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Textile Egypt Company: Understanding Family Challenges

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Abstract

This case is about Textile Egypt which was established in 1991 and is located at the 10th of Ramadan (Cairo, Egypt). The business is considered to be a family business however they also have outside partners too. Two brothers from the Deeb family (Karim and Seif) partnered up with their friends who are also two brothers from the Shalaby family (Omar and Mohamed). The case is displaying the evolution of Textile Egypt, and the challenges facing the partners, as well the internal dynamics of the family members. The case starts with an overview about how the dispute between the two family partners' ignited, and what was the main reason behind it. It moves on to a brief about the company background, and the historical relation between the two partner families. It also gives some details about the textile industry in Egypt, and then moves on to the challenges related to the family business. The case ends up with dilemmas within the mind of the protagonist Karim El Deeb where he is supposed to choose between different alternatives.

Keywords: Family business, Family dynamics, Governance, Succession, Professionalism, Strategy, Culture

An Upsetting News

On a hot and exhaustive summer day in 2016, Karim Eldeeb, Co-CEO and Co-founder of Textile Egypt, was sitting in his office having lunch. His partner, Omar Shalaby, walked in with some shocking news. Omar Shalaby had proposed that it would be best if the company split because his only son, Ali Shalaby, refused to go to work with him because of a dispute with Karim Eldeeb. Karim was not pleased with Ali's management style and confronted him. So, Ali decided to stop going to work for two months until their family had complete ownership. The textile company was owned by two different families: Eldeeb and Shalaby family. Eldeeb family is represented by the two brothers, Karim and Seif Eldeeb. Karim was the managing partner and Seif was a silent partner. As for the Shalaby family, they are also represented by the two brothers, Omar, Mohamed Shalaby, as well as Mostafa Shalaby who is Mohamed Sahlaby's son, where Omar was the managing partner, and Mostafa, and Mohamed were silent partners. For both families, the silent partners did not have any managerial powers or decisions, but they did have equal shares. The intended separation would only be between the two partner families: Shalaby and Eldeeb and not the family members. So, Karim and Seif Eldeeb would still be partners together and Omar, Mohamed Shalaby would still be partners together. When Omar Shalaby left the office, Karim Eldeeb sat drinking his Turkish coffee and contemplated this decision, going over the ramifications.

The decision Roller Coaster: What to do?

When he calmed down, Karim Eldeeb realized that splitting from the Shalaby family would not be such a terrible idea. He realized that by that way he would be able to secure everything for his five daughters, nieces and nephews. When he went home, he called his two youngest daughters, Menna and Leila, into his bedroom and updated them on the new decisions. "*By splitting from the Shalaby family, you will work only with your older sisters [Malak, Nour, and Farah] and cousins [Amina, Yasmina, Youssef, and Aya] and I will help train you myself. I also want you to start coming with me to work on your days off to understand what is going on in the factory*". This split could be a blessing in disguise as it could help minimize issues with Shalaby second-generation members and managerial decisions would be all ours". His youngest daughter, Leila, still in high school, did not want to be a part of the factory just yet. However, Menna agreed to go to the factory on her days off from university for some training. The father was sad to hear that Leila did not want to be involved now, but was hoping that as she grew older she would change her mind. He was so excited to share all his knowledge with Menna and teach her everything.

Days later, they decided to hold a meeting with the owners, both managing and silent partners, and their lawyers to split up all the assets of the two families equally and prepare for the split. Karim Eldeeb stated that the Shalaby family should be the ones leaving and take their half in the form of cash, because it was the Eldeeb family that worked hard in building the factory. All other parties agreed and by the end of the meeting, they had split everything financially. Months were spent in this separation and it was a huge strain and stress factor on all parties. The Shalaby family started looking outside because they would have to build another factory with their portion of the factory. Assessing the costs of building another factory and buying new machines, the Shalaby family realized that it would actually be a huge financial loss for them. Therefore, Omar Shalaby started rethinking their decision to separate and wanted to back out. He realized that they will start with a much smaller factory with primitive machines. Omar Shalaby saw it as an opportunity to act instantaneously as they still had not signed the contract, and there is no clear clause stating that anyone who would back out from this separation is required to pay a fee. Seeing that, the Shalbys' were able to back out from the split easily. This decision brought back all the challenges and worries Karim Eldeeb was contemplating about before they decided to split. Now that they have backed away from the splitting decision, these issues have surfaced again. In addition, Omar Shalaby's decision to back out before signing the contract to avoid paying his fee has also created tensions between him and Karim Eldeeb. This ensured future disputes due to differences in management styles between the first and second generation as well as a lack of communication between the second generation sub-owners. Should Karim Eldeeb decide to separate to avoid future challenges or remain partners?

The origins of Textile Egypt: How it all started

Karim Eldeeb's father had a shop in Al-Azhar in which they sold fabrics to customers after buying the printed designs from companies. It was a pretty successful store and they made a lot of profit out of it. However, they felt that they depended greatly on companies that could sell them fabrics after the season was over and they would have to ask for specific designs themselves. Karim's father had him involved in the business since he was eleven years old because he was the eldest son. He would finish classes and go straight to the shop, even during summer vacations, on the day of his last exams he would go straight to the shop and spend the entire summer working with his dad. Therefore, he was extremely involved in the store and knew its insides and outs. When his father passed away, he thought outside of the box and found that as a store they would be more independent and would sell more if he opened his own company, printed his designs and sold fabrics to different shops. He used the inheritance he got from his father and opened a business with Omar Shalaby and two others. However, it did not work out and Karim El-Deeb, hence Omar Shalaby decided to split from their partners.

After separating from their previous partners in the first business, they partnered with their brothers, Seif Eldeeb, and Mohamed Shalaby and established Textile Egypt in 1991, and later on Mostafa Shalaby joined the business as a silent partner. However, Karim Eldeeb was the most dedicated and committed compared to the four other founders. Karim invested the most and built the factory by himself from scratch. Textile Egypt was standing as one of Egypt's leading factories that produce Polyester and Cotton fabrics. The main goal of the founders was to establish a manufacturing company capable of producing a wide variety of textile fabrics, then further expanding in the fields of dyeing, printing and finishing. During the first 10 years, all woven fabrics were being dyed, printed and finished outside the factory. In 1993 they had their own first manufacturing plant, which consisted of 38 weaving machines with a production capacity of 2.5 million meters per year. In 1996, they decided to shift their production from mainly producing cotton, viscos, and mixed fabrics to 100% polyester fabrics. However, it wasn't until 2001 that Textile Egypt introduced its first dyeing house, started production and was able to introduce its own plain dyed finished fabrics successfully. Besides, in 2005, through introducing the two-flatbed printing machine and one rotary printing machine, Textile Egypt was able to meet all of the textile production needs, producing their first dyeing house. In addition, the year 2006 witnessed the start of exporting; where the department of export shipped its first container towards Europe. The geographical existence of Egypt placed the company at a central point of trade, which has given it the advantage of exploring the European market and further into the rest of the world. Additionally, they started their second dyeing house in 2012, which specialized in cotton dyeing & finishing. In 2016, the second rotary printer began as the company added to its printing department a new secondary state-of-the-art rotary printing machine, which consisted of four printing machines as two flatbed printers and two rotary printers. In the future, the company aims to continue enhancing, upgrading and expanding its factory with the latest technology and machinery available in order to remain updated. Currently, the factory has four different sectors: weaving, printing, dyeing, and finishing (see exhibits 1, 2, 3 and 4). The production line of Textile Egypt involves several types of fabric such as chiffon, polyester silky touch fabrics, cotton, satin, viscose, stretch crepe, and many more. The target segment of the company is class C customers. The business operates by which it sells its textiles as printed fabrics to other businesses that tailor these fabrics into clothes and then sell them to customers.

A Closer Look at The Textile Industry

The textile industry in Egypt is considered to be the second-largest industry after agriculture from a laboring perspective, to the extent that it has such a huge impact on Egypt's economy in general. As the textile's industry dates way back to ancient Egyptians (Pharos) the whole production process has been made within Egypt from cultivating cotton and making fabrics until everything became ready-made. In 2016, the textile sector was among the five industries selected by the Ministry of Trade & Industry to be the backbone of the Egyptian economy. According to a source from fiber to fashion, the apparel and textile sector is for 3% of GDP (now 5.3%) and 27% industrial output. Spinning and weaving are dominated by 60%. However private sectors own almost 90% of the industrial side. Research data made in 2010 which was 10 years ago, proved that textile companies were over 3243 thousand and had 3.2 billion US dollars of investments. As cotton is considered to be Egypt's gem, it has helped in the textile industry because Egypt is the worldwide main domain that exports cotton which is something that benefited Egypt in the global market and helped in labor as well. The middle delta specifically was a well-known place to establish textile businesses. One of the challenges that faced Egypt's textile sectors was not having their own raw materials so it had to be exported/imported therefore the competition rose. Manufacturers increased from 2017 to 2018 from 72 to 106 manufacturers (an increase of 47%) which emphasizes the rise of competition (see exhibit 5). Nonetheless, the Egyptian government does not stop here, it aims to build a total of 22 complexes by 2020. The complexes will be completed in 12 governorates and will have 4,300 industrial units. Therefore, not only does this industry have an impressive past, but also a bright future. As Egypt is one of the biggest textile exporters, its main export destinations are in Europe (35%), turkey (30%), the MENA region (23%) and Africa (10%) and its top exported fabrics are Denim and cotton fabrics (55%), woven fabrics of synthetic yarn (21%) and knitted fabrics of different types (13%). Egyptian cotton is known worldwide as "white gold". Producing about 150,000 hectares of cotton fiber yearly, Egypt exports around 400 Million US Dollars' worth of cotton, mostly to Europe and Turkey. Since Egypt is an intercontinental country with multiple ports and facilities, it has more strategic advantages for exports to the United States and Europe than its competitive countries. Among the famous international brands that use the Egyptian textile are Polo Ralph Lauren, Levi's, Calvin Klein, Under Armour, Marks & Spencer, H&M, Valentino and Giorgio Amani.

Understanding The Competition

As the textile industry in Egypt is huge and has a wide range of targets, mentioning all competitors would be very difficult, but some of the most well-known textile companies in Egypt include Kazareen Textile Group KTGUK, Hesni Textile, Riad Group, EgyTex, Tec Group and Textile Export council. Firstly, KTG (Kazareen Textile Group) is a London based textile supply chain and provider to clients worldwide. KTG provides fabric manufacturing in Egypt so it is one of the feared competitors as it works and gains profit from a worldwide range in addition to that, they also offer a wide range of services such as design, sourcing, warehousing, manufacturing, shipping and distributing. Also, KTG owns the German fashion brand GMBH, the Egyptian based KTC supplies linens and Terry towering lines to Egyptian famous hotels and restaurants. The owned factories in Egypt have 3500 employees, and 20 million garments yearly, 1 million hospitality fabrics meters, and finally 1000 Terry towering tons. Next comes Hesni textile, a family business. The business was established around 1898 by Noaman Hesni. It first was established as silk trading and later over the decades ceased one of the most leading textile companies in the private sectors. Hesni's company includes Egyptian weavers and cotton fabrics. They offer services like printing woven, knitted fabrics and dyeing fabrics. Hesni is a family business, and designs its own collection for both Egyptian local and international markets. Hesni's original headquarter is located in Al Azhar St. Hesni. It produces 45 million meters of woven, 8000 tons of knitted fabrics and 1300 of yarn each year and they export to Europe and USA. Another family business, Riad Group, started as a family business in 1947 by the engineer Samy Riad. Riad Group focuses on producing knitted fabric and ready-made garments for exporting. It is divided into three different sectors. The Fabrique de Flanelles Samir, which is a leading manufacturer and supplier to the ready-made garments has been supplying international brands for over 6 decades. Then, Tiba Textiles is also a manufacturer for ready-made garment worldwide. What makes it different is that they produce according to the customer's specifications. Lastly, Egyptian Textile Company, which was founded in Cairo the year 1981, is the main Riad Group company in Egypt and deals with customers demanding fabric both within Egypt and internationally.

Family Dynamics Challenges: Is There Any Way Out?

As previously mentioned, the business is owned by two families: El-Deeb and Shalaby, with two sets of brothers from each family. The current chief executive officers and managing partners for the business are Karim El-Deeb and Omar Shalaby, who have also co-founded the business together. These members are part of the first generation; however, there exist family dynamic challenges in the second generation members. Most of the second generation members were not involved in the business and of those involved, which led to a great deal of lack of communication.

Karim had five daughters, three from a previous marriage and two from a new one. However, three out of the five daughters are involved in the business (see exhibit 6 for El Deeb family genogram). This created tension and challenges when working together because all five daughters were not very close, coming from different mothers and raised in different households. The three eldest daughters, Malak, Nour and Farah are all married with children, but Malak and Farah are involved in the business to an extent. Menna and Leila are still young, but try to be involved as much as possible. Menna is a senior at the American University in Cairo and is minoring in Entrepreneurship to attain some knowledge in the field. In addition, she used to go to work with her father as much as she could on her days off, Tuesdays and Saturdays. The youngest daughter, Leila was still a junior in high school and had never been really involved and did not want to be involved just yet. Family dynamics played a huge role here as it created conflicts in the business's management. There existed a lack of communication between the half-sisters, a huge age gap and of those involved, not one was completely invested in the family business as a future. Despite the fact that Malak and Farah were involved, they prioritized their family and may not go to work every day. Malak had recently just moved to Dubai because of her husband's job relocation, so she was no longer as involved as before. Menna was involved; however, she is a psychology major and saw her future in psychology. She was still interested and went to the factory every now and then, but would have to decide soon.

Moving on to Seif, he has two daughters and one son from his first marriage and one daughter from his second marriage. As presented in the genogram, only the son, Youssef is involved in the business and sees it as a future career that he will inherit and use to support his family in the future. The eldest girls, Amina and Yasmina are both married with kids and have never set foot in the business nor do they plan on doing so. Youssef Eldeeb is the only one completely invested and has a specific and identified role in the business. He graduated with a Business Administration Diploma from the British University in Cairo. Aya is still a freshman in high school and has also never been involved in the business like her sisters. Likewise, there is also a lack of communication between the half-siblings, a huge age gap and only Youssef is invested in the family business. A very important note is that there also exist challenges in family dynamics between the cousins. As a family, they are not very close and may see each other once a year during gatherings like Ramadan. Hence, a major lack of communication exists between the half-siblings and among cousins too. This is a very serious issue especially when it comes to working and together in a business.

Omar Shalaby has one son and two daughters and only his son, Ali, is involved in the business (see exhibit 7 for Shalaby family genogram). His two other sisters, Marwa and Habiba are married with children and have never set foot nor do they plan on. Mohamed has one daughter and one son; however, neither one of them is involved with the business. Farida is married with children and has never been involved and Mostafa used to be involved but had a huge falling out with his father and is no longer speaking with him. He moved abroad and had started his own business separate from this business. However, some challenges in the family dynamics are that Omar's father, Mr. Shalaby, gave 15% of the shares in Textile Egypt to his son, Mostafa. This could definitely create challenges and tensions in the future. Now looking at the dynamics between the two families, the second generation members of both families have almost never seen each other.

Ownership Challenges

As mentioned before, Textile Egypt is owned by five businessmen, two sets of brothers: Karim and Seif Eldeeb and Omar and Mohamed Shalaby and Mostafa who is Mohamed Shalaby's son (see exhibit 8 for the ownership structure). Since 1991, they have split the shares equally where each one had 25%. However, back in 2013, Mohamed Shalaby gave his only son, Mostafa Shalaby, 15% of his own shares. This was motivated by the Egyptian culture of how he wanted to make sure his son will be able to provide for his family. Textile Egypt's ownership structure is represented in Exhibit 8 with a clear division of the shares. It also indicates that while there are five share-owners, there are only two managing partners. There are a lot of challenges and they are split into two sets of relations: between the owners and between the second-generation members. The two existing managing partners, Karim Eldeeb and Omar Shalaby have specified roles. They both have equal managerial powers to try and eliminate competition and rivalry between each other. Issues concerning ownership is that they do not have a future plan for the coming generation. Especially that there are a lot of family dynamics issues between the second generation members, ownership is not necessarily clear yet. Additionally, Textile Egypt adopts a distribution structure that is passed down to all heirs regardless of involvement in the business. Regarding Karim Eldeeb, he does not have any sons and according to the Islamic inheritance rules, a portion of his shares would go to his siblings. However, he wants to make sure that his daughters will be okay in the future so he plans on splitting his shares equally amongst his five daughters, each having 5% of the 25% he owns in Textile Egypt. This will be the case whether or not they will be working in the business. In addition, they have created a set policy to not allow ownership and management overlap. Any second-generation owner who is not working or involved is not allowed to interfere with the business's management.

Governance Status: Is there Any Room for improvement?

In the organization, the board of directors consisted of Karim El Deeb, Seif El Deeb, Omar Shalaby, Mohamed Shalaby, Mostafa Shalaby and Malak El Deeb, the daughter of Karim El Deeb. Currently, Karim El Deeb and Omar Shalaby were the two managing partners and were the ones who had the full authority to make decisions in the organization. On the other hand, the other four members did not have authority power. The managing partners, Karim El Deeb and Omar Shalaby, were the only ones who had the authority to make any decisions. In terms of governance, any managerial, operational, and financial decisions must be made with the signature of both managing partners next to each other. These governance policies were defined and written and not allowed to be broken. In terms of roles and jobs, at first, they did not have defined jobs for the managing partners, Karim and Omar. However, this has resulted in issues and conflicts because they are two managers and they specified roles. As for the governance roles, Karim El Deeb was in charge of the printing and dyeing section of the factory and all the decisions regarding this section, all factory workers and the hiring/firing processes, and the customer and all clients related management tasks. While Omar Shalaby is in charge of the textile part of the factory, selling and buying the textile and cloth, and was in charge of money management and bank issues. Each managing partner had a team working under him that goes back to him for any decisions. Also, these roles and policies are written. On the other hand, there had been a sense of nepotism especially in employees' hiring and between members of the board. When it came to members of the board, family members had always been prioritized, as a sense of safety. There was always a sense of fear that non-family members will not be trustworthy. This confirmed that the organization followed the family first philosophy. As for the family values, the organization did not have them written in a document. Instead, all family values are well understood by all business members. These family values are respect, trust, loyalty, and integrity. All family business's members confirmed that whatever the matters or circumstances, there was no fraud in any business dealings. These values were very important for the organization and basically control and guide the business agreements with other clients. In addition, based on these values, any non-family business member was respected and considered one of the success factors for the organization.

Existing Cultural Barriers

As for the culture and gender dynamics, there was an issue related to women's employment in the textile industry for the second-generation members. The textile industry was highly male-dominated and was considered very challenging for women. The second-generation members were mainly women, excluding the two men that were involved. This put a glass ceiling for the second-generation female members in terms of ownership and succession. In addition, workers were more likely to listen to and respect male managers and not really consider females at all. Also, as mentioned that the second generation members lacked frequent communication together and this led to disputes while making major decisions in the company as they were not familiar with working with each other, and maybe each one of them would have had different viewpoints, and this caused issues between them.

Understanding Professionalism at Textile Egypt

In Textile Egypt, the founders were definitely not open to the idea of having a non-family member as a CEO. The official CEOs of the company are Karim and Omar. Everything needed to be signed by them and they have to approve of all decisions. Which meant that non-family members had a limitation which they could not cross. The highest position a non-family member can achieve was becoming a manager and it had to be under the supervision of the CEOs. With that being said, the partners needed to find a way to motivate the non-family members to work and not to leave Textile Egypt for another company. In order to motivate non-family members, by the end of every year and based on each employee's achievements, they were given a bonus or even a promotion to a higher position. Using that method, Karim and Omar could remain the CEOs of the company and not lose their employees.

On the other hand, once the family members entered the office, their manners and behaviors changed. For instance, whenever Karim talked to Seif in the office, he referred to him as '*hag*' ('حج'), Arabic for *pilgrim*, it is a sign of respect to elders), no one would have guessed that Karim is talking to his brother as outside the office where they normally referred to each other by their names. Everyone in the business respects the other and behaves formally in the office, whether he/she is a family member or a non-family member. There is no preference or favoritism in Textile Egypt; in other words, a family member is not treated differently than a non-family member. Therefore, when it comes to business, a family member is to be punished the exact same way as a non-family member if they were to make the same mistake. For instance, back when Menna used to go to the office with Karim, whenever she was late to her job, her father would deduct from her salary the same amount as he would have deducted from a non-family member. Hence, Textile Egypt is making it very clear to everyone that if one is part of the family, it does not grant him/her the power to do whatever they wish to do. One has to be respectful, professional and formal in the workplace regardless of one's position in the family or the business.

Succession: The Way Ahead

There is no clear succession plan for the business yet, however, it is well-known that the more members of the generations are, the more the challenges the business can face. But actually, the partners were trying to prevent these challenges from happening by bringing their children to participate in the business and being trained in order to gain more experience about the business, and whoever is more experienced and has sufficient understanding about the business would be the future successor. However, in terms of managing, each of the second generation members, who already joined the business, has been given a specific job to work. And this was an attempt to prevent any future disputes to take place and to increase the efficiency of the business and taking benefits from all who are working. The main succession challenge is that there are two members of the second generation who are consistently working and investing in the business and are the main two whom the future CEOs will be chosen from, Seif's son, and Omar's son. Although the business owners were trying to prevent any disputes from happening, it will be difficult for them to prevent the competition that will be raised between these two members while choosing the future successor. As both of them are working hard for the business, they are investing equally in the business.

Dilemma Decision: The Predicament of the Protagonist

The main dilemma has started to heat up earlier within the past three to four years which has caused difficult and totally unexpected decisions to take place. Karim Eldeeb has been annoyed by some issues for a while now and he thought it was about time to speak up about them. He was not very pleased with Ali Shalaby's management style and the way he took care of things at work because the business has a strict rule not to decide on anything without everyone's agreement. When Karim el Deeb decided to consult Ali by giving him advice and trying to help him deal with things in better ways that would benefit the business, it has made the son, Ali, extremely angry and made him thought that his word is useless and not considered which eventually led to Ali deciding not to come to the factory once again until his word is taken to account. Ali did not come to work for approximately 3 to 4 months which has made his father, Omar, extremely upset, as Ali is his only son and he's to be his legacy at work. Therefore, this opposed the big challenge when the partners decided to split because this issue has raised another dilemma which is conflicts within the second generation.

As almost all members from the second generations aren't close enough and already feel the tension growing within their fathers to one another it would make it really hard for them to work together as a team in the future. So later, Karim el Deeb has decided that splitting the factory would be the best decision. As this decision was taken and everything was set to happen Karim El Deeb has requested that the factory stays with him and give the other partners their shares in cash, as Karim was the one who started everything up and built this factory with his own money. However, when they agreed on that point they noticed that it would be a huge loss to them (Shalabys) after assessing everything they thought that when they start a small factory from scratch it would take a long time to start gaining profit and it would take almost all their efforts all over again. So later, before signing the agreement they have changed their mind about splitting up and therefore a new challenge and dilemma rose as both El Deeb and Shalaby branches are not getting along. In the coming couple of years, the factory might face challenges in ownership and succession plans. Should the owner Karim El Deeb try to fix everything by creating new rules and governance plans to handle the conflicts? Or should they keep trying by bringing up the idea of splitting up?

Unanswered Questions

The challenges faced in the business are not only affecting the family relations but they will be also affecting the whole business operations in the future when it is all gone to the next generations especially that Karim El-Deeb is thinking of the financial issues that they will face if they chose the wrong decision at the end. Management will be highly affected if they can't see clear governance rules and a clear employment policy which will choose the employees based on their qualifications. Karim El-Deeb's decision concerning whether to split the business or not is a very critical decision that needs to think of the business from many aspects in order to be able to take the right decision in the end. If he decided to continue in the business, will he be able to overcome the family challenges that will arise between the next generation members? Regarding succession challenges that they face, how will they choose the upcoming successor, and how this decision will affect the family relations? Regarding the governance challenges, will the next family members join the business, will they be able to set clear governance rules, and follow them or will the disputes that exist among them hinder this? Regarding ownership challenges, will Karim El-Deeb be able to save his daughters' rights from the other partners as he doesn't have any sons? And how? Regarding the family dynamics issues that exist among the new family members, how will he be able to make them closer, and if he decides to do so, will they be welcoming this? On the other hand, if he decided to split the business will he and the other partners be able to bear all the financial issues that they will face?

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Timeline of Major Events

1991 - Textile Egypt was established

1993 - The first manufacturing plant: consisting of 38 weaving machines

1996 - Shifted production from producing cotton, viscos, and mixed fabrics to 100% polyester fabrics

2001 - First dyeing house that started production introduced their own plain dyed finished fabrics

2005 - Introduction of the two-flatbed printing machines and one rotary machine, which met all textile production needs.

2006 - Department of export shipped its first container towards Europe.

2012 - Started second dyeing house, which specialized in cotton dyeing and finishing

2016 - Added a second rotary printer to the printing department: consisted of four two-flatbed printing machines and two rotary printers

Exhibits

Exhibit 1: Weaving Sector

Exhibit 2: Dyeing Sector

Exhibit 3: Printing Sector

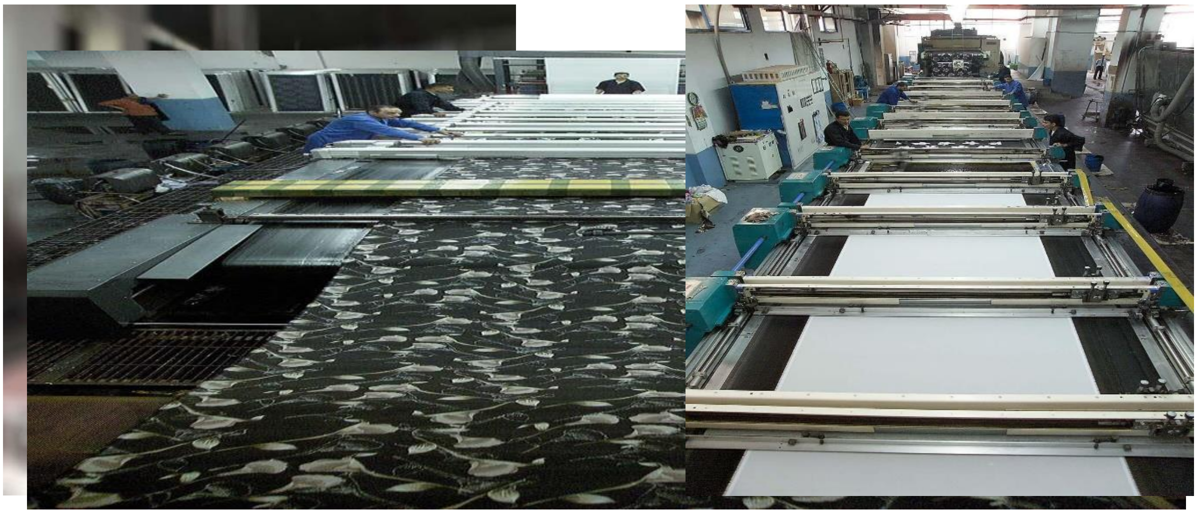


Exhibit 4: Finishing Sector

Exhibit 5: Participating Manufacturers in 2017 vs 2018

Participating manufacturers in 2017 Vs 2018

#	Sector	2017	2018	% growth
1	Apparel	29	52	79%
2	Textiles	12	15	25%
3	Home Textile	5	6	20%
4	Rising Stars	12	13	20%
5	Regional	14	20	43%
	Total	***72***	***106***	***47%***

Exhibit 6: Family Genogram for Eldeeb Family

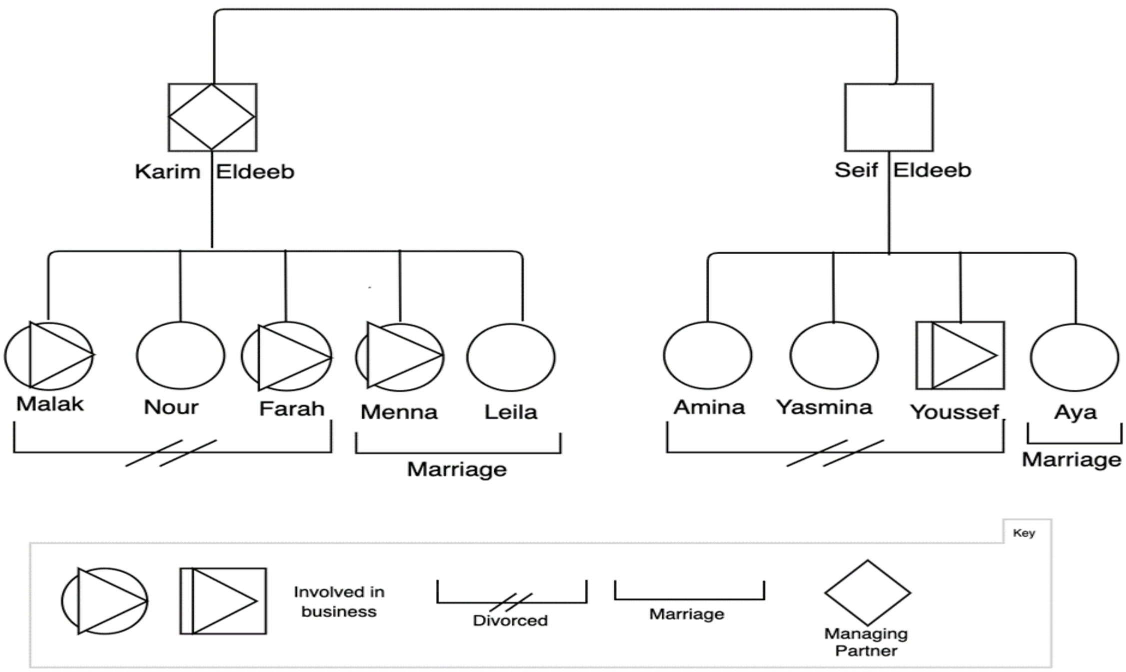


Exhibit 7: Family Genogram for Shalaby Family

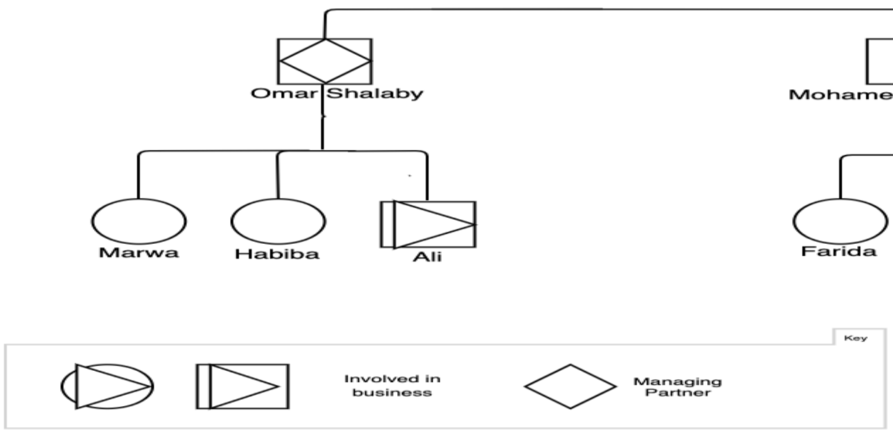
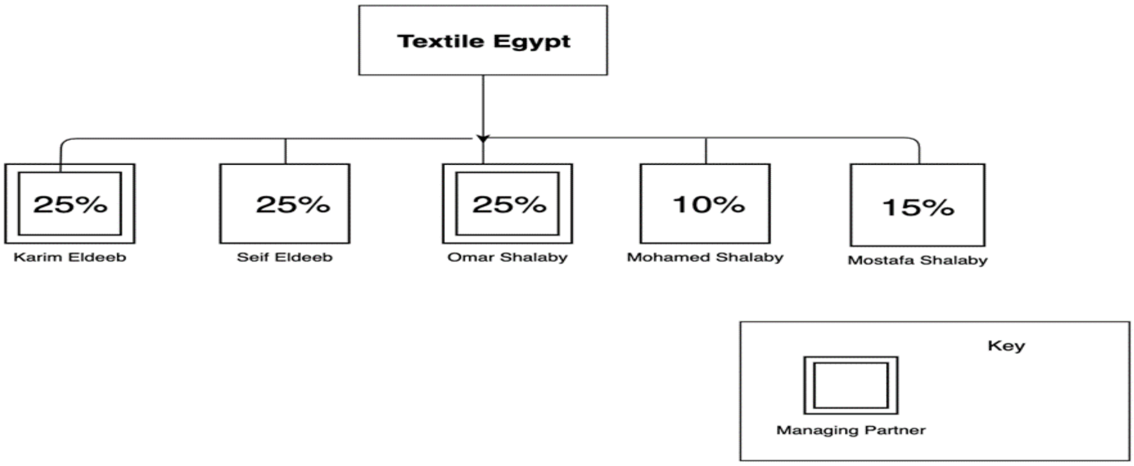


Exhibit 8: Ownership Structure



Textile Egypt Company: Understanding Family Challenges

Teaching Note

This case was written by Dr. Ashraf Sheta Visiting Assistant Professor at the American university in Cairo (AUC), Suzanna Hanafy, Sara El Kafrawy, Laila Hamada, Shada Emara, Salma Mahmoud, Youssef El Gouhary

It is intended to be used as the basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation.

The case was compiled from field research

Case Synopsis

This case addresses Textile Egypt, a factory in the Textile, Dyeing, Printing and Finishing industry located in 10th of Ramadan, Cairo, Egypt. The case starts with a major dilemma that Karim Eldeeb is facing. It then takes a look into the background overview of the company's history, how it began and its progress over the past years. The case then discusses the challenges that Textile Egypt is facing and how it relates to Karim Eldeeb's dilemma. These challenges include issues in family dynamics, ownership challenges, succession planning, management issues and lack of governance and institutionalization. The main issue that Textile Egypt is facing is whether they should separate from their partners for the sake of the second generation members, or not. The partners have been having disputes and disagreements over their sons' management techniques. This case examines all these issues exploring whether separating would be a better option.

Keywords: Family business, Family dynamics, Governance, Succession, Professionalism, Strategy, Culture.

Teaching objectives

The instructors' goals for teaching this case:

- Analyze the different challenges that family businesses face in Egypt.
- Understanding the difference between management, ownership, and family.
- Understanding the succession challenges and the importance of having a succession plan.
- Ability to detect and resolve family challenges.
- The challenges faced in the family business when the generations of the family increase.
- The importance of governance planning in relation to culture and traditions.

Target Audience

The target audience of this case is undergraduate students studying family business related coursework. Students should have basic business knowledge and entrepreneurship exposure. Familiarity with family business concepts like ownership, succession planning, and governance is key to understanding the case. The case can also be used by family business owners of the first and second generations to get an outside perspective of governance, succession, and ownership. In other words, this case will really benefit the older generations of the business as it will expose them to different dilemmas and how to deal with them. Furthermore, this case can also be used by second or third generations, who are willing to take the lead after their family to get an idea about the challenges they might face during the early start of their career, concerning, for example, the distinction between family relations and business affairs.

Assignment Questions

1. What are the succession challenges faced by the family? Suggest solutions.
2. Should the owners separate to avoid future challenges or remain partners and try to solve rising issues?
3. Explain your suggestions to overcome the governance challenges
4. From a professional perspective, what are the main questions faced? How can it be overcome?

Teaching Approach

This case is directed to undergraduate students taking family business courses. The optimal approach to teaching this case is to give the students three days to read it before discussing it. The instructor should then ask the students about recommendations and the important concepts and ideas that grabbed their attention regarding this case. Furthermore, the instructor should stimulate some discussion. After that, s/he can divide the students into groups and ask them - questions regarding the challenges faced and how to solve them. Each group will answer those questions based on their opinion. In addition, the students can be asked to answer those questions individually and submit them within a specified number of days. Answering the questions in groups would be a better approach as it allows for the integration of different ideas together. Some of the questions below can stimulate the students' thinking and be asked in class.

Discussion Plan

Students should read and analyze the case before the class discussion During the discussion, the students should cover the following important topics: ownership (challenges and resolution), governance (challenges and resolution), succession challenges, transfer of power, professionalism (challenges and resolution).

The main themes that should be discussed are:

1. Ownership versus management.
2. Family business challenges.
3. Succession planning.
4. Importance of governance.
5. Strategic planning in family business based on internal and external environments.

Research methods

The primary source of data was face-to-face interviews with Mr. Karim Eldeeb and his daughter Ms. Menna Eldeeb, completed in the period between March and April 2020. The secondary sources were some annual reports from Textile Egypt as well as its official website.

Suggested class schedule

The case is designed to be taught in approximately 90 minutes, including time for discussion. The following table can be used as a guide to case discussion organization.

Topic	Time
Introduction	10 minutes
Question 1	15 minutes
Question 2	15 minutes
Question 3	15 minutes
Question 4	15 minutes
Conclusion	10 minutes

Case Analysis (Answers to Case Questions)

1. **What are the succession challenges faced by the family? Suggest solutions. (This question can be in the form of discussion between teams in class, within the succession theory)**

   There is no clear succession plan for the business yet, and there are many members in each generation, which complicates the succession decision. The main succession challenge is that there are two members of the second generation who are consistently working and investing in the business and are the main two people who one of the most will be chosen as the future CEO, Seif's son, and Omar's son. It will be very difficult to the competition that will be raised between these two members while choosing the future successor. Both of them are working hard for the business and equally investing in it, which makes each one of them believe that he has the right to become the next CEO. Another reason why coming up with a succession decision will be difficult is because there is a lack of communication among the second generation members in the two families, which makes it harder for them to negotiate decisions together. Therefore, there should be a future plan laid out regarding the rules and qualifications of the coming CEO. This is because the ownership and shares division will most probably change very soon as Karim Eldeeb plans on splitting his shares equally amongst his five daughters, each having 5%. So in order for them to come up with a fair decision, they must set very specific qualifications regarding the roles and level of experience needed from their future CEO, and whoever fits the most for this position will be chosen. Another option can be creating a voting process, and still this will depend on who else will join the business from the second generation.

In all cases, it is better to have everything written down and agreed upon earlier in order to prevent any possible succession challenges or disputes. Regarding the absence of communication, one of the key issues that differentiates Textile Egypt from any common family business, is that it is owned by two separate families and not one. In this case, there isn't any consistent communication between the second generations, since they rarely see each other. However, until this moment the full picture is not clear yet regarding which of them will join the business and who won't. So it is very important for all of them to start building connections and communicating with one another. The only way they can save the business from the many possible disputes is by acting as one family and not two. This means that they need to meet outside of the company and build friendships, because they will not only be future colleagues but also the main shareholders and decision makers of Textile Egypt. This decision should be made by all four founders, since they are already friends and are capable of holding gatherings that will help connect their sons and daughters together. This will prevent any possible rivalry or competition between them after they have all formed one team and one family with the same vision.

2. **Should the owners separate to avoid future challenges or remain partners and try to solve rising issues? (This question can be in the form of debate between teams in class, within the ownership theory)**

This is a demanding question that has been on the mind of Karim Eldeeb for the past couple of years. He has assessed the advantages and disadvantages of either choice and found that they are both serious situations in which a lot of effort is required. Karim Eldeeb personally believes that it would be easier if they were to split to reduce the issues among managing partners, the second generation members and between both generations. Karim Eldeeb is aware that this is an extreme financial strain on the business and a load of stress on him as well; however, he believes that this could be more beneficial in the future. In the case of splitting the business, Karim and Seif Eldeeb will be the ones keeping the business and Omar and Mohamed Shalaby will be leaving and starting again. Hence, it is not an advantage for the Shalaby family as they had assessed before and found that it would actually be a financial loss. Therefore, convincing them to agree to a split would be extremely difficult and probably impossible. Hence, the more logical and rational answer to this dilemma is for the two families to remain partners and work on dynamics issues. However, to properly assess we should compare the pros and cons for each alternative.

Alternative 1: Eldeeb and Shalaby Family Should Separate

Pros:

1. It will reduce a lot of the ownership, succession and family dynamics issues and possible future challenges.
2. There won't be a lack of communication between the two different families.

Cons:

1. Create a financial strain on the business because production will stop while the business is in the middle of a separation.
2. Will be hard to convince the Shalaby family because they will be the ones to leave and take their assets as cash. Will have to rebuild a factory and will be a huge financial strain on him.

Alternative 2: Remain Partners

Pros:

1. Production will not stop during separation process
2. No financial strain for either family

Cons:

1. More effort required to deal with ownership, succession and family dynamics issues
2. The more second generation members, the more issues

Final Decision: Remain Partners - To remain partners and try to solve rising issues is probably the option that should be taken even if not the most beneficial. It will require a lot of work, effort and time to work on these issues. The first step is to have defined roles for the second generation members to avoid conflicting issues. Additionally, defined roles will help ensure that no one interferes in other roles and departments. The second step in the case that partners do not split is the creation of three different family councils. One family council for the Eldeeb family that will ensure family gatherings, outings, or even short trips. Another family council for the Shalaby family that will be aimed at doing the same. Lastly one council that consists of both to allow the second generation member from both families to get to know each other outside the work environment. I think this is very beneficial because the current second generation members rarely know each other. This will increase the bond and ties between the members and allow them to enjoy working together. The third step will involve setting strict employment policies for future family members in case they want to join with a specific contract. For example, three of the daughters of Karim Eldeeb are married with children and are housewives, so they try as much as possible to go to the company; however, it is not a full-time job. Additionally, they always put their kids first; hence do not go every single day. His two youngest daughters, Menna and Leila are still studying and want to find their own paths. Menna is a psychology student at the American University in Cairo and considers psychology her full-time career. However, she does occasionally go to the business just to understand what is going on. The lack of commitment is a serious issue and there needs to be a sense of commitment and plan for future generations. Leila the youngest daughter is sixteen years old and still a junior in high school. She is still unsure of her future interest, but the business is definitely the last thing on her mind. She also considers it a secondary thing next to her field of interest. The reason for that lack of commitment is because they know that they will always have a place in the company, so they do not have to prove anything. Therefore, it is extremely significant to have strict employment policies for family members to ensure that it is not a given for all family members to join.

3. **Explain your suggestions to overcome the governance challenges (This question can be in the form of discussion between teams in class, within governance theory)**

In order to overcome the governance challenges especially in the future, Karim El-Deeb should form specific guidelines and actions in order to sustain the business:

-They should have a clear **employment policy** with the qualifications needed for each position to overcome the challenges that can be faced because of the sense of nepotism that they have while hiring the family members as employees, and in order to save the family relations, they can do special training sessions for the family members to improve their qualifications in order to be in the position they apply for. And they could leave the space for the non-family members to have the same chances to be employed in the company as the family members to overcome any professionalism challenge, and help the company to be more efficient.

-Regarding the **family values** that they have which are trust, integrity, respect, and loyalty they need to make these values documented as they are needed now more especially because of those who join the business from the second generation, as when the generation increase, the values may not be rooted inside them as those who have founded the business, as thee values are important to save the identity and image of the business in front of the customers.

-Regarding the family relations, the members of the second generation are not as close as those of the first generation, and this can be solved by some governance plans such as **incepting a family constitution** so they family members will meet frequently to discuss the business, furthermore, the relations will be closer, they also can be decided on some trips that all the members of the second generation have to join so this may make the relations between them better, and help create a good environment for the 2nd generation to join peacefully and productively.

-Regarding the fact that most of the second generation are females, and this puts a glass ceiling for the second-generation female members in terms of ownership and succession because of gender and culture issues, and that it is not easy for women to work in factories and that they can actually be hired in positions that require hard work and dealing with the employees in the factories they can be placed in the designing, marketing, finance, and any other department that goes along with their gender, taking in consideration their qualifications, in order to make them participate in the business at the same time not to face any gender or culture issues.

-**A board of directors** reinforces family business governance and structure. When a board of directors is in place, the family can rely on the board for guidance, conflict management and decision-making. This can alleviate the stress that is often placed on the individuals tasked with overseeing a family-owned business. The Board of

Directors is tasked with resolving various issues and providing guidance, with the ultimate success of the business as a top priority. Family members can rely on the board to make unbiased business decisions that may otherwise be impossible to reach. So having a board of directors and allowing some non-family members to be part of it will help to conduct the business operations in a more efficient way which will help the business as it is becoming much bigger.

4. **From a professional perspective, what are the main questions faced from a professionalism perspective? How can it be overcome? (This question can be in the form of discussion between teams in class, within the professionalism theory)**

   Having a non-family member become a CEO comes with some advantages and disadvantages. Non-family members will provide critical skills to the business, establish benchmarks for managerial performance, help govern the relationship between family and management and it is also essential for the health and continuity of the business. Nonetheless, having a non-family member as a CEO can give birth to suspicions (e.g. fear that the non-family member steals from the company), mistrust, more succession challenges and it can even create tensions and competition between the other non-family employees. In Textile Egypt, having a non-family member as a CEO is not acceptable. There are two CEOs, Karim and Omar and no decision can be taken without their permissions. Textile Egypt is not a family business that has been running for centuries where generations started growing and each person has a very small share that he/she inherited from previous generations. Textile Egypt is still in its first/second generation phase. Hence, having a non-family member as a CEO sounds a little bit far-fetched nowadays. It would definitely benefit the company more in the future. However, as for today, it is not that great of an idea.

Online Case Teaching Approach

The nature of online courses must be mainly interactive, mainly depending on individual and group participation, debates, and discussions. This is a challenge faced by courses that are moved from a physical classroom to a digital one; accordingly, the case delivery should make use of blended tools. In order to achieve the learning outcomes and preserve the interactive nature of the case discussions, the case discussion will be conducted during class time. The reasons are:

- To ensure fair opportunity amongst students regarding participation and interaction
- To provide the maximum amount of information and learning
- To provide more time for answering questions during class
- To provide more time for exercises during class

Synchronous tools are preferred over recorded ones The potential tools for delivery include Zoom, Microsoft Meet, and Google Classroom (according to university policy/preference). Students will interact with the instructor, and will occasionally be divided into groups within a chat room, breakout room, or discussion board in order to stimulate debates and discussions.

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