
Felo Group Company: Never Ending Dilemmas

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Abstract

The case addresses Felo Group Company, an Egyptian company operating in the field of kitchenware. The case starts with an opening paragraph about an entrepreneur and a glimpse of family business challenges he faces. It moves through a timeline of his entrepreneurial experience when he was young until now. In addition, a glimpse about the internal and external industry analysis that made him face some challenges as well as many growth opportunities. Not to mention, there are major concerns related to the family challenges that include succession, governance, involvement of other family members, ownership as well as professionalism.

Key words: Family business, succession plan, family dynamics, governance, policy and strategy.

Opening Paragraph

On a typical sunny day in August 2016, Tamer Fouad; the founder of Felo Group Company, was sitting in the balcony, having his afternoon tea when he started contemplating and thinking about various issues that face his company. As he got closer to his 52nd birthday, he reminisced about the old days of the company, when he first founded it in 1986. He wondered whether Ramy Fouad; his 26-year-old son, is going to be a viable, competent successor, and a leading chairman when it is time for him to take over operations. For now, he was thinking about the clash of different opinions between him and his son, and how different they think with regards to different ideas such as the introduction of technology in business. He recalled this time when his son wanted to install global positioning systems in all Felo's cars that transport stock from the different branches across Egypt; something which he found to be very costly and unnecessary. He wondered how quick younger generations are to resort to technological solutions and how easy they trust this network. In general, he thinks that his son; Ramy Fouad, is extremely skillful and accomplished, yet he sometimes disagrees with his family members, such as his sister; Rania Tamer. Tamer Fouad recalled his son saying *that he is more experienced than his 23-year-old sister*; with more than 3 years of experience with the company, and so would make a more capable and qualified manager than her. Also, Tamer wanted Rania Fouad to join the company right after she graduates, but she wished to gain experience from other companies instead of joining the family business.

Tamer faced a lot of challenges at the time, his sister wanted to join the business, and he's worried if that would lessen the probability of his children becoming the future successors of the business. He cannot help but think about the various familial conflicts between them and wondered if these disputes could one day harm his business. Also, he thought if he should allow his daughter to work somewhere else first? Should he give more space to his son, Ramy, to implement the technological advancements he saw fit for the business? Finally, should he allow his sister to join the business or not?

Company Background

Tamer had an entrepreneurial background from his childhood. This is because he grew up in a family where his mother and father were entrepreneurs. Fouad had his own company that had houseware products. From a younger age, he started to work with his father's company in 1982. Besides his work, he was a business student in university.

Later in his last year (in 1985) in university, he could not continue with his father's business as Fouad was very strict and close minded. He resisted any new suggestions. Tamer had many new ideas to implement in business to be updated with the market. He remembered one of their conversation:

Tamer: *"I think that we need to introduce more products that people ask about microwave ovens."*

Fouad: *No, it is too expensive. It is very specific to people who want to buy them. Thus, we do not need it."*

Tamer: *"Dad, all our products are outdated. We need to change or just add some products that are updated to the market. This is because we need to be more appealing to other customers/segments."*

Fouad: *"Why? We are good. Our profit is good. Our life-standard is good. Why do we need to change and take any risk?"*

Tamer: *"I want to grow our company to be a big entity as many other family businesses. Our industry has very big potential to grow. Also, the market is moving very fast while we are standing in the same place. We have to be updated on what is happening in the market."*

Fouad: *I do not have time now. We will discuss this later."*

This led to him deciding to leave his father's business, despite the fact that there were many conflicts between them regarding this decision. After this, Tamer had no sufficient financial capital to start any business and had strong conflicts with his family. Thus, these were the worst days in his life. Later, Tamer was able to convince his father to take a small shop to start his dream.

He established a restaurant "Samar Restaurant" in 1985. This restaurant was very successful in Upper Egypt. After being comfortable that the restaurant is well accomplished, he started to spend some time thinking about what he really wanted to do in the future.

During sunrise in November 1985, in Alexandria, in front of the beach, he started to dream and said *“I will have a kitchenware company. I will import from very reputable companies. This company will have many branches in Cairo.”* After 20 years, with many sleepless nights, his dream came true.

Felo Group Company was established in 1986 as a sole proprietorship retail shop in upper Egypt specializing in kitchenware items. The shop started to harvest a good reputation through its large collection of items and exceptional customer treatment. The shop used to procure its collection from local importers. However, their procurement strategy changed in 2000. The owner viewed its loyal customer base as an opportunity to import their goods directly rather than buying from local importers. This would give the shop a competitive edge in terms of price and item variety.

In 2003, the company relocated its headquarters to Cairo. As years passed, the company witnessed exponential growth in its imports. According to an import specialist at the company, they used to receive 20+ containers per month. This volume of imports is considered phenomenal compared to other importers who may even have more experience in the field. Moreover, the company could hit deals with international brands to become their agent in Egypt including but not limited to, Luminarc from France, and Bager from Turkey (**Exhibit 1**).

In 2011, the instability in the Middle East region, in addition to the poor market conditions and the new import regulations, put the company in fight or flight situations. Its import volume nearly reached zero. The overheads were exponentially increasing given their considerable workforce and on the other hand, sales were plummeting. At this point, the company was in critical need for major strategic decisions to save the future of the company. (**Exhibit 2**)

The company took a major course of action to secure its existence in the market. The company started assembling 100% “Made in Egypt” kitchen and tableware items (**Exhibit 3**). However, investing in machinery in such a difficult phase would impose significant risks on the company. Therefore, they only invested in plastic injection molds and they hired plastic factories to outsource the injection process so risks would be minimized. These factories were in the 10th of Ramadan city. It was located in the Sharqia Governorate, Egypt. The first two items were a 3 pieces 300ml spices set and 660ml 3 pieces set. The glass was procured from glass factories and packaging was provided by a packaging manufacturing firm. Finally, the product is assembled in the imported items warehouse of the company in Al-Rashah City (**Exhibit 4**). It is also located in the Sharqia Governorate, Egypt. The result was surprisingly good. The cost of the Egyptian assembled item was much lower than the imported counterpart and it was offered at a very competitive price.

This opened a vast range of product opportunities. Accordingly, Tamer started establishing his own manufacturing facilities, instead of outsourcing. For now, Felo has 3 big factories in Egypt. It moves to two big factories (**Exhibit 5**). The first one is on the 10th of Ramadan (city). Its space is 10,000. The second one is in the same place, but it is in a big factory compound (Vo compound). Its space is 12,000 meters. Both there is big investment for machines from top countries.

A glimpse about the plastic and glass kitchenware Industry

The global plastic and glass kitchenware market was valued at USD 56.8 billion in 2018 and is expected to expand over 4.5 % over the upcoming years. Therefore, when it comes to the economic environment, there is a rise in the future disposable and changing lifestyles and an increasing number of households are using it, the demand is expected to have an impact on the market growth as well. In other words, Felo group has this advantage in the market that it uses both plastic and glass to manufacture their products, which indicates that one of the factors that is affecting the marketing globally is the changing lifestyles of using reusable plastic or less plastic in products. Therefore, Felo group is already offering these products, which indicates a bright future for an emerging market size in terms of social impact and economics too. People are beginning to focus on changing their lifestyle by using eco-friendly products instead of plastic and non-disposable products.

Another global trend that is positively impacting the global market of plastic and glass kitchenware is the introduction of different cultural cuisines all over the world in different households, especially during the COVID-19 lock down that took place. Therefore, the demand for different varieties of glass and plastic products was huge which also indicates growth in the global market size and more opportunities for Felo Group to grow.

However, locally, for the kitchenware industry, it is huge and has a wide range of targets. It is also full of competition. There is a whole market for kitchenware that is called "Darb Saada" (**Exhibit 6**). It has more than 1000 stores, with many different brands and store sizes. Also, the main competitors for Felo's stores are Raneem, and Tulipe. There are other stores in malls, such as Tulipe store. Every competitor has its own strategy. For example, Tulipe's products are just imported from outside. It has very little products from local suppliers. It is perceived as a high-end brand. However, for Raneem, its products are from local suppliers. It is selling economical and less expensive products. Regarding manufacturing, the competition is very high also. However, there is no big entity and well-known factories for plastic kitchenware products. To clarify, most of them are just buying molds in factories and this is obviously Felo's group competitive advantage.

The main supplier for glass bottles in Egypt is KL. Its glass bottles have high demand from different industries. For example, for the food industry, all factories that produce milk/juice products are buying from them, such as Healthy. Also, these same bottles are sold to the kitchenware industry. At the same time, there are little factories which are producing these glass products in Egypt. However, for the plastic industry, bargaining power of suppliers of glass products is very low. The number of factories is high. Overall, this competition in manufacturing leads to final retails not facing issues regarding suppliers. They can have many local suppliers to buy from.

Regarding stores, there are many designs, materials and brands in this industry. This reflects on the end customer. He has power as there are many alternatives that he can choose from. To clarify, in Nozha street, there is a whole street. It is full of kitchenware stores. Also, there is a whole market for kitchenware that is called "Darb Saada". For every place, it has

many different products with different materials, quality and designs. This gives the power for buyers to choose between many alternatives.

There is no home that does not have plastic and glass kitchenware products. However, there is a new trend. Thus, there are different materials for kitchenware, such as ceramic and metals. Some people can exchange some plastic and glass products like dishes and cups with them. The consumer's switching costs are low also. This means that there is little cost if anything stops the consumer from purchasing the substitute instead of the industry's product. However, these substitutes are very expensive compared to glass and plastic products.

Felo Group Company is divided into manufacturing and retail. It is low for manufacturing. This is because it is somehow a (relatively) high investment for buying land for building a factory, buying machines/ molds and creating designs. It is equal to 1 million pounds to just have 1 mold, 2 machines and land. At the same time, it has a very low margin of profit compared to other industries. It depends more on selling by bulk. Thus, this industry is not very attractive to many investors. Retails do not need high capital to enter. Anyone can start by a small kiosk with some products.

When it comes to the external environment, Felo Group Company is the only company that manufactures both plastic and glass in the market as well as they offer collections that are pure plastic or glass and plastic together. Therefore, this is its competitive advantage, as mentioned in the previous section, when it comes to the KL supplier mentioned, Felo group is one of the biggest and main clients of KL. In their store, they have varieties from imported products, local products from different suppliers and their products under Felo's name.

As well as with the COVID-19 pandemic period, there is more demand on Felo Group Company products as people are using kitchenware more often than usual, therefore the pandemic had a positive impact on the company. On the other hand, moving on to the negative impact, due to the pandemic, the Egyptian government held new importing and exporting restrictions and legal regulation, therefore the raw materials can stay up for months in the airport due to these restrictions.

In addition to the technological influences in the external environment, the use of machines and technology is evolving the number of competitors as well as the market, therefore the owner of the company should be open to new ideas for technological development that are both cost and time efficient. This was mentioned earlier when the company owner refused his son's suggestion of adding technological facilities like a GPS machine in the company's vehicle.

However, when it comes to the internal environment of the company one of the values that the company has is the bond between its employees, the company owner cherishes and values the team bond. Yet, when it comes to the company departments, manufacturing is exerting too much effort, yet there is a weak department of marketing in the company. Not to mention, as stated earlier, that there is an undefined succession plan among the shareholders.

Family Dynamics and Challenges

Tamer Fouad has two children who are Ramy and Rania Fouad. Tamer's siblings are: Sabri, Maggi, Mirette, and Mia. Sabri has a daughter named Nancy Fouad. Maggi has George and Mina as her sons. Mirette has two children George and Marina. And Mia has three children: Micheal, Merry, and Mariam. Tamer has some sort of conflicts and tensions between Sabri and Mirette. And like any other parents, Tamer has conflicts with his children, Ramy and Rania, but in their case is much less compared to Sabri and Mirette and he is in good relations with Maggi, Mia, his nieces and nephews. Tamer is in a tenuous relationship with Sabri since he wanted to join the business in the past and be a partner with him, but Tamer told him that he didn't want a partner. In the matter of the Felo group company, there are familial conflicts that make the family business a great challenge. **(Exhibit 7).**

The first challenge is that one of Tamer's siblings, Mirette who studied Marketing, wants to join the family business since she's been used to taking supplies from Tamer for her business, so she offered joining instead of having her own business. However, Tamer wouldn't like such decisions since not only he thinks she is not fully qualified enough, but also he thinks that there may be future succession conflicts, since his siblings have children and it is obvious that their children would join the business. That means there would be a higher probability of family conflicts and tensions created when it comes to managerial decisions, positions, and succession.

On another note, Tamer had this constant thought of whether family or business comes first. He does not want to create tension and fights with his family members and at the same time, he doesn't want to act with emotions so his hard work and legacy does not fall apart in order to compensate with his family members. Another challenge was between Tamer, the father, and his son, Ramy. Ramy wanted to implement his new fresh ideas by introducing advanced technology to the business. But as expected, it doesn't go so smoothly. Tamer did not favor this decision and was reluctant to do so.

Ramy introduced to his father the idea of installing some GPS systems in all the company's cars in order to track movements. Yet, Tamer perceived such decisions as adding costs to the business and simply unnecessary. Therefore, the first obstacle is a familial generation conflict of introducing ideas and implementing them. Tamer remembered the conversation that happened between him, and Ramy, and he was really empathic about his son's opinion because he projected such intense discussions, which occurred between him, and his father Fouad in the past.

Ramy: *"Dad, I was thinking of introducing new technologies in our company such as having GPS systems in the company's cars for tracking movements."*

Tamer: *"This will add a lot of costs to the business and i don't believe that it would add a lot of value relative to the costs"*

Ramy: *"It will be adding costs, but the value it will add will outweigh the costs, and I assure you that it will benefit the company."*

Tamer: *"I don't want to change my way of running the business, Ramy"*

Ramy: *“Dad, take your time in thinking about it and measure the costs and the benefits of this change, and then decide.”*

Tamer: *“Okay Ramy, give me some time to think and decide.”*

Also, Rania (Tamer’s daughter) didn’t want to join the family business right after she graduates, she first wanted to pursue work opportunities and knowledge from different local and corporate companies in order to gain a qualified amount of work experience in order to make the most out of her family business. However, her father was impatiently waiting for his daughter to join the family business right after graduation. He remembered a conversation between him, and Rania discussing the issue of Rania joining the business right after graduation.

Tamer: *“Rania, I have been planning to talk to you about something important.”*

Rania: *“Sure, dad, what is it?”*

Tamer: *“When exactly are you planning to join the family business?”*

Rania: *“I know you want me to join as soon as possible, but I'm planning to gain experience from outside first for three years or so, and then join the business.”*

Tamer: *“Rania, I understand your point of view, but three years are a lot, and I want you to help me and your brother in managing the business right after you graduate and not after three years!”*

Rania: *“I know dad, but I'm quite skeptical about joining the business right away. I feel like it's better to gain some practical experience first, or else, what value would I be adding to the company?”*

Tamer: *“I get your point, but the business needs you right away considering that your brother is the only active figure right now and the business needs you. Anyways, let's leave this issue on the side for the time being, until you graduate.”*

Ownership Evolution

Tamer owned 100% of the business when the company was a sole proprietorship, but then he decided to divide the ownership evenly among the 4 family members which is 25% each for him, Randa, Ramy, and Rania, after the company became a limited liability company.

The main reasons for turning the company into a limited company and dividing the shares among the family members are the tax regulations and that a sole proprietorship company has a limited amount of volume to be imported or exported which is 5 million, unlike the limited company which starts by a capital of 5 million and above.

The reason for Tamer to divide the ownership equally is that he wanted to avoid any future family conflicts since he didn’t want to distinguish between the two siblings. Furthermore, he wanted to include the mother since she is the main supporter of the family and

he felt that she has to be appraised for her role as a great mother by involving her in the business and guaranteeing her right. (**Exhibit 8**)

Overall, the company operations were becoming more and more stable with few irregularities. However, this case is far from being a struggling sole trader who achieved his dream! Things will definitely go south.

A challenge in the ownership is that Mirette owned her own business for a couple of years and she took the supplies of the goods from Tamer. However, lately, she discussed an issue with Tamer of taking ownership in Tamer's business and becoming part of the business instead of having her own business. This could be a good idea since both of them work in the same field, so this might add value to Felo, but still might pose a great challenge since Tamer doesn't want to involve extended family.

Several conversations occurred with Mirette who wanted to take ownership in the business (**Exhibit 9**):

Mirette: *"Tamer, I wanted to discuss a crucial issue with you."*

Tamer: *"Sure, Mirette, what is it?"*

Mirette: *"Since I have been taking supplies from you for my own business, why not work together and I am sure I'll be adding a lot of value to your business. By this, I would be taking a part of the ownership. What do you think?"*

Tamer: *"I've never thought of including anyone in my business other than my children, I don't want any familial conflicts."*

Mirette: *"I assure you there will be no familial conflicts, think about it. We will both benefit a lot by that decision."*

Tamer: *"Let me think about it, Mirette!"*

Governance status: Problematic challenge

Felo Group did not give much attention to important governance topics including the shareholders documentation, a succession plan, liquidity policy and the employment policy. All of these issues were discussed informally among the shareholders.

Most of the policies were inside Tamer's mind only. This did not create a huge problem as the company is only managed by Tamer, and Ramy. There are no clear policies or enough documentation to clarify family-business aspects. This can lead to many misunderstandings between family members later. To illustrate, there is no documentation for the basis of the profit distribution between Tamer's families. This may lead to many conflicts with Tamer's children. Also, there is no clear mission and vision documentation. This negatively impacted communication within the organization. Furthermore, there is no employment policy or liquidity policy.

Ramy was more involved in the business than Rania, so it was expected that he would be having more shares in the future which might cause conflict between the two siblings since Rania might be involved after she graduates and takes experience in another area.

Added to this, Tamer and Ramy didn't want the extended family to be involved in the business, so this might cause conflict on the long run if Rania get married and would want her husband to be involved in the business since it's not written down in any legal document that outsiders or extended family are not allowed.

Also, Tamer's wife didn't want the relative's children to be involved in the business, since they could eat up from Rania and Ramy's shares or take up managerial positions that could increase their roles in the business, so they would start competing with Rania and Ramy. This would, in the long run, cause not only problems within the business, but also amongst them as relatives and members of the same family.

Professionalism as a key to success

Ramy and tamer's relationship changed the moment they stepped in the office. Ramy did not refer to Tamer as his father, therefore, Ramy called his father according to his professional name and that is Mister Tamer. It became formal and work-related discussions in order to show the employees that despite Ramy being a family member working in his business, there was a certain level of professionalism that had to be demonstrated in front of everyone. This created a more respectful working environment.

Ramy liked to maintain an easy-going working environment for the employees; as if they were "Partners". He wanted everyone to feel as if they had the right to make the most out of their journey in the Felo Group Company and the rising family business, and as well as make a positive impact that could lead to success of the family business. While he felt that everyone was a partner, there was a certain level of professionalism in terms of the respect of the level of hierarchy.

The hierarchy should not be taken advantage of, just because Ramy has an easy-going relationship with the current employees who were contributing to the business. Felo Group Company has a total of 200 employees that are dedicated to this family business.

The hierarchy of the business is composed of the following: Board of directors, corporate officers, managers, and employees. Board of directors are the shareholders (the father, mother, Ramy, and Rania), the chief executive officer (CEO) is the father, and the chief financial officer (CFO) is Ramy. The managers are composed of operations manager, sales manager, financial manager, administrative manager, and the human resources (HR) manager. The employees for each managing department in order to have this hierarchy as structural as possible for effectiveness and efficiency (**Exhibit 10**). In terms of compensation, they get commission with every sale accomplished on top of their monthly salary.

A private conversation occurred between Tamer and Ramy discussing the joining of Rania to the business and telling him to persuade his sister in a professional way to change her mind and join right after graduation.

Ramy: *“Good morning Mr. Tamer”*

Tamer: *“Good morning Ramy, is there anything urgent that you want to talk to me about?”*

Ramy: *“Yes, I would like to talk to you about Rania joining the business in the future.”*

Tamer: *“May we talk about this at the end of the day since I have meetings all day?”*

Ramy: *“Sure... I will bring it up at the end of the day”*

~ The day passed by; Ramy and Tamer left the workplace~

Ramy: *“Mr Tamer, remember when I came by to your office and wanted to share a big thought of mine?”*

Tamer: *“Yes, tell me all about it son.”*

Ramy: *“I thought of not pressuring her into joining and indirectly making her think that she decided to join the business.”*

Tamer: *“Why not keep on insisting that she joins as a reminder?”*

Ramy: *“Because if she feels pressured, she will have less desire to join the business especially since she has the struggle factor of waking up early for work.”*

Tamer: *“I think we should tell her that there are certain discipline factors that come along with the business so she can be mentally and emotionally prepared. But, if you think your approach is reasonable, then go on with it your way on your own.”*

Ramy: *“Alright. But I hope you know this will take time so it all sinks in her mind”*

Tamer: *“Okay, but just remember that time is of the essence”*

Ramy: *“Definitely! Thank you.”*

Dilemma

Tamer has been going back and forth on what is the best option for the Felo group company. He was confused on whether he should include his sister, Mirette, whom he's so emotionally attached to, Miertte. She would add value because of her experience and her degree in marketing. On the other hand, Tamer seemed to be reluctant to do so since he was not sure if she was qualified enough for taking ownership and taking that role, and he wanted his children to be more involved in the business, and If this happened, there may be future succession conflicts since his sister has children and it's obvious that her children would want to join the business.

Added to this, Tamer's wife doesn't want the relative's children to be involved in the business, since they could eat up from Rania and Ramy's shares or take up managerial positions that could increase their roles in the business, so they would start competing with Rania and Ramy.

Also, if he included Mirette, his other siblings would want to be included, keeping in mind that he had a tenuous relationship with Sabri and wouldn't want to make it worse since Sabri wanted to join in the past and Tamer refused, and if Tamer included Mirette, Sabri would feel that Tamer is preferring Mirette over him.

Added to this, Tamer wanted Rania to join the business as soon as she graduates and she is resistant to do so since she wants to gain experience elsewhere then joins the family business. That means there would be a rising of family conflicts and tensions created when it comes to managerial decisions, positions, and succession. He wondered if these various familial conflicts could harm his business someday. If this happens, tenuous relations will rise and that will lead to inconvenience between family members. Tamer does not like to get involved in tensions with his family because they are all he has in life and he wouldn't want to lose them over a business.

Also, Tamer and Ramy are faced hardships together due to Ramy's willingness to involve more and more technology into the business.

Conclusion

Tamer seemed to have a lot of issues and dilemmas to contemplate when he thought about his family business. Some of the questions he wanted to ask himself and those around him were: should he include his sister Mirette in the business considering her marketing expertise, or should he constrict the family ownership to his children only? He also contemplated the fact that Mirette joining the business could cause succession problems and severe relationships with her siblings? Furthermore, Tamer also kept thinking about his daughter Rania in terms of her desire and plan to join the business. He knew that his daughter wanted to gain experience at another company first, but he is not sure whether this is the right decision or not. Considering his other child; Ramy, he thought about the contest between the two of them. Should he give Ramy more space to apply his technological point of views in the business, or should he constrict it to the traditional way of conducting business? Finally, Tamer thought about the need to write down and document all official information since this could prove to be a problem in the future.

These dilemmas pushed Tamer to reach a stressful point as he started realizing the urgent need to address such issues. He stared into the clear view in front of him and wondered where the starting point should be.

Exhibit 1 (Reusable plastic products)



Source: taken with permission from Felo Group Company

Exhibit 2 (Timeline of Felo Group Company)

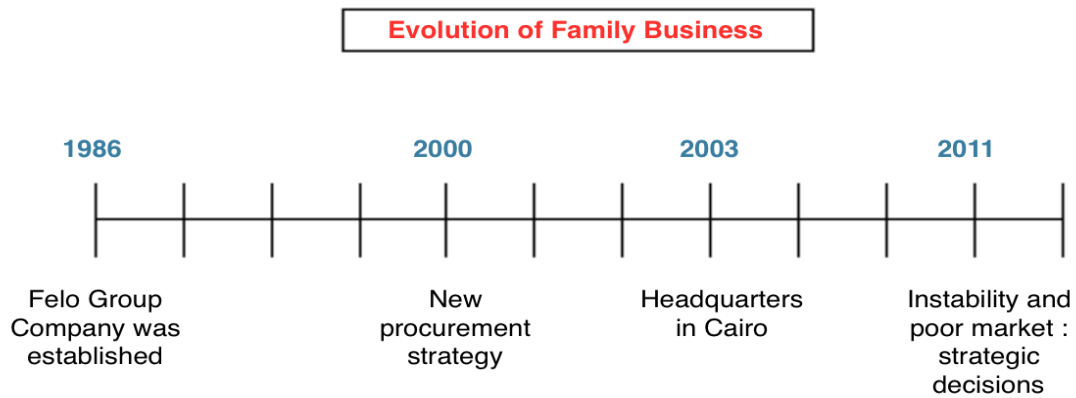


Exhibit 3

Colors Jars



Source: taken with permission from Felo Group Company

Colors Reusable Plastic



Source: taken with permission from Felo Group Company

Exhibit 4 (Meeting in Factory)



Source: taken with permission from Felo Group Company

Exhibit 5 (New Factory)



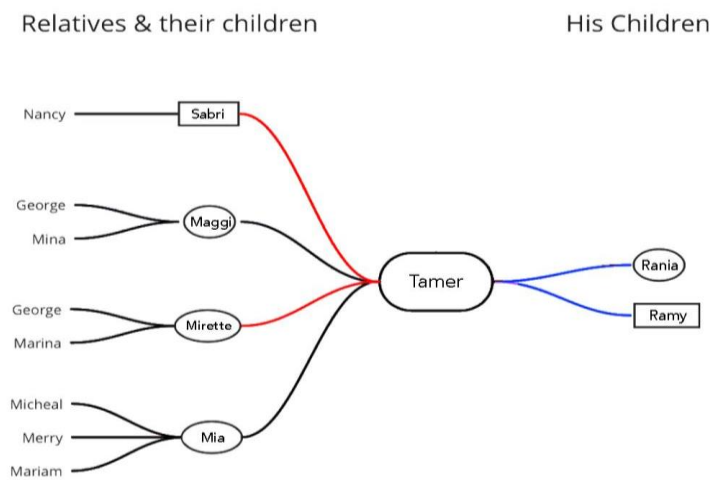
Source: taken with permission from Felo Group Company

Exhibit 6 (Darb Saada in Egypt)



Source: taken with permission from Felo Group Company

Exhibit 7 (Tamer's family)



Circle: girls

Rectangle: boys

Red lines: Conflicts, Blue lines: less Conflicts, Black Lines: Normal

Source: taken with permission from Felo Group Company

Exhibit 8 (Ownership)

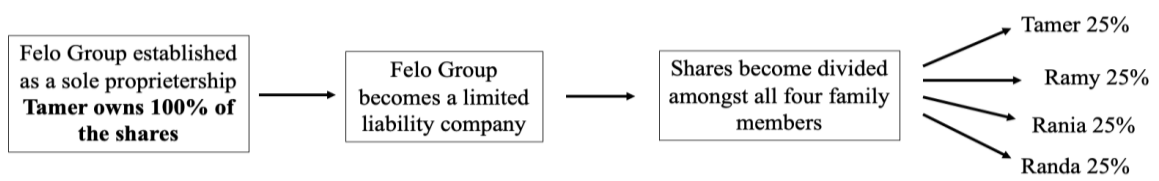


Exhibit 9 - A conversation between Mirette and Tamer

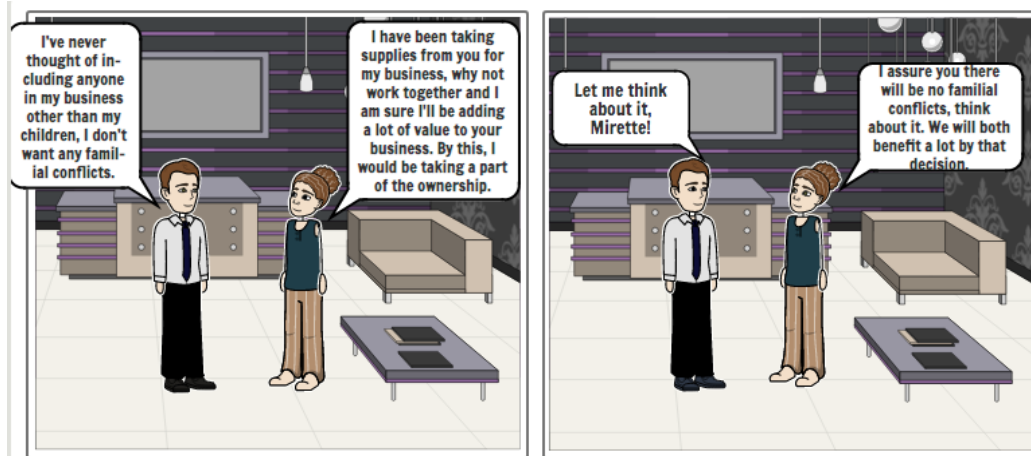
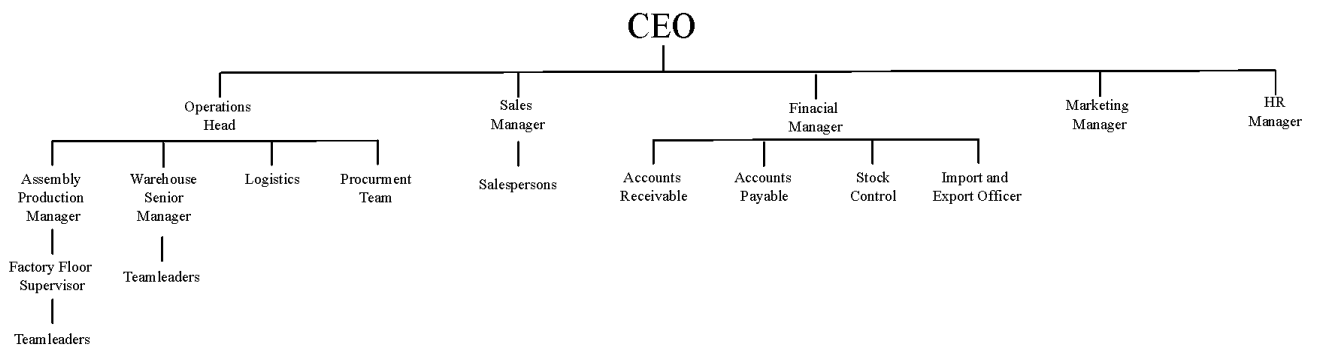


Exhibit 10



Source: taken with permission from Felo Group Company

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Teaching Note

Case Synopsis

The case addresses Felo Group Company, an Egyptian kitchenware company established and founded by Tamer Fouad. Throughout this case, the story of Tamer and his son Ramy is described in detail covering all the family dilemmas. This family business faced a lot of challenges when it came to the succession plan and governance. In addition, conflict regarding generation mindsets. This case aims to cover all the challenges related to this family business as well as elements related to the industry analysis, family dynamics, ownership evolution, professionalism as well as entrepreneurship and strategy.

Key words: Family business, succession plan, family dynamics, governance, policy and strategy

Learning objectives

The case learning objectives will cover the following:

- Understanding various challenges faced by family businesses.
- Analyzing the effect of family dynamics on the family business.
- Understanding the importance of planning to prevent future challenges.
- Identifying various obstacles affecting family businesses negatively
- Developing an understanding of the importance of overcoming conflicts through establishing precise rules for governance and succession.

Position in course

The case targets undergraduate and graduate students enrolled in family business courses, entrepreneurship, succession planning, and governance.

Relevant Readings

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Assignment Questions

- 1) Tamer is considering whether to allow his sister (Mirette) to join the business or not. What would you do if you were in his position?

- 2) If you were in Tamer's position, what would you do to convince Rania to join the family business after she graduates? Explain.
- 3) What might be issues that Tamer is facing when it comes to succession?
- 4) In your opinion, what should Felo Group work towards implementing and improving in terms of governance? Does Felo Group Company have a documentation problem? Analyze.
- 5) How would you assess the overall competitive environment for the kitchenware industry in Egypt?
- 6) What are the strengths and weaknesses of Felo Group Company? What are possible opportunities and threats that could be affecting the business?
- 7) If you were in Tamer's position, which type of corporate strategy would you adopt in the near future?

Teaching Plan

Discussion Plan:

Students have to read and analyze the case before the class discussion. During the discussion, it is expected to cover the following crucial topics: ownership (challenges and resolution), governance, succession planning and challenges, and professionalism challenges and resolutions.

The main themes to be discussed are:

1. Family dynamics
2. succession planning
3. Strategic planning in family businesses
4. Ownership challenges
5. Governance
6. Professionalism

Suggested class schedule

The case is designed to be taught in approximately 75 minutes, including time for discussion. The following table can be used as a guide to case discussion organization.

| Topic | Time |
|--------------|-------------|
| Introduction | 5 minutes |
| Question 1 | 10 minutes |
| Question 2 | 10 minutes |
| Question 3 | 10 minutes |
| Question 4 | 10 minutes |
| Question 5 | 10 minutes |

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|------------|------------|
| Question 6 | 10 minutes |
| Question 7 | 10 minutes |

Case Analysis (Answers to discussion questions)

1) Tamer is considering whether to allow his sister to join the business or not. What would you do if you were in his position?

The pros and cons of the joining of Mirette to the family business has to be assessed well

first before making such a life changing decision.

| Pros of Mirette's joining the business | Cons of Mirette's joining the business |
|--|---|
| <ul style="list-style-type: none"> ● She's experienced since she owned her own business for a couple of years ● She's a marketing graduate and could add value to the business in terms of marketing for it. ● She would help Tamer and Ramy in managing the business | <ul style="list-style-type: none"> ● Not qualified enough for taking ownership and being one of the owners of the business ● Future succession conflicts since her children would also want to join in the future ● Tamer wants one of his children to be the future successor and if he included his sister, this would lessen the probability of his son or daughter being the future successor. ● This would eat up from Rania and Ramy's shares ● Mirette and her children could take up managerial positions that could increase their roles in the business, so they would compete with Ramy and Rania ● There is a tenuous relationship with Sabri and Tamer since Sabri wanted to join in the past, and the inclusion of Mirette in the business would increase the tension further. Thus, there would be a rise in familial conflicts. ● Tamer's wife doesn't want the extended family to be included to guarantee the children's rights in the business. Thus, including Mirette would raise a problem between Tamer and his wife. |

Assessing the pros and cons, it's clearly shown that the cons outweigh the pros. As a result, if I were in the position of Tamer, I wouldn't include Mirette in the business to avoid the rise of any future conflicts and to guarantee the shares and the rights of my children in the future.

2) If you were in Tamer's position, what would you do to convince Rania to join the family business after she graduates? Explain.

Rania doesn't have the interest in joining the family business right away like Ramy did and Tamer is convinced that she has to be part of the family business. So, it would be best if he lets her gain experience from working in other companies so she can later on feel that she can impact the business in a positive way. That way when she reconsiders joining the business, she will add value since Ramy hasn't had collective experience from working in other places. Also, Ramy advised Tamer in loosening up about pressuring her into joining the business right after she graduates. Time is of the essence, but at the same time without passion there isn't drive. Also, pressuring someone into doing something that he or she doesn't like will lead to pushing them away from what his intentions were initially.

| Pros of joining family business | Cons of joining family business |
|---|---|
| <ul style="list-style-type: none"> - It is considered a secure job. - It is somehow more flexible than getting a job in an office and working as an employee. - It has more potential and growth. - She will learn and gain more experience in different things at family businesses than in another job. This is by gaining knowledge from listening to family discussions - She can make mistakes and learn from it. - Loyalty: strong personal bonds mean that she and family members. They are likely to stick together in hard times and show the determination needed for business success. | <ul style="list-style-type: none"> - She may lack skills and not gain experience. family business will appoint family members into roles that they do not have the skills or training for. This can have a negative effect on her success and the success of the business and lead to a stressful working environment. - As for most family business cases, there are family conflicts. Conflict can arise in any business. Bad feelings could reflect negatively on the business' operations and put a family at risk. She should be emotionally intelligent to overcome this. For this family, they are definitely affected by conflicts negatively as there is no governance. -Favouritism - maybe a father has a favourite child than another one. - Regarding different generations' thoughts, younger generations might have disputes with older generations on the ways they want to run the business. - Her brother may be controlling everything. She may feel that she just as any employee in this business |

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| | - Blurred System boundaries; boundaries among family, ownership and management systems may be blurred. |
|--|--|

3) What might be the issues that Tamer is facing when it comes to succession?

Tamer wants one of his children to be the future successor, but there are many challenges that he is facing regarding succession. First and foremost, Mirette has children, and if she joined the family business, she would include her children and this would lower the probability of Ramy being the future successor. Also, if Mirette got included in the business, she would take ownership, and she herself may also want to be the successor in the future. Added to this, Tamer wants Rania to be included in the family business right after she graduates. If she joined and showed great success, she may be the future successor. However, Tamer is worried about any conflicts that could happen between Ramy and Rania on who will become the future successor for Felo Group Company since Ramy has been involved for a long time compared to Rania, but still Rania would eventually join and she has the right just as her brother of becoming the future successor. Thus, it's very challenging for Tamer to decide on what to do regarding the succession planning process.

4) In your opinion, what should Felo Group work towards implementing and improving in terms of governance?

Fel Group needs to have a clear and detailed governance handbook in order to avoid any miscommunication and conflicts in the long run. The handbook should include documentation when it comes to the profit distribution between Tamer's families. As well as a clear vision and mission to the family business so all the employees and family members would work upon the business's goals. Not to mention the values of the family business and all policies including a policy of not having non-family members nor extended family members to join the business, especially that Tamer's wife is concerned that when non-family members would join the business, this can cause space for competition over the shareholders. In terms of documentations, there is no legal document that can justify the shareholders agreement, a written succession plan, liquidity policy and the employment policy. The distribution of the shares was discussed amongst the Tamer, Rania, Ramy, and the mother. They were discussed and agreed on it informally knowing that there is trust and that it is postponed to have it officially written down. Whereas the succession plan is still pending since Ramy is still under his father's supervision. So once Tamer is confident to pass down the legacy to his son and make him the future successor, it will eventually be written down in order to officiate the action. The liquidity policy should be done incase of unforeseen circumstances like shutting down the business or having one of the family members selling their share in the company. Finally the employment policy tells us how all employees, regardless of job description or title, are expected to conduct themselves. Employee policies are typically developed by the human resources (HR) department and distributed to all employees in the form of a handbook to further understand what is expected of them in the company.

5) How would you assess the overall competitive environment for the kitchenware industry in Egypt? (analyze the competitive forces affecting the kitchenware industry in Egypt)

According to Michael Porter's 5 Forces Model:

1. *Bargaining power of suppliers*: Bargaining power of suppliers is high for glass products because there is one main supplier (KL), which receives a lot of demand from many different industries. KL is the main supplier for many factors in the food and juice industry, such as for juice and milk products. However, for the plastic industry, the bargaining power of suppliers of glass products is very low because the number of factories is high.
 2. *Bargaining power of buyers*: because there are many competitors in the industry, each offering different products and designs and at different prices, the customer has a high bargaining power. For example, there is a whole market for kitchenware products that is called "Darb Saada". It has many different products with different materials, qualities and designs. This reflects on the customer's end, and gives them power to choose between many alternatives.
 3. *Threat of substitutes*: There are different materials for kitchenware, such as ceramic, glass, plastic and metals. Customers can sometimes exchange some plastic and glass products like dishes and cups with other substituting alternatives, such as ceramics and metals. Because the customer's switching costs are low, this means that there is little cost (if anything) that stops the consumer from purchasing the substitute instead of the industry's product. However, these substitutes are very expensive compared to glass and plastic products, so they may be a viable option to a particular segment of the target market.
 4. *Threat of new entrants*: The threat of new entrants is low when it comes to the manufacturing industry, it is a (relatively) high investment for buying land for building a factory, buying machines/ molds and creating designs. It is equal to 1 million pounds to just have 1 mold, 2 machines and land. At the same time, it has a very low profit margin compared to other industries. For retails, the threat of new entrants is high. This is because it does not need high capital to enter. Anyone can start by a small kiosk with some products.
 5. *Industry rivalry*: The kitchenware industry is highly competitive, and there is high rivalry within the competitors in the industry. "Darb Saada" market alone has more than 1,000 stores that offer a wide variety of products, so there is always competition between the players in the industry. Felo Group Company's two main competitors; Raneem and Tulipe, offer similar products which place them as the two main direct competitors.
- 6) What are the strengths and weaknesses of Felo Group Company? What are possible opportunities and threats that could be affecting the business?**

| | |
|---|---|
| <p><u>Strengths</u></p> <ul style="list-style-type: none"> • The family has an entrepreneurial background, so they have knowledge, experience and reference to go back to when they face complex business decisions. • Felo group company is the only company that manufactures both plastic and glass in the market as well as offer collections that are pure plastic or glass, which gives it a competitive advantage | <p><u>Weaknesses</u></p> <ul style="list-style-type: none"> • The company has a weak marketing department, which should be a vital department within any company • There is no defined succession plan amongst the shareholders of the company. • Lack of documentation with regards to important matters such as governance, the mission and vision of the company, and profit distribution. |
| <p><u>Opportunities</u></p> <ul style="list-style-type: none"> • The company has an opportunity to strike deals with international companies, such as Luminarc and Bager. • The COVID-19 pandemic caused more demand on Felo Group Company products as people are using kitchenware more often than usual. | <p><u>Threats</u></p> <ul style="list-style-type: none"> • There is a strong competitive environment within the plastic kitchenware industry, especially in the area of “Darb Saada” • Due to the pandemic, the Egyptian government held new importing and exporting restrictions, therefore the raw materials can stay up for months in the airport. • |

7. If you were in Tamer’s position, which type of corporate strategy would you adopt in the near future?

Tamer should start implementing the growth strategy since the business is still trying to maintain their place in the Egyptian market. A growth strategy is an action plan that allows you to achieve a higher level of market share than the business currently has. It is not necessarily focused on short-term earnings, but also can be for long-term too. Companies with high market share often receive better prices from suppliers since their larger order volumes increase their buying power. This increases the business’s competitive advantage since the company starts to dominate an industry. With the increased dominance in this industry, the business can exercise certain powers such as greater bargaining power.