is offered. Preferences for the behaviors and outcomes of stakeholders are mentioned in CI but the relative weights of these preferences need to be assumed to consider the quantitative, weighted average approach. An approach that starts with non-quantitative decision factors and moves in the quantitative direction would be to assign weights (W) to each decision criterion or proxy based on their ranked ( R ) preferences indicated in the CI for each stakeholder. This method could be used to compute the (∑ WxR) weighted average and the highest weighted average would be the best alternative to select for BGI. If probabilities rather than weights could be identified for these proxies, the Expected Value (EV) method could be considered. This method would require a risk assessment for each stakeholder in each alternative that would be represented by probabilities. The EV of each alternative could be computed by multiplying the riskless alternative times the probability and the alternative with the best EV based on profit or revenue would be the best choice. Most capital budgeting methods require calculation of the net present value (NPV) of each alternative. The revenue, cost and profit related to each alternative would be needed to determine value over the life of the decision. This would call for actual or pro-forma Profit & Loss (P&L) statements for each year an alternative is considered. For example, what would be the revenue related to alternative #1 above, “do nothing” over some period of years. Additional information about the cost structure of BGI would be needed to ascertain the interest rate associated with the “weighted average cost of capital.” This interest rate would be used to determine the NPV by looking up the value for each year in a table and multiplying the rate times the expected (revenue or profit) for each year in the future. All factors being equal, the lower the interest rate and less number of years, the higher the NPV. The alternative with the highest NPV would be the best choice. A handout that covers these methods or template with sample calculations could be found or developed for less quantitatively oriented students.

**Process.** The time available to read, analyze and discuss the CI may vary widely and affect the effectiveness of the delivery and learning outcomes. Therefore, modification to the delivery discussed in the General Discussion and Additional Issues section is suggested. A feasible approach in classes with only sixty to ninety minutes devoted to the critical incident is to give an overview of deliverables, introduce the CI, provide a general application of the CI to the course materials including a short, twenty minute discussion of typical family business issues and ask for discussion. Some typical family business issues to cover in the twenty minute instructor discussion are intergenerational conflict, family conflict, decision-making methods and the family-business interface. Afterwards students could individually prepare written answers to the discussion questions included in this TN before the next class meeting. If the instructor wishes to enrich the impact analysis or conflict management discussion of individual students or want the students to use a template such as the Stakeholder Decision matrix in TN, Table1, it would help to provide a handout of the matrix template or a handout of the Thomas-Kilmann Conflict Mode model. If the CI is a group assignment, the instructor might consider placing the students in small groups and assigning different stakeholder roles to teams or ask teams to select the best of the six alternatives in the CI and support their alternative with appropriate concepts.

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