FAMILY FIRMS AS A FACTOR IN LEBANON'S INDUSTRIAL GROWTH

By

Emilie Shwayri

Submitted in partial fulfillment of
the requirements of the degree of
Master of Business Administration
in the Business Administration De-
partment of the American University
of Beirut, Beirut, Lebanon.

June, 1964

FAMILY FIRMS AS A FACTOR IN LEBANON'S INDUSTRIAL GROWTH

By

Emilie Shwayri

ACKNOWLEDGEMENT

I would like to express my gratitude to Professor Samir Khalaf, Chairman of the Sociology Department at the American University of Beirut, for the encouragement and advice he has constantly given me since I started working on the present study. I am glad to record here my deep appreciation of the guidance and valuable criticism he has offered me all along.

Gratefully acknowledged are the pertinent remarks made by Professor Shaw Livermore, Chairman of the Business Administration Department at the American University of Beirut, who has critically reviewed the entire manuscript.

I am also indebted to Mr. Nabil Ladki, Second Executive Secretary at the Association of Lebanese Industrialists, for his generous assistance.

Finally, I owe special thanks to those ten industrialists who kindly accepted to answer my numerous questions.

ABSTRACT

The role that family firms play in a country's march toward industrialization is a subject which has divided students of economic development into two groups: those who believe that patrimonial enterprises promote industrial growth and those who hold the contrary to be true.

Among the various charges made against family firms, the most serious ones are those of nepotism, conservatism, paternalism, centralization of authority, lack of planning, placing inordinate stress on safety and security. Patrimonial managers, it is argued, tend to view their enterprise as a sort of private kingdom. For them the business is a family affair, to be run and controlled by the family in the interests of the family.

Other students of economic development are inclined to reject such arguments and maintain that family firms have in fact an important role to play in the early stages of industrialization. In countries which are in a "transitional stage," the argument goes, the family may be the main source of initial capital for investment. Moreover, the family's "backing" may be the best--if not the only--means for securing bank loans. It is also argued that in an industrializing society where men cannot rely on strangers to give faithful service, the family may be the most effective unit for large-scale enterprise.

From all that has been said and written on this topic, it would

appear that while family firms may have an important function to fulfill in the early stages of industrialization, there comes a point where they are more likely to hinder rather than promote industrial growth. The patrimonial enterprise is usually most effective in small and relatively simple organizations such as retail and wholesale trade, craft industries, and small or medium-sized industrial plants. In such cases it is relatively easy for the family, particularly the extended form, to recruit and generate from within its own orbit most of the managerial resources needed. However, if large-scale and complex enterprise is either required or undertaken, the family is eventually forced to bring in outsiders, whose qualifications are mainly professional training and competence. In short, technological and organizational development tends to favor professionally oriented or careerist rather than patrimonial management.

It is particularly interesting to study the role that family firms play in Lebanon's industrial growth for a number of reasons. First, Lebanon is a country where most businesses are family enterprises. Second, most of the important industrial enterprises happen to be family firms. Third, the environment presents certain peculiarities which have much in common with some of the charges made against patrimonial enterprises. For example, family loyalty is a basic value-orientation in Lebanese society. The family is the fundamental social unit, and family obligations take precedence over other obligations. Since serving one's family is a first prerequisite for gaining approval, the natural outcome of such a state of affairs is the prevalence of nepotism.

Economically speaking, the country is in a "transitional stage". While trade remains the main activity of the Lebanese, the industrial sector is nevertheless growing. There is, however, a serious shortage of medium-and long-term credit facilities, and no organized money market exists.

The inquiry concerning the role that family firms play in Lebanon's industrial growth centered around the case-studies of ten patrimonial enterprises. Depth-interviews were conducted in these organizations, and the information thus collected was examined in the light of the theoretical framework. Some unexpected results emerged from the analysis. For example, no apparent sign of nepotism was found in any of the family firms. It was also discovered that Lebanese patrimonial enterprises, far from trying to maintain the status quo, are eager to adopt new techniques and products whenever investigations indicate that they are likely to be profitable.

But of course, the picture is not entirely rosy. There are some dark spots. For example, centralization of authority prevails in all ten family firms. However, such centralization is not of the "suffocating" type. While there is no vertical delegation of authority, there is, on the other hand, an effective horizontal sharing of decision-making power.

In short, the general conclusion that emerges from the present study is that at this stage of Lebanon's economic development, family firms cannot be accused of retarding the country's industrial growth.

On the contrary, there are good reasons to believe that in this stage of transition family enterprises have an important function to perform, both as a source of capital and as a basis for "trust" between business associates. Many of the charges made against family firms elsewhere must be qualified when it comes to patrimonial enterprises operating in Lebanon. There are two reasons for that: either the accusation has no foundation (as in the case of conservatism, for example), or the charge made cannot be considered as peculiar to family firms but applies to all industrial concerns operating in the country.

TABLE OF CONTENTS

PART II. THE SETTING

PART III. EMPIRICAL RESULTS

PART I

THEORETICAL FRAMEWORK

CHAPTER I

INTRODUCTION

I. GENERAL PROBLEM

It is often stated in the literature on economic growth that among the cultural factors impeding development is the extended family system. The extended family's control of an enterprise, the argument goes, enables less competent members of the family to hold managerial positions for which their training and ability would not otherwise qualify them. The effective decision-making authority is centered in the family, and the goals of the enterprise are oriented toward the interests and the aspirations of the family. Family loyalty and obligations take precedence over other loyalties and obligations.

Let us examine some of the outcomes of such a state of affairs.

In these family-dominated enterprises authority is highly centralized. Patrimonial managers[1] are reluctant to delegate authority and they tend to think of their authority in terms of personal power rather than in terms of a necessary function related to, and coordinated with, other equally necessary functions within the enterprise. The

---

[1]The term is used here as defined by Harbison and Myers: "Patrimonial management is business management in which ownership, major policy-making positions, and a significant proportion of other jobs in the hierarchy are held by members of an extended family." (Frederick Harbison and Charles A. Myers, Management in the Industrial World: An International Analysis (New York: McGraw-Hill Book Company, Inc., 1959), p. 69.)

enterprise is seen as some sort of private kingdom. From the viewpoint of the efficiency of the firm, the consequences of the reluctance to delegate authority are usually very negative, to the point that they may even jeopardize the possibility of its perpetuation and further development. In fact, the logical outcome of the refusal to delegate authority is the unwillingness or the inability to train junior executives and young assistants. Another outcome is the absorbtion of the owner-managers in day-to-day details of operation; no time is found to reflect, plan, and determine future policies.

An immediate consequence of this highly centralized authority is the lack of precise job definitions and classifications. It is rare to find in family firms a clear functional and organizational chart. Job analysis, job description, and precise relations between one job and the other are problems still to be tackled.

Another detrimental outcome of patrimonial management is that foremen are not considered part of management.

> Without competent foremen, the ability and desire to apply technical improvements in the work process will be weakened, and productivity will suffer correspondingly. Securing effective first-line supervisors requires that top management make an investment in their training and development and also give them the necessary authority to carry out the responsibilities which have been assigned to them. In other words, effective first-line supervisors must be made a part of management, if they are to help achieve the goals of the enterprise.[1]

---

[1] *Ibid.*, p. 30.

It is argued that the motivations of professional managers differ from those of patrimonial managers. The pressures operating on the professional managers are predominantly thechnology-oriented, manifesting themselves in concern for the relatively full utilization of natural and human resources within the economy, resulting eventually in full employment, high productivity and wages, and lower prices. These managers are motivated by an almost sportsmanlike desire to expand production and improve the competitive ability of the firm in the economy. In contrast, patrimonial managers appear to be profit-minded in an exclusive sense which rarely goes beyond the members and interests of the family. They aim at a high profit per unit of production whether this means expansion of production or not.

The conservatism of family firms has also been widely decried. Owner-managers, it is held, are inclined to maintain the status quo. They tend to stick to old methods and lack this willingness to venture and to learn which is an essential condition of economic development.

These, then, are some of the arguments advanced to support the view that the extended family is, more often than not, unfavorable to economic growth, and that family-dominated enterprises are bound to be inefficiently managed. To quote the authors of <u>Industrialism and Industrial Man</u>,

> In the pre-industrial society, loyalty and obligations to the composite family are considered 'good' and family-oriented behavior is commendable. But in advanced industrializing countries, preference for family members--whether in managerial positions or in industrial employment--is called 'nepotism' and considered undesirable... The

> logic of the industrialization process requires that selection and promotion be made on the basis of ability and competence. Thus, industrialization inexorably clashes with the joint family; it demands performance and loyalty to the enterprise and to the work group rather than to the extended family as such.[1]

But students of economic development do recognize that there are some circumstances in which the extended family may promote rather than impede development. In countries where the family is one of the dominating social institutions in the society, the family enterprise is a simple and logical instrument of business activity. In an industrializing society "...where men cannot rely on strangers to give faithful service, the family may be the most effective unit for large scale enterprise."[2] It may be the main source of initial capital for investment when only close relatives may be persuaded to lend money. Patrimonial management may be especially effective in the early stages of industrial development. "In a society where trained skills are scarce and the sons of the wealthy have much of the training, nepotism may be relatively costless."[3] If the key members of the family dynasty are competent, well educated, and diligent, patrimonial management may be quite dynamic. This is well illustrated by some of

---

[1]Clark Kerr, John T. Dunlop, Frederick H. Harbison, and Charles A. Myers, Industrialism and Industrial Man (Cambridge, Massachusetts: Harvard University Press, 1960), p. 81.

[2]W. Arthur Lewis, The Theory of Economic Growth (London: George Allen and Unwin Ltd., 1955), p. 114.

[3]Harbison and Myers, op.cit., p. 20.

the patrimonially oriented enterprises in Germany in which the typical industrialist is usually himself a man with extensive technical or professional education. He frequently exerts great pressure upon his sons or sons-in-law to prepare themselves for the responsibilities they will be "called" to assume. Thus, when motivated by a creed of hard work and determination to acquire or maintain a position of power, the family enterprise can be a very effective agent of industrialization.

The issue presented above can be stated as follows: Does patrimonial management breed inefficiency? In other words, do family-dominated enterprises act as deterrents to industrial growth? Or is the contrary true? That is, does patrimonial management foster efficiency, as a result of which it may be said that family firms promote industrialization? The present thesis is an attempt to answer these questions with respect to Lebanon.

II. LIMITATIONS

There are two limitations to the present study which are somehow inevitable. The first concerns the size of the sample. Since it is composed of only ten family firms, one may question the validity of generalizations based on it. This, however, could hardly be considered as a very serious limitation. Given the nature of the present research, the intensive approach appears to be more appropriate than the extensive one. In such an inquiry, more relevant data could be gathered by conducting depth-interviews in a limited number of firms than by surveying superficially a larger number of enterprises.[1] Also, limitations of time and resources dictated the selection of a relatively small sample.

The ten family firms composing the sample were selected on the basis of an objective criterion, namely, "largest number of employees."[2] The reason for adopting such a criterion is that patrimonial management is generally considered appropriate for small-scale enterprises with a limited number of employees. It is held to be inefficient only in firms which have already reached a certain size. It would be inappropriate, then, to include small-sized family firms in our sample since they have no bearing on the issue under consideration.

The second limitation of the present research is its relative deficiency in comparative analysis. The writer is fully aware that collecting empirical material for both family and non-family firms and then undertaking a comparative analysis of the findings would have strengthened the conclusions reached. Due to limitations of time and resources, such a comparative effort will have to be postponed until some future date. It certainly deserves an independent research project. In spite of such limitations, however, attempts were made to compare our findings with what other writers have said about industrial enterprises in Lebanon.

---

[1] Needless to say, penetrating analyses revolving around a single case-study have been undertaken more than once in economics and sociology.

[2] See Methodology, Appendix C.

The present research is a preliminary pilot study. It deals with a topic which, in Lebanon, has hardly been touched. Though much has been written about Lebanese industrial enterprises in general, no intensive study of family firms and the role they play in the country's march towards industrialization was ever made. If this paper succeeds in stimulating a frank exploration of the problem and suggesting some new lines of thought, it will have served its purpose.

CHAPTER II

FAMILY FIRMS AND INDUSTRIALIZATION

> In the final analysis, a nation's progress depends upon its capacity to organize human activity. Organization is necessary to create a state, to build an army, to propagate ideologies and religions, or to carry forward economic growth....In the march toward industrialism, capital, technology, and natural resources are but passive agents. The active forces are 'human agents' who create and control the organizations and institutions which modern industrialism requires. They are the ones who build and manage the enterprises which combine natural resources, technology, and human effort for productive pruposes. They shape the organizations which link men together with new chains of authority and subordination, which spawn the new centers of power and thus accomplish the transformation from preindustrial to industrial society.[1]

The recovery of the German economy from the shattering impact of war and its aftermath has been one of the spectacular developments in the postwar world. Several studies have been made of the factors underlying the economic comeback of West Germany, and there is hardly one which does not mention the efforts of management as instrumental to such achievements. "Management has been identified as the major agent of the 'Wirtschaftswunder' (economic miracle)... These men were the organizers of West Germany's phenomenal economic recovery and expansion."[2]

---

[1]Harbison and Myers, op.cit., pp. 3-4.

[2]Heinz Hartmann, Authority and Organization in German Management (Princeton, New Jersey: Princeton University Press, 1959), p. 2.

In the space of a half-century following the Meiji restoration in 1868, Japan emerged from a feudal structure into a modern state with a large sector of its economy organized along industrial lines. "Japan is poor in raw materials. She must import not only food for her people but also most of the raw cotton, petroleum, and iron ore for her factories. Obviously, it is organization and management, rather than abundance of raw materials or capital, which have been major determinants and have enabled Japan to rise above the world's underdeveloped countries."[1]

In the two examples cited above, management has been the key factor in fostering economic development; conversely, management can stand as an obstacle to industrial growth, as has been the case in Brazil.

> It has long been fashionable to attribute the deficiencies of the textile industry to its obsolescent equipment, but a recent report by the United Nations Economic Commission for Latin America concludes that the principal reason for the low productivity in Brazil is not the lack of modern equipment (although that is very important, too, in some of the older mills) but the poor organization and administration of the factories.[2]

While most, if not all, students of economic development recognize the importance of management, they tend to disagree as to whether patrimonial management is a hindrance to, or an agent of, industrialization. For example, Landes and Sawyer have emphasized

---

[1]Frederick Harbison, "Management in Japan," in Harbison and Myers, op.cit., p. 250.

[2]George Wythe, "Brazil: Trends in Industrial Development," Economic Growth: Brazil, India, Japan, eds. S. Kuznets, W.E. Moore, and J. Spengler (Durham, N.C.: Duke University Press, 1955), p. 43.

that it is the family character of French business enterprises that has been the main retarding factor in France's economic development, while Habakkuk and Gerschenkron reject this thesis. Observes Habakkuk:

> In the French case it looks as if the character of enterprise was primarily a product of the economic environment rather than the reverse. For foreign concerns of France behaved in much the same way as the French, and the great corporations behaved in much the same way as the family. Moreover, the family firm was a common feature of nineteenth century capitalism, and elsewhere proved not only not incompatible with rapid progress but its main agent.[1]

As to Gerschenkron, he points out that:

> ...most of the factors mentioned by Professor Landes find their counterpart in the German economy. The strength of pre-industrial social values was, if anything, greater in Germany than in France. The family firm remained strong, and the lower entrepreneurial echelons behaved in a way which was hardly different from that in France...Yet, the German rate of industrial growth in the second half of the 19th century exceeded that of France.[2]

According to these writers, the reason for the lag in French growth is to be found elsewhere than in the family character of the business enterprises.

In the light of such conflicting opinions it becomes appropriate to survey the literature in an effort to assess the role that family firms play in industrialization. What empirical observations have led certain students of economic development to consider family firms as deterrents to industrial growth while other students, on

---

[1]H.J. Habakkuk, "The Historical Experience on the Basic Conditions of Economic Progress," Economic Progress, ed. Leon H. Dupriez (Louvain: Institut de Recherches Economiques et Sociales, 1955), p. 159.

[2]Alexander Gerschenkron, "Social Attitudes, Entrepreneurship and Economic Development," Ibid., p. 321.

the basis of their investigations, reach the conclusion that family firms are "agents of industrialization"? This inquiry into the pros and cons advanced by students of economic development with respect to the role played by family firms will be followed by a discussion of the factors undermining patrimonial management.

I. FAMILY FIRMS AS DETERRENTS TO INDUSTRIAL DEVELOPMENT

A. Goals and Aspirations of Family Enterprises

It has often been observed that the goals and aspirations of family enterprises are such that they run counter to any efficient organization and growth of the firm. Such observations have been made in "relatively backward" countries--that is, countries that are no longer predominantly agrarian nor yet fully industrialized--like France and Italy, and in countries still less developed, like Latin America, where a large proportion of firms are family firms. These family enterprises have been typically preoccupied with assuring the status of the family over time, "trying to make the business into a family annuity,"[1] maximizing security and continuity rather than any combination of more dynamic objectives.

In France and Italy, for example, it is often impossible to distinguish between the objectives of the family and the objectives of the firm. As David Landes points out in a penetrating study of French business enterprise, "The business is not an end in itself, nor is its purpose to be found in any such independent ideal as production or service. It exists by and for the family, and the honor, the reputation and wealth of the one are the honor, wealth, and reputation of the other."[2] Franco Ferrarotti, in his study of Italian

---

[1] John E. Sawyer, "Social Structure and Economic Progress: General Propositions and Some French Examples," The American Economic Review, Vol. XLI (May, 1951), p. 327.

[2] David S. Landes, "French Business and the Businessman: A Social and Cultural Analysis," Modern France: Problems of the Third and Fourth Republics, ed. Edward Mead Earle (Princeton, New Jersey: Princeton University Press, 1951), p. 336.

business enterprise, observes that "Business in Italy is never regarded as an end in itself. Business is a pure and simple means, one of many and probably not the best one; the end, supreme and all-pervading, is the family--its economic security, its social prestige and respectability, its moral honor."[1]

In such a system, the compulsive urge toward growth inherent in business for the sake of business is either diluted or absent. In France, the family firm, large or small, is run like a household or, more specifically, a bourgeois household. The primary concern is to live well within one's means, saving as much as possible. Translated into business terms, the main objective is to avoid use of credit and to make the highest rate of profit possible on a given turnover; to amortize expenses rapidly and build up huge reserves; and to finance expansion out of such reserves, or by what the French call "autofinancement."[2]

The inhibitive effect of this emphasis on conservation and consolidation is reinforced by an all-overriding concern for family independence. The French entrepreneur is inclined, if anything, to postpone opportunities for development, simply because expansion might sooner or later compel recourse to outside capital and seriously, if not definitively, compromise the exclusive character of the enterprise.

---

[1]Franco Ferrarotti, "Management in Italy," in Harbison and Myers, op.cit., p. 247.

[2]Landes, op.cit., p. 338.

This concern to keep free of debt and to avoid reliance on outside credit makes the businessman "a care-taker rather than a risk-taker."[1]

The growth of family firms is also limited in other ways. Because of the increasing difficulties of management when the size of the firm expands, and because they do not want to bring in "outsiders", the owners of family firms might prefer to be content with only a limited rate of development.[2] This is true even in Germany, a country where, in contrast to France and Italy, owner-managers are known for their dynamism. Heinz Hartmann, in his case study of a family firm, reports that "the family of the owner once declined to buy up an adjacent establishment of its own branch of business because 'we feared the company would grow too big for personal control.'"[3]

Furthermore, a strong family system impedes mergers and other changes in ownership desirable for higher levels of technological efficiency and better adjustment to markets. In his study of business enterprise in Puerto Rico, Thomas Cochran writes, "Many sugar centrals had become uneconomically small, yet in spite of wide recognition of this fact, there were no mergers of these family-owned mills... These entrepreneurs would not reconcile themselves to giving up their proprietorships by merging their interests with those of other families."[4]

---

[1]Frederick Harbison and Eugene Burgess, "Modern Management in Western Europe," The American Journal of Sociology, Vol. LX, No.1(July, 1954), p. 19.

[2]C.N. Vakil and P.R. Brahmanand, "Technical Knowledge and Managerial Capacity as Limiting Factors on Industrial Expansion in Underdeveloped Countries," in Dupriez (ed.), op.cit., p. 283.

[3]Hartmann, op.cit., p. 72.

[4]Thomas C. Cochran, "Cultural Factors in Economic Growth," The Journal of Economic History, Vol. XX, No. 4 (December, 1960), p. 526.

Family interests may dictate the form of business organization. It is interesting to note in this connection that in France the greatest company of machine builders and engineers, Le Creusot, despite the fact that its shares are actively traded on the exchange, remains a partnership in which the active partners have been drawn for over one hundred years exclusively from the Schneider family.[1] The very business form of which Le Creusot is one of the outstanding examples, the "commandite par actions,"[2] is proof of the desire to get outside capital without yielding personal and family control and responsibility.

The same spirit of "xenophobia" characterizes the family firm in Latin America. To quote Stanley Stein,

> Small groups of industry-minded men had set up the early textile mills...Inheritance only distributed the solid blocks of shares among numerous relatives, and marriage within the groups crystallized new groups related to the older stockholding family members... There was the traditional principle of insulating the corporation from outsiders. Company statutes were fashioned as far as possible to avoid, within the law, entrance of outsiders into the corporation without the consent, tacit or expressed, of all the stockholders, as well as to maintain an equitable system of stock transfers and to guarantee the stability of the company administration. Preservation of the industrial patrimony--'stability'--was facilitated by avoiding any divorce between ownership and management. Into the mills were niched the sons, sons-in-law, nephews, and godchildren of the management.[3]

---

[1] Landes, op.cit., p. 337.

[2] The "commandite par actions" is a form of sleeping partnership whose distinguishing characteristic is the representation of ownership, as opposed to management, by stock negotiable in the market. The active partners, as might be expected, are in sole charge of operations and are liable to the full extent of their fortunes for any debts incurred by the company. This type of firm has also been popular in Germany, where it is known as a "Kommanditgesellschaft auf Aktien". It is interesting to note that although the same form of business organization is provided for by statute in various states of the United States, it has, for all intents and purposes, never been used.

[3] Stanley J. Stein, "The Brazilian Cotton Textile Industry, 1850-1950," in Kuznets et al. (eds.), op.cit., p. 438.

Finally, it should be noted that an attitude such that of the French owner-manager has significant political implications. "It means that much that the country does is judged primarily or exclusively according to its effect on the fortunes of the family, and that loyalty to family interest is placed before loyalty to the government or to some such abstract principle as respect for law...The result is a lack of good citizenship, which shows itself in a variety of ways, such as, for example, tax evasion."[1]

B. Inefficiency of Patrimonial Management

1. Nepotism and Family Loyalty

As indicated earlier, the extended family's control of an enterprise may enable less competent members of the family to hold managerial positions for which their training and ability would not otherwise qualify them. Family-dominated enterprises are characterized by the fact that obligations to the family take precedence over the obligations or ethics of business, with the result that family ties rather than education and training constitute the principal avenue to key managerial positions.

While one must recognize that no management is completely free of nepotism, and that even the most professionally oriented organization builders may sometimes favor the persons they know over the ones who have the best education and experience, the fact remains that the

---

[1]David S. Landes, "Observations on France: Economy, Society, and Polity," World Politics, Vol. IX, No. 3 (April, 1957), p. 344.

charge of nepotism is made much more frequently against patrimonial management than professional management.

Of course nepotism does not always result in bad management. A member of one's family may be the best person to appoint, either because of his talents, or even merely because one is certain of his upbringing and can have confidence in him. Sometimes families do recognize the importance of education and training. In India and Latin America, for example, there are some family enterprises in which sons have been sent abroad for special training in engineering, science, and business administration and have returned to become competent managers and innovators, expanding the family businesses into new fields. But on the whole, these are the exceptions rather than the general pattern.

More often than not, management in family firms is considered a family prerogative which cannot be acquired simply through education and training. We have seen that in Italy and France, one becomes a manager simply because "he is a member of the family." In India, "The proprietorial element is a fundamental determinant of top executive management. It sponsors heredity in management at the highest level, and circumscribes the field of recruitment to a small, essentially non-competitive group."[1] Management's peculiar approach to leadership in the German family firm provides an illustration of such a view

---

[1]S.D. Mehta, The Indian Cotton Textile Industry: An Economic Analysis, quoted in Charles Myers, "Management in India," in Harbison and Myers, op.cit., p. 141.

when pushed to extremes. "In the opinion of the owner-entrepreneurs, an 'Unternehmer'" (the topmost person in the organization, usually identified with the owner), "has to have innate qualities or an inner calling in order to accede to business leadership... The watchword of this group is 'Managers cannot be trained, they have to be born.'"[1]

Somewhat more cognizant of the influence of education and other such formative influences from the outside are the contentions of the owner-entrepreneurs according to which the rearing of a child in the 'Unternehmer' family constitutes the most acceptable type of management education. The argument runs as follows: by the process of family tradition, experience is handed down from father to son or daughter, and slowly and, as if by instinct, the new generation acquires a considerable intimacy with the family business.[2] While there is much to support this proposition, it is too limited to solve the problem. Modern education for management requires sharing more than one individual source of experience.

Selecting and promoting individuals on the basis of "who they are" rather than "what they are" breeds inauspicious results. Such a system could be a drag on initiative. On the one hand, it provides family members with automatic insurance against rejection from managerial positions; on the other, it denies "outsiders" any opportunity

---

[1]Hartmann, op.cit., p. 166.

[2]Ibid., p. 167.

for advancement, no matter how able they may be. Why should a man make superior effort and put forth his best when he knows that he is to be selected anyway, and that there is no fear of competition? Conversely, why should a man work hard if he knows that he has little chance of ever reaching a high managerial position?

Nepotism also has an adverse effect on morale. In Lyndall Urwick's words, "No suspicion will upset the morale of a large staff so quickly or so thoroughly as the belief that selection of individuals for wider responsibilities is not made carefully and impartially in the interests of the organization as a whole, but is biased by favouritism or nepotism."[1]

One of the arguments put forth by owner-managers to justify the appointment of relatives in managerial positions is that they can count on the loyalty of their own kin. A "hired" manager, it is argued, cannot be "committed" to the family firm the way a member of the family is. Owners of family enterprises never miss an opportunity to complain about the"rootlessness and lack of loyalty of the outsider". They believe that the very fact that one is a family member is a spur to greater effort because, in the words of a German "Unternehmer", "property leads to responsibility."[2]

This may be true in the case of a single owner—because his interest is at stake, the individual who "owns" something is likely

---

[1]Lyndall Urwick, The Elements of Administration (New York: Harper and Brothers, 1943), p. 86.

[2]Hartmann, op.cit., p. 107.

to take proper care of it but "where the members of the family are numerous or mutually antagonistic, the business often founders upon the fact that some members are more anxious to get what they can out of the joint property than they are to maintain it."[1]

It must also be recognized that the son of the founder of a business is not necessarily the best person to look after the property. "On the contrary, institutions founded on inheritance do not survive as long, or show as much vitality, as those which recruit their leaders afresh in each generation. Some of the vitality of the Roman Catholic Church is no doubt due to the fact that its bishops are made, not born. And the strength of the Ottoman Empire is often traced to the system of Janissaries, recruited afresh in each generation."[2]

The stress on loyalty in family firms results not only in the appointment of relatives to key managerial positions regardless of merit, but also breeds the expectation that once an "outsider" has been chosen to occupy a middle-management position in the firm, he is to remain there throughout his entire career. In their study of management in Western Europe, Harbison and Burgess, after stating that the family firm is still predominant, observe that:

> A person who leaves the company where he has tenure as a member of management to accept a position in another firm may be branded as a disloyal and unscrupulous opportunist. For this reason vacancies are not likely to occur frequently, and

---

[1]Lewis, <u>op.cit.</u>, p. 62.

[2]<u>Ibid.</u>, p. 119.

> members of management jealously safeguard their positions. The lack of horizontal mobility within the managerial class results in an inbreeding within business enterprises which hampers the spread of new ideas and new technology from firm to firm."[1]

Talcott Parsons and Marion Levy have indicated that the relations of an individual to an organized group differ in a number of dimensions, of which the most significant involve membership and substantive relations. In terms of membership, in the occupational sphere, "Criteria for selection are more nearly universalistic the more they are concerned with what a person can do that is relevant to the job, and they are more particularistic the more they are concerned with who he is regardless of the relevance of his identification to the job."[2]

As Belshaw observes--to name just one from a host of writers emphasizing this point--

> On peasant holdings or other small scale enterprise, relationships based on particularistic criteria may work enough: but they are unsuited to the requirements of modern government, public administration or large-scale enterprise. In the two latter bureaucratic forms of organization are necessary. By these we mean organizations characterized by the professional performance of functions in an impersonal way, with primary loyalty given to the enterprise and its purposes.[3]

---

[1] Harbison and Burgess, op.cit., p. 18.

[2] Marion J. Levy, Jr., The Structure of Society (Princeton, New Jersey: Princeton University Press, 1952), p. 251. Parsons associates the term "ascription" with "particularism" and the term "achievement" with "universalism": Talcott Parsons, The Social System (Glencoe, Illinois: The Free Press, 1951), pp. 24-58.

[3] H. Belshaw, "Some Social Aspects of Economic Development in Underdeveloped Countries in Asia," Underdeveloped Areas, ed. Lyle W. Shannon (New York: Harper and Brothers, 1957), p. 192.

In other words, for the sake of efficient performance, an individual should be appointed to a managerial position not because of "who he is," but because of his capacity to fulfill the duties of the position. This is what the Japanese have long realized, and this realization has played an important role in Japan's spectacular transformation from an agrarian to an industrial economy. There, "The son of a peasant who has been able to get into Tokyo or Keio University and to establish a good record has the same chance to enter the managerial hierarchy of a large firm as the son of one of its top executives."[1]

Another student of economic development, Charles Kindleberger, after pointing out that "...nepotism, caste, and a closed society of classes waste ability and reduce a society's capacity to produce," emphasizes that "the degree of universalism is perhaps less significant than its location. The selection of priests, army officers, or social leaders through class and family ties is less important for these purposes than the filling of economic and political roles."[2]

The second dimension involves substantive relations, which range from the functionally specific--"one in which the activities or considerations or rights and obligations or performances that are covered by the relationship are precisely defined and delimited"[3]--

---

[1]Harbison, op.cit., p. 259.

[2]Charles Kindleberger, Economic Development (New York: The McGraw-Hill Book Company, Inc., 1958), p. 59.

[3]Levy, op.cit., p. 256.

to the functionally diffuse--"one in which the activities, rights, etc. are vaguely defined and delimited."[1] Just like universalism, functional specificity constitutes an important requirement for large-scale enterprise. The link between these two is well revealed by the following quotation from Levy:

> Highly industrialized systems place a heavy emphasis on functional specificity just as they do on universalistic criteria. To some degree the necessary emphasis in such systems on universalistic criteria is highly relevant to the emphasis on functional specificity. Functionally diffuse elements in relationships furnish one avenue through which pressure for particularistic elements may be exerted. Nepotism frequently has its major strength in the fact that the functionally diffuse obligations of family relationships involve pressure for an individual in other roles to ''take care of his own,'' and so forth. In any case functionally diffuse elements in relationships can, and in many cases do, seriously inhibit the freedom in selection (including both admission to and dismissal from roles) necessary to maintain universalistic criteria.[2]

The conclusion to be drawn from the above discussion is that family firms generally fail to conform to two important requirements for efficient organization and performance, namely, that criteria for selection should be universalistic rather than particularistic, and that relationships should be functionally specific rather than functionally diffuse. More will be said about the latter further on.

2. Paternalism

Paternalism in industry has its roots in the feudalistic tradition that the lord of the manor (in this case the industrial employer)

---

[1] Ibid., p. 258.

[2] Ibid., p. 431.

has some responsibility for the welfare of his subordinates. The worker is to be cared for, but in return he is expected to be loyal. The employer may provide housing, food, medical care, and social services for him. Because of this concern, the worker is expected to be grateful and also productive. In this kind of relationship (a master-servant, or father-son relationship), the worker is thought to be dependent on the employer for security and welfare. Here the image of "the industrial pater" takes the place of the head of the family, tribe, or primary group in preindustrial society.

Patrimonial management is most likely to be paternalistic in its relationship with the industrial working classes. In Italy, for example, where "the individual firm, owned and operated by a single family group, is still the prevailing pattern,"[1] paternalism is the dominant managerial philosophy. As one student of present-day Italian industry has observed,

> The guiding tradition of the Italian employer is that of the 'padrone': the boss who is like a father to his workers, who treats them as sons, whom he can boss around with relatively unlimited authority (and this is true in the family and not merely in industry), but who is supposed to be a benevolent autocrat. This cultural heritage naturally goes with a paternalistic pattern for industry--one in which the employer pays very low wages, but provides benefits in case of sickness, medical services, family welfare services, help for the workers' children, and so on.[2]

---

[1]Ferrarotti, op.cit., p. 235.

[2]Ross Stagner, "Union-Management Relations in Italy: Some Observations," quoted in Harbison and Myers, op.cit., p. 57.

In India, another country where "the top management of private enterprises is essentially patrimonial,"[1] there are many examples of this "benevolent paternalism", based on an apparent willingness of the employee to accept a dependent status and of the employer to play the role of a wise father. An indication of this is suggested by the words of the founder of an important family group of Indian enterprises: "At first...I found that if workers got a few annas more, they were absent more often; they didn't know how to live properly. So I had to show them how to live better, to keep their houses clean. I started various games and recreation centers. I had to provide them outside interests to soothe the workers' minds."[2]

In Germany, the "Social Department"--which is a sub-unit of the personnel office or a separate department by itself, and which is concerned with providing a multitude of employee services, including housing projects, preventive health programs, etc.--"is a traditional device of patriarchal companies. In view of the strong sense of obligation which owner-entrepreneurs often have felt toward their employees if the company has been the private property of the 'Unternehmer' family for several generations, the abundance of employee services is not surprising."[3] But if the scope of personnel relations in these companies is marked by profusion, their administrative side is characterized by confusion. In his case-study of a family enterprise of

---

[1]Myers, op.cit., p. 140.

[2]Quoted in Kerr et al., op.cit., p. 151.

[3]Hartmann, op.cit., p. 97.

2,000 employees, for example, Hartmann found out that "At least 14 different persons and offices without any clear-cut authority relationships between them concern themselves with innumerable, sometimes identical, matters of personnel administration."[1]

As Myers points out in the case of India, it may be difficult to distinguish from the outward trappings whether the employer has a genuine parternal concern for his employees, or whether he is just "buying off loyalty or preventing disloyalty." In France, the same distinction is apparent. Side by side with benevolent paternalism and active concern for the health and family of the employee was company use of welfare activities to combat the unions and, in the case of immigrant workers in the mines, to insulate them from "contamination by the radical ideas of French workers. This was considered one of the advantages of employment of immigrants."[2]

In the early stages of industrial development in many societies, the paternalistic approach is quite consistent with the prevailing social climate. Japan is a case in point. As Levine observes, "The economic transformation in Japan was not the outburst of unhampered individualism as in the West, but a deliberate superstructuring of industry upon the traditional agricultural foundation. There was

---

[1] Ibid., p. 101.

[2] Harbison and Myers, op.cit., p. 58. It should be noted here that employers may find it necessary to provide many of the services conventionally considered paternalistic for reasons which have no connection with a sense of moral obligation. Malnutrition may force employers to provide free lunches in the interest of higher productivity. Other services may be required in enterprises which operate in areas remote from the centers of population and thus are obliged to import their workers and house them. The oil-producing companies in Saudi-Arabia, Iraq, and Kuwait are good examples, as are the sugar plantations and mills in the sparsely inhabited coastal deserts of Peru.

little agrarian upheaval. The family system which formed the basis of Japan's peasant society remained relatively undisturbed. Industrial labor, furnished to modern enterprise from a growing surplus farm population, upon entering shop or factory readily accepted the identical system of social relationships to which it was culturally attuned."[1]

Many students of economic development, however, have emphasized that "As industrialization proceeds, and as the expectations of industrial workers rise, employers and managers are often forced to become less authoritarian and less paternalistic in dealing with their employees and tend to function as 'constitutional' managers."[2] Management then, faced with an increasing pace of industrialization, cannot possibly sustain its paternalism. Even if shades of paternalistic management-labor relations are to survive, deviations from such traditional patterns become inevitable. The pressures on management for a different approach are many. Passing reference will be made here to only a few:

---

[1]Solomon B. Levine, Industrial Relations in Postwar Japan (Urbana, Illinois: University of Illinois Press, 1958), pp. 32-33.

[2]Harbison and Myers, op.cit., p. 67. "Constitutional management" is defined by these writers as follows: "When government intervenes in the labor-management relationship to regulate terms and conditions of employment and to protect or encourage the growth of labor organizations which themselves challenge management's authority, we find that the rule-making power of employers is shared in a 'constitutional' manner with other agencies. Wages and working conditions may become subject to determination by collective bargaining, and jointly negotiated contracts may establish a sort of constitutional framework within which management must exercise its functions." (pp. 61-62).

1. The social values of the society. If the society places high value, through its educational system, its religious, ethnic and other cultural norms, on the freedom of the individual to have a voice through political democracy in determining his own present and future, it will be increasingly difficult to maintain autocracy or paternalism in industry. In India, for example, the rising expectations of industrial workers in a newly independent country which stresses democratic values are forcing changes (though slowly) in managerial practices in dealing with workers. A managerial philosophy which may have been adequate in the late nineteenth or early twentieth century in Western industrial countries is less adequate to meet the political challenge of aroused industrial workers in the newly industrializing countries today.

2. Pressures from individual workers. Increasingly in industrial countries, workers themselves are able to act as a restraining factor on management. A worker may protest against managerial authority by being absent from work, restricting output, rebelling against discipline, or quitting. In areas where labor is relatively abundant and people are seeking work, such actions may be of little concern to the employer or manager. But where labor is scarce or where there is a critical shortage of particular skills, the workers may be in a more powerful bargaining position.

3. Government labor legislation. Increasingly, the unilateral authority of the employer is restricted by government intervention in

labor-management relations. In most industrial countries, the government restricts the right of the employer to discharge or lay off workers; it sets minimum wages and maximum hours; it prescribes mandatory benefits in the form of housing, medical care, vacations, or sickness allowances.

4. Labor organizations. The growth of strong trade unions in advanced industrial countries, as well as their development under various auspices in the less developed countries, likewise brings pressure on management to share rule-making authority.

5. Technical factors. The separation of ownership from control through wide public ownership of stocks of business enterprises, the consequent growth of professional management which is less emotionally involved in the fortunes of the enterprise, the growth of the managerial and technical staffs in business enterprises as a consequence of increased size and more complex technology--all these have forced changes in managerial philosophies which were more adequate for, and more characteristic of, less complex, small family-owned enterprises.

6. Pressures from other managements. Finally, the individual employer may be significantly influenced by the actions and policies of other managements, and particularly, by management or employers' associations. For example, progressive and enlightened employers in every country are often in the forefront of efforts to change managerial thinking and practice through regional and national professional management associations, conferences, and seminars.[1]

---

[1]*Ibid.*, pp. 59-61.

The conclusion to be drawn from the foregoing discussion is that industrialization brings with it a shift from paternalistic management to "constitutional" management. If this has not been the case in Japan (which is today the most economically advanced and extensively industrialized of the Asian countries), and if modern Japanese management is still based upon feudalistic paternalism, the underlying reason is that "...the traditional Japanese culture, instead of being swept aside by industrialism, has assimilated it" (this is why the Japanese worker does not "resent" paternalistic policies the way a Western worker would). "Managerial concepts and practices which are rapidly becoming obsolete in the Western capitalist countries still appear to be effective in Japan."[1]

Functional specificity was discussed above in relation to nepotism, but here, too, the matter is of importance. As Levy aptly observes,

> The great emphasis on functional specificity in many different relationships in an industrial society is almost certainly one element in the type of dissatisfaction summed up in the objections of individuals to being treated as 'cogs in a wheel'. In attempts to offset this, some personnel managers try to impress their workers with the feeling of belonging to a 'family'. Because of the dysfunctional aspects of functionally diffuse relationships for

---

[1]Harbison, op.cit., p. 249. Hagen expresses the same idea in these terms: "The Western technician who speaks condescendingly of 'backward Asians' may himself go home a nerve-wracked failure when he tries to apply to an Asian factory the methods of management that proved efficient where Western conventions of interpersonal relations prevail." (E.E. Hagen, "How Economic Growth Begins: A General Theory Applied to Japan," The Public Opinion Quarterly, Vol. XXII, 1958, p. 374).

> modern industrial concerns, such techniques have to be most carefully limited. These and other moves in a functionally diffuse direction will no doubt lessen certain tensions, but they may create new problems of equal magnitude. They may, for example, increase the complexity of dealing with employees beyond any practicable limits. A large scale mass production firm cannot operate on the basis of vaguely defined obligations to thousands of employees. On the other hand, there may also be difficulties from the workers' point of view. Paternalistic policies on the part of employers may be bitterly resented as 'undue interference' with the private lives of the employees.[1]

Ferrarotti's comprehensive analysis of Italian industry sheds light on a matter which is highly relevant to any study of the role of management in industrial growth, namely, the relationships within the managerial hierarchy under a paternalistic system. "The Italian business elite," observes Ferrarotti, "is fully aware of its absolute rule in the plant and defends its paternalism as a technique to obtain loyalty and a 'family spirit' from people who do not really belong to the family. Paternalism in this setting is not a homogeneous and static system of behavior but, on the contrary, is articulate and flexible."[2] On the basis of intensive interviews made with businessmen and business executives, Ferrarotti has "abstracted three main types of patrimonial management to which correspond three types of professional managers. The objective criterion for differentiation is afforded by the power position of the family in the managerial structure."[3]

---

[1] Levy, op.cit., p. 261.

[2] Ferrarotti, op.cit., p. 236.

[3] Ibid., p. 237.

The first type, "feudal or authoritarian paternalism", occurs where the business enterprise is completely family owned, controlled, and operated. The family is the only source of power. There are no outsiders as such in the management hierarchy. The enterprise is still small enough to be completely managed by the members of the family. The proprietor is also the general manager. He concentrates in his person all the major functions of management, representing the absolute rule of the family. The only access to managerial positions is through family ties. In this case, professional managerial talent, whenever needed, is completely integrated into the family.

The second type is called by Ferrarotti "manipulative paternalism". The family still owns and controls the enterprise, but it is no longer the sole source of managerial personnel. The most important problem is ensuring loyalty to the family from persons who hold managerial positions but who do not belong to the family. The key word here is not obedience but "loyalty", but one cannot force loyalty from people. "It takes diplomatic tactfulness," as one interviewer put it. This policy, however, is not necessarily compatible with the prerequisites of industrialization. If loyalty is the criterion for promotion within the management hierarchy, then an engineer may be "poor" productively speaking, but since "he is loyal, he belongs, he is the friend of a friend," he will be able to make a career for himself regardless of performance.

> This setting is rarely successful for the professional manager. Professional managers feel that their rise to top positions depends on their connection with the family which owns the business, not on performance, efficiency, or merit, therefore, but on loyalty to the family. This results in frustration on the part of the professional manager with a feeling of 'having a ceiling' or 'being boxed in'. Thus the frustrated professional specialist becomes the counterpart of the manipulative paternalistic manager.[1]

The third type is "democratic or participative paternalism." The enterprise in this case is still predominantly family owned but it is no longer family operated. The firm is managed by professional managers. Family members are present in the hierarchy, but they do not hold the key positions and their opinions are not the decisive ones. Moreover, they are subject, by and large, to the merit system. Performance becomes the prevailing criterion for reward and promotion for them as well as for the professional managers.

> This is a crucial stage for family capitalism. It is a breaking point which indicates a basic dislocation of power and power prerogatives. Power is no longer exclusively linked with property rights. Property itself undergoes a process of disassociation which enables us to make a distinction between property as a social status (passive enjoyment of certain inherited status prerogatives, management and managerial authority by family ties, etc.) and property as initiative, that is as a functional decision-making power, which by its very nature faces risk and fosters innovation...Thus the production-oriented professional manager corresponds to the democratic paternalistic manager.[2]

---

[1] *Ibid.*, p. 238.

[2] *Ibid.*, pp. 238-239.

3. Conservatism

That conservatism is a characteristic of patrimonial management is not surprising in the light of what has been said above. Typically, owner-managers have a disposition and tendency to preserve what has been established and resist change. This is due partly to their motivation--the focus is on stability as against economic achievement, on assuring a regular income for the maintenance of a family status as against focus on innovation and risk--and partly to their "training". Perhaps one should say "conditioning", as the following example suggests: during one of the interviews conducted by Myers in his study of Indian management, "...a prominent Bombay millowner explained the presence of a young man sitting at a nearby desk in his office in these terms: 'This is my nephew, and he is learning the business just the way I did from his grandfather years ago. I sat at the desk he is at now, and I listened to everything the old man did, the people he met, and the problems he discussed with them. This is the way I learned the business, and that's the way he is learning it from me now!'"[1]

If the key members of the family dynasty are competent, well educated, and diligent, patrimonial management may be quite dynamic. But the usual case is that "...the key members of the family dynasties are incapable, either by training or psychological inclination, of leading the march to industrialization."[2] This is well illustrated by the conservatism and rigidity displayed by the old, established

---

[1]Myers, op.cit., p. 148.

[2]Harbison and Myers, op.cit., p. 70.

merchant families in the early Meiji period in Japan.[1] The "house laws" of the merchant families emphasized that the manager "must not depart from the business practices of the past handed down through generations, and there was hint that to do so would be disrespectful to his ancestors. Frequently, he was explicitly warned against venturing into new lines of business..."[2] Contemporary France provides some mid-twentieth-century documentation of the family firm's preference for vegetating instead of expanding. Landes describes the typical French family firm as placing "...inordinate stress on safety and security. It fears change and is unwilling to borrow for fear that the lender, whether individual or bank, will gain a foothold in the enterprise. As a result, the firm prefers to enjoy its own little market..."[3] In the Chilean family firm, "Traditional patterns have strengthened and legitimized tendencies to the habitual, to continuing with old methods, products, and customers, to remaining within the circular flow."[4]

To be sure, the entrepreneurial pattern just described has its compensations. To quote Landes again,

---

[1]Fortunately for Japan's economic development, the "zaibatsu", who in strategic numbers developed directly out of these merchant families, soon realized that in the realm of the industrial arts at least, too much conservatism would be detrimental to productive efficiency. This point is discussed below.

[2]Thomas Smith, Political Change and Industrial Development in Japan: Government Enterprise, 1868-1880, quoted in Harbison and Myers, op.cit., p. 71.

[3]Landes, "Observations on France," op.cit., p. 336.

[4]Charles Myers, "Management in Chile," in Harbison and Myers, op.cit., p. 171.

> The French family firm, when successful, is, if I may be permitted two contrasting images, as solid as the rock precisely because it is almost drowned in its own liquidity. It can hold its prices and survive all but the most severe depressions, a fact reflected by the comparative flatness of the cyclical curve of French business activity. Throughout the nineteenth century, the literature abounds in references to France's good fortune in not being subject to the acute crises that periodically swept England and the United States.[1]

Unfortunately, the knife cuts both ways, and this excessive prudence, this overwhelming concern with security, means less initiative and dynamism on the upswing. "Confronted with an expanding economy, the French owner-manager still does not go out and find or make new markets; he waits for them to come to him... This lack of dynamism is a force for retardation and strangulation."[2]

Under such conditions, it is not surprising that family firms grow slowly, if at all. Moreover, of those that do grow, all find it difficult because of the need to recruit management from within the limited family circle, to maintain momentum over the generations. "Not only is the law of averages against the persistance of a high level of business talent in a small group; the very success of the parents is a handicap to the children, reinforcing on the one hand the authority of tradition and, on the other, weakening or diverting the incentives of ambition."[3]

---

[1] Landes, "French Business and the Businessman," op.cit., p.339.

[2] Ibid.

[3] Landes, "Observations on France," op.cit., p. 337. The notion that the "incentives of ambition" are weakened is expressed by Lewis in these words: "Against the incentive which the right to bequeath is

The reluctance of owner-managers to have much "give and take" with outsiders and other firms can be traced back to their conservatism. As Henry Ehrmann has put it, "Under the pretext that he wishes to remain 'master in his own house,' the owner-manager jealously keeps to himself what he often foolishly considers a manufacturing secret... He will frequently regard all offers of technical assistance, even when they come from research centers or professional consultants, as mere pretexts for spying."[1]

In his study of German business enterprise, Hartmann points out that as the small and medium-sized companies under private and non-corporate ownership grow and enter into competition with the larger corporations, the owner-entrepreneurs typically resort to the employment of professional management. As mentioned earlier, such decisions are not easily made, but owner-entrepreneurs have come to realize that this is a necessary condition if the firm is to grow successfully. To quote Hartmann, "...they are trying to get away from the ballast of tradition...to move from a traditional organization toward a more functional structure."[2] This "conversion to functionalism" is of paramount

---

to the maker of the fortune we must also set the extent to which the effort of the heirs is diminished. Heirs are sometimes inspired by the example of their forefathers, and may treat their inheritance as a trust which they are challenged not only to maintain but also to increase. But they more often react in the opposite way. Taking them on the average, heirs would almost certainly lead more useful lives if their inheritances did not shield them from the necessity of hard work." (Lewis, op.cit., p. 120).

[1]Henry W. Ehrmann, Organized Business in France (Princeton, New Jersey: Princeton University Press, 1957), p. 328.

[2]Hartmann, op.cit., p. 73.

significance. In Hartman's words, "It is at junctures like this that one feels tempted to explain the general success of German business in terms of its "professionalization", in terms of education and skills, in terms of ready acceptance of new ideas and techniques."[1]

Still more instructive is the case of Japan, the traditionalistic country par excellence. To quote William Lockwood,

> Like the other great societies of the East, Japan resisted certain aspects of Western culture, with its emphasis on individual self-assertion, competitive striving, and democratic expression. Inner values of the spirit have been tenaciously shielded from the disruptive penetration of Western ideals. But in the realm of the industrial arts at least, too much has been made of the docility and conservatism of the Japanese. Here, within the limits of his environment and the opportunities which have come to hand, he appears to have displayed a ready willingness to abandon old ways, particularly where the acknowledged leaders of society pointed the new. This willingness to venture and to learn, in a climate of opportunity which makes it pay, is an essential condition of economic development.[2]

4. Centralization of Authority

The typical organizational structure of a family enterprise is highly centralized and personal, with authority usually residing in a single individual, the head of the family. Owner-managers are reluctant to delegate authority and tend to think of their authority in terms of personal power rather than in terms of a necessary function related to, and coordinated with, other equally necessary functions within the enterprise. The enterprise is seen as some sort of private

---

[1] Ibid.

[2] William W. Lockwood, "The State and Economic Enterprise in Modern Japan, 1868-1938," in Kuznets et al. (eds.), op.cit., p. 594.

kingdom, and the prevailing view is that a division of responsibility might lead to a weakening of prestige.

Some of the German owner-managers, for example, are convinced that they are born to rule their enterprises and that their authority is based upon a kind of natural law rather than upon their function in the organization. Hartmann reports that "an American observer once said that the typical Unternehmer 'dominates with the omnipresence of an eighteenth century Hohenzollern.'"[1] Some owner-entrepreneurs are also known by the epithets of "General" and "Pasha".

> Time and again, the Unternehmer has proven to be uncompromising and insistent on undivided authority. Trends toward centralization have bordered on monopolization of authority. In this extreme, the Unternehmer will emphasize the subordination even of his immediate entourage of upper management and high-level staff; he will make an effort to control remotest details in the shop; and he will leave his professional sphere of management and intervene in matters foreign to his skills and training.[2]

In Italy, Belgium, and France, patrimonial management has a similar outlook.

> In Italian industry the manager who feels hurt if anything has been done without his direct knowledge and participation is a familiar character...When one tells the patrimonial manager who has 'made a desert' around himself by refusing to decentralize his decision-making power that after all 'the company must go on," that he is not immortal, and that nobody in a rational organization can be regarded as indispensable, one is likely to be answered with an air of incredulous indifference.[3]

---

[1]Hartmann, op.cit., p. 60.

[2]Ibid., p. 59.

[3]Ferrarotti, op.cit., p. 240.

Harbison and Burgess report that in Belgium they "encountered one owner-manager who would not even permit his plant managers to hire their personal secretaries until after he had himself passed upon their qualifications and potential loyalty to the organization."[1] As for the French owner-manager, "The future is that wonderful day when he will retire and turn over his business to one of his sons. Actually, he will die at his desk for he does not believe any of his sons, or anyone for that matter, is capable to run the business as well as he does."[2]

Sovereign rulers of this kind simply will not delegate responsibility and authority. They invariably are suspicious of their subordinates and complain that people in their organization lack initiative, imagination, or just plain common sense. They delegate too little, do too much themselves, and thus have little time for effective organization building or for creative thinking. As a consequence, "this type of management is likely to be defensive, enervated, and static. It breathes only at the top, and when the top disappears, the organization either collapses or must be completely rebuilt."[3]

An immediate consequence of this highly centralized authority is the lack of precise job definitions and classifications. In their study of management in Western Europe, Harbison and Burgess found out that, in family firms, "Organizational charts are rare, and, where

---

[1]Harbison and Burgess, op.cit., p. 17.

[2]Auguste Detoeuf, Propos de O.L. Barenton, Confiseur, quoted in Harbison and Myers, op.cit., p. 231.

[3]Kerr et al., op.cit., p. 147.

they exist, they are often kept secret in order 'to avoid eventual frictions and personal rivalries'. Jobs in the managerial hierarchy are seldom defined, described, or aligned. The division of responsibility is not clear. As one managing director said, 'the goal of most of our executives is to make themselves as indispensable as possible.'"[1]

Another detrimental outcome of the failure to delegate authority is that a gap is created between the few in control at the top and the ranks of lower middle management and first-line supervision, with the result that little effort, if any, is done to develop the managerial and administrative capacity of lower-management people. Patrimonial managers do not seem to understand the importance of the manager's teaching function; they fail to realize that it is the duty of every manager to develop future managers out of his subordinates, which he can do by giving them opportunities to exercise their own judgment and make their own decisions. The literature on management furnishes a host of statements emphasizing this point. As John Glover puts it, for example, "It is an obligation of management to select persons of ability, education, and experience, and to train them along executive lines so as to build an able group of 'freshmen' of industry, potentially ready to assume the 'senior' burdens of management."[2] To use F.C. Hooper's words, "The ultimate aim of modern management is to develop its people to the point at which it can devolve as much self-

---

[1]Harbison and Burgess, op.cit., p. 16.

[2]John G. Glover, Fundamentals of Professional Management (New York: Simmons Boardman Publishing Corp., 1958), p. 21.

government upon them as possible, while remaining in the background, as it were unseen, yet always there when asked for."[1]

Moreover, in enterprises where authority is highly centralized, foremen are usually not considered part of management; "they are just senior workers, caught up between management and workers and often themselves puzzled about their own loyalty."[2] Foremen have a vital role to play in a business enterprise, not only in maintaining good human relations but also in ensuring a high level of productivity. But if workers look upon the foreman as a minor figurehead, his authority is weakened; hence his ability to secure cooperation is lost. Securing effective first-line supervisors requires that top management make an investment in their training and development and also give them the necessary authority to carry out the responsibilities which have been assigned to them. In other words, effective first-line supervisors must be made a part of management, if they are to help achieve the goals of the enterprise. The fact that foremen are considered part of management in industrially advanced countries while they are not in less developed nations is quite suggestive.

Finally, overcentralization naturally discourages the growth and expansion of the enterprise. "Why should I try to expand my market," said one harassed owner of a business to Harbison, "when I have to spend fourteen hours a day controlling the business I have now?"[3]

---

[1] F.C. Hooper, Management Survey (New York: Pitman Publishing Corp., 1948), p. 87.

[2] Ferrarotti, op.cit., p. 241.

[3] Harbison and Burgess, op.cit., p. 17.

Obviously opportunities for younger executives are limited, incentives to assume responsibility are stifled, and taking initiative is not attractive. While the typical business organization may be well designed to preserve the status quo, it is peculiarly ill-adapted to dynamic growth.

It is interesting to note that in Japan centralization of authority did not breed such inauspicious results. This is because:

> Japanese enterprise illustrates a rather unique mixture of highly centralized authoritarianism and democratic-participative management...In one sense, Japanese enterprise is highly centralized. Major authority is concentrated at the top, and even the most routine decisions are often pushed up from below because of reluctance of subordinate groups to assume responsibility...In another sense, however, there is apt to be rather wide participation in decision-making. Even the top executives seldom take individual responsibility. They will act only after thorough discussion and examination of alternatives by the group. They decide major policy questions much as 'a family council' would determine the university to which the elder son should apply or the kind of marriage that should be arranged for him.[1]

We have seen that in Germany owner-entrepreneurs typically resort to the employment of professional management when the firm expands. In such cases, "...the firm exhibits a symbiosis of old and new, of 'traditionalism' and 'functionalism', of homage to private property and respect for technical competence...While the top of the organization is vested with awe-inspiring power, some freedom of initiative is still available at lower levels."[2] As indicated in the

---

[1]Harbison, op.cit., p. 255.

[2]Hartmann, op.cit., p. 68.

previous section, Hartmann believes that the general success of German business is attributable to a large extent to this "conversion to functionalism". Thus

> The owner-entrepreneur will strongly insist on the primacy of his value orientation and ultimate authority and has held functionalism restricted within narrow boundaries. But he also believes that the area of technical training, knowledge, competence, and the like can safely be expanded with all the benefits in organizational efficiency that this will involve <u>if only</u> this expansion will stop short of endangering his ultimate authority. At present, he is indeed giving more breathing space to functionalism and cautiously feeling his way toward the point of equilibrium."[1]

In summing up, we may conclude that the efficiency of management as an economic resource is related not only to the individuals within the hierarchy but also to the system of authority which binds them together. The methods of leadership, the structure of organization, and the art of delegation of authority are crucial to successful industrial development. The logic of industrial development calls for increasing managerial decentralization as enterprises grow in size and complexity. The sovereign rule of a single man or family is not appropriate except for small establishments. As industrialization progresses, the proportion of persons in management tends to increase, and as the membership in management expands, it becomes humanly impossible for one man to control everything and everybody. Therefore, if sovereign rule persists as the prevailing system of authority in

---

[1] *Ibid.*, p. 268.

a society, it will retard and eventually strangle successful industrialization. Conversely, industrial development may be significantly accelerated if the appropriate means are found to delegate authority and decentralize administration in both economy and business management.

II. FAMILY FIRMS AS AGENTS OF INDUSTRIALIZATION

A. The Role of Family Firms in the Early Stages of Development

1. Provision of Initial Capital for Investment

The extended family may be the main source of initial capital for investment when only close relatives may be trusted or persuaded to lend money. A candidate to a loan in an underdeveloped country usually has a very difficult time finding a lender, whether bank or individual. Banks are notoriously cautious about extending loans. Not only they may refuse to lend to individuals wishing to embark on new ventures--"poor risks"--but they are also reluctant to advance funds to firms whose credit position is not yet firmly established. As for private lenders, they are willing to lend only at exorbitant interest rates, and insist on being repaid in a relatively short period of time. And as there is usually no money market in underdeveloped countries, a business needing capital either to start or to expand cannot get the money by issuing stock and selling it on the market. Very few subscribers, if any, would come forward.[1]

---

[1]Elaborating on this point, Simon Kuznets writes: "Although a substantial part of savings by the upper income groups in underdeveloped countries may go into financing current expenditures of the lower-income groups who are compelled to supplement their meager earnings by borrowing or by selling assets, the remaining net savings of individuals taken as a group may still stagnate in hoards; or, if invested, are likely to flow only in such channels as provide some security because of personal ties with the businessmen who use the money, physical proximity to them, and the like. The absence of developed countrywide credit and financial institutions and the lack of well-established patterns of reliance by individual savers on financial institutions capable of channeling the money into productive investment contribute to a markedly less efficient use of net savings of individuals in financing potentially advantageous types of capital formation. It is in this connection that the family character of business enterprises in the less developed countries, the tendency to place savings in the relatively invulnerable form of land or into the quick turnover form of inventories, or in the comparatively secure form of foreign claims, come easily to mind." (Simon Kuznets, "Problems in Comparisons of Economic Trends," in Kuznets <u>et al</u>. (eds.), <u>op.cit</u>., p. 25).

P. Gaskell has stated that in England, "Men who did establish themselves were raised by their own efforts--commencing in a very humble way, and pushing their advance by a series of unceasing exertions, having a very limited capital to begin with, or even none at all save that of their own labor."[1] "Such observations," says Reinhard Bendix, "applied primarily to an industry in which men of determination could establish themselves regardless of the unfavorable circumstances of their early life. In other industries, such as iron and coal, capital was needed in order to make a start, and access to these industries was restricted by and large to the members of families which were at least moderately well-to-do."[2] Many of the early iron masters, for example, came from Quaker families, and members of these families intermarried repeatedly with other Quaker families in the iron industry. "In this manner they reinvested their earnings in the industry..."[3]

In India, "the concentration of control through the managing agency may have earlier been the consequence of the difficulty of raising capital for new ventures and of the shortage of entrepreneurial ability in the country."[4]

---

[1]Quoted in Reinhard Bendix, Work and Authority in Industry: Ideologies of Management in the Course of Industrialization (New York: John Wiley and Sons, Inc., 1956), p. 25.

[2]Ibid., p. 26.

[3]Ibid., p. 33.

[4]Myers, op.cit., p. 141. Managing agencies--which are generally family enterprises--"are firms which, for a fixed fee or more commonly a percentage of profit or sales, operate the business of one or more firms for the owners. In practice, they dominate the firms they manage, usually through substantial ownership or control of voting rights."

In addition to being a source of capital, the family may also provide the "backing" needed to obtain funds from lenders. In France, for example, "...the social register or family tree is often a better credit reference than the most profitable series of annual statements."[1] In Brazil, "Confidence is shown in a new enterprise only when the 'family' background of its innovators is known; credit is often extended between members of upper-class families with the knowledge that the debtor has the strong backing of his family."[2]

2. Distrust of Strangers and Reliance on Relatives

In societies where men cannot rely on strangers to give faithful service, the family may be the most appropriate unit for large scale enterprise. To quote Hagen, "Where one can neither trust a stranger or an acquaintance as a business associate, nor persuade him to lend one money, then the extended family may be a necessary source of capital and a necessary bond between business associates. Its abolition would not modernize the society; in the circumstances it would merely paralyze large-scale business relationships."[3]

---

[1] Landes, "French Business and the Businessman," op.cit., p. 337.

[2] Bernard J. Siegel, "Social Structure and Economic Change in Brazil," in Kuznets et al. (eds.), op.cit., p. 408.

[3] Everett E. Hagen, "The Process of Economic Development," Economic Development and Cultural Change, Vol. V, No. 3 (April, 1957), p. 198. This, of course, is true for both industry and trade: "...in some kinds of business it is useful to be able to set up branches in many towns, or suburbs, or countries, e.g. in banking, in the chain store type of retail trade, in wholesale distribution, etc. In these circumstances a family which has many brothers, or closely related cousins, may be at a considerable advantage, since the brothers can trust each other more than they could trust branch managers who were not related; and since, even if there is dishonesty, the money will remain in the family." (Lewis, op.cit., p. 115).

The Brazilian experience is typical of circumstances where the initial development is led by an established elite: key posts are reserved for relatives "...not only out of a sentiment of family solidarity but...above all they can count on the loyalty of their own kin. It is therefore logically consistent that many business enterprises in Brazil are essentially family affairs."[1] Japan's house of Mitsui, before being forced to acknowledge that as the firm grows bigger and bigger it has to go beyond the circle of relatives and seek out for "the best graduates" of the universities and the higher technical and commercial schools regardless of their social or family origin, "was able to maintain its supremacy by expanding its patrimonial in-group to include eleven families, each of which included within its compass loosely defined cousins of common ancestry."[2]

As George Baldwin aptly observes, "In a society where trained skills are scarce and the sons of the wealthy have much of the training, nepotism may be relatively costless."[3] As already indicated, there are some family enterprises in which sons have been sent abroad for special training in engineering, science, and business administration and have returned to become competent managers and innovators, expanding the family business into new fields.

---

[1]Siegel, op.cit., p. 407.

[2]Harbison and Myers, op.cit., p. 71.

[3]George B. Baldwin, Industrial Growth in South India, quoted in Ibid., p. 70.

In some instances, the family has proved to be not only a source of capital, but also a "source of talent". In the brewing industry in England, for example, "The original founder families have shown an astonishingly sustained ability to produce not only sons, but sons who were able businessmen, happy in remaining businessmen and brewers."[1] Intermarriage between the members of these families of brewers with families of bankers became a common practice, with the result that "The Barclay-Bevan-Gurney-Perkins cousinhood provided both a flow of capital and a succession of able young men which other brewers sorely lacked."[2]

In the typical family firm, personal trust and loyalty are often valued more than efficiency, and a family member is automatically preferred to a "stranger", even though the latter may be more competent. The Japanese, who, as we have seen, have their own way of doing things, solved the problem of loyalty versus competence by using an ingenious technique: adoption. The Japanese feudal lords had worked out "a sort of civil service system by adoption". A "daimio" might adopt as his successor an exceptionally able young man from among his "samurai", who in general performed administrative functions for him. He would ordinarily seek an able man from within his own family, and would adopt an outsider as his son only if his actual eldest son had

---

[1] Peter Mathias, "The Entrepreneur in Brewing, 1700-1830," Explorations in Entrepreneurial History, Vol. X, No. 2 (December, 1957), p. 76.

[2] Ibid.

shown himself to be conspicuously unable.[1] This particular technique was also practiced by the merchant families, and "was continued by the successors of the merchants' in the modernization of Japan."[2] The zaibatsu instituted "a sort of business civil service within their companies, and those men most successful in the competition and destined to become major figures in the various enterprises of the family were frequently brought into the family membership itself."[3]

It is this desire to combine loyalty and competence, to "acquire" for the family firm "strangers" of outstanding abilities who would also have the "family spirit", which led "families controlling large enterprises to marry daughters to their most promising employees, who then took the family name."[4]

B. The Role of Family Firms in More Advanced Stages of Development

Patrimonial managers often have a very strong sense of the continuity of the family through the generations, and this has certain advantages. Presumably one acquires a certain sense of confidence from knowing that one belongs to a family which can be traced back through several generations. The family tradition is also emphasized

---

[1] Marion J. Levy, Jr., "Contrasting Factors in the Modernization of China and Japan," in Kuznets _et al_. (eds.), _op.cit_., p. 516.

[2] _Ibid_., p. 517.

[3] _Ibid_.

[4] Ralph Linton, "Cultural and Personality Factors Affecting Economic Growth," _The Progress of Underdeveloped Areas_, ed. Bert F. Hoselitz (Chicago: The University of Chicago Press, 1952), p. 83.

in one's youth, and if this includes some special skill, or adventurousness or character trait, it may be preserved and developed to a greater extent than if family traditions did not exist. Thus, to quote Lewis, "the British Navy believes that sons of 'naval families' make better sailors, on the average, than do other recruits, and there may well be professions where the young person who grows up in their atmosphere from birth is better qualified than the person whose parents belong to some other profession."[1] This is what the German owner-entrepreneurs firmly believe. We have already noted their contention that the rearing of a child in the "Unternehmer" family constitutes the most acceptable type of management education, the reason being that by the process of family tradition, experience is handed down from father to son and that slowly and, as if by "instinct", the new generation acquires a considerable intimacy with the family business.

The sense of belonging to a line of generations may also affect one's sense of property. One may feel that one is merely a temporary trustee for what one has inherited, and may be careful to preserve it, and even to improve it through one's own effort. Closely connected to this is the commitment to the ultimate values emphasized by the family tradition. The German owner-entrepreneurs, for example, are convinced that they are "called" to assume the responsibility of managing the family enterprise. As one of them once said to Hartmann,

---

[1]Lewis, op.cit., p. 117.

"...work as a function is a mere passing of hours to make money; but a 'Beruf' (the calling) is more, it is something entirely different. A 'Beruf' involves man as a person, as a whole, it is the achievement of a lifetime."[1] Thus, when motivated by a creed of hard work and determination to acquire or maintain a position of power, the family enterprise can be a very effective agent of industrialization.

[1]Hartmann, op.cit., p. 28.

III. FACTORS UNDERMINING PATRIMONIAL MANAGEMENT

A. Expansion of the Firm

On the basis of their study on management and industrial development in twenty-three countries in Europe, Asia, the Middle East, Sub-Sahara Africa, and South America, Harbison, Myers, and their associates have reached the conclusion that the family enterprise is usually most effective in small and relatively simple organizations such as retail and wholesale trade, craft industries, and small or medium-sized industrial plants. In such cases it is relatively easy for the family, particularly the extended form, to recruit and generate from within its own orbit most of the managerial resources needed. When the family enterprise expands, however, its patrimonial form is undermined. As the size of the enterprise increases, managerial positions are bound to increase both in numbers and in proportion to the labor force. Coupled with size, technology, and specialized production processes the demand is for better-trained high-talent human resources in a larger quantity than the family group can possibly offer. To find technicians, engineers, and administrators with the requisite knowledge, training, and skill, it must go beyond its blood relatives.

Significantly, the family enterprise par excellence, Japan's house of Mitsui, illustrates this need for the professional most clearly. It was forced to acknowledge that adding respectable families and even their cousins could not develop the required managerial resources. As their enterprises grew, the Mitsui and other "zaibatsu" found it necessary "...to delegate managerial responsibility to hired executives and ever-increasing numbers of technicians and engineers."[1]

In France, the successful family enterprises are those which are "...responding to the impact of rapid technological advances in equipment and methods."[2] Enterprises such as Citroen, Michelin, Peugeot, etc., have remained family controlled concerns, "...but increasingly they are incorporating their enterprises because of growth and the high cost of maintaining technical progress--both of which require resources in capital, management, and technological know-how far beyond the ability of the family to supply. Technology and sheer size are the two powerful forces spearheading the need for professional management."[3]

As the number of professionals in the patrimonial enterprise expands, the members of the family find it increasingly difficult to control the management. There comes a point where the family interests are better promoted by turning over the operation of the enterprise to a competent professional managerial careerist. This is what happened in the case of hundreds of family enterprises in the United States,[4]

---

[1]Harbison, op.cit., p. 252.

[2]Eugene W. Burgess, "Management in France," in Harbison and Myers, op.cit., p. 219.

[3]Ibid.

[4]Robert Presthus has given an instructive account of what happened in the United States: "In the formative years of American capitalism, extending roughly from 1865 to the turn of the century, business enterprise was typically owner-operated and controlled. The

and the same trend is apparent in the larger enterprises in England, Germany, and even France and Italy today. In the most advanced industrial economies, therefore, the proprietory capitalist and the family enterprise, though still important in petty trade or small-scale industry, no longer play an influential role in large industrial establishments.

B. Requirements of the Industrialization Process

If a discussion of the requirements of industrialization is inescapable in a study like the present one, a heavy drawing from Harbison's and Myer's excellent book, Management in the Industrial World: An International Analysis, to which many references were made throughout the preceding pages, becomes mandatory.

The industrialization process, state Harbison and Myers, has its set of imperatives: things which all societies must do if they hope to conduct a successful march to industrialism. This is what they call "the logic of industrialization." One of the imperatives

---

system was highly personalized. The owner risked his own money, played an active role in management, and competed whole-heartedly with his rivals..." However, "By 1897 consolidation to avoid ruinous competition and to capture market control and provide huge capital resources had become common. Thus the period in which the typical enterprise was operated in a competitive milieu by a single entrepreneur or family existed only briefly. The succeeding corporation era encouraged the development of big organizations by making capital accumulation easier, by permitting risk sharing, and by divorcing ownership from management." (Robert Presthus, The Organizational Society: An Analysis and a Theory (New York: Alfred A. Knopf, 1962), pp. 62-64.)

in the logic of industrialization is the building of the requisite organizations to combine natural resources, capital, technology, and labor for productive purposes. Organization building has its logic, too, which rests upon the development of management.

Harbison and Myers look at management from three different perspectives and thus develop a threefold concept of management:

1. From one perspective, management is an economic resource, or a factor of production. In this respect, it is similar to capital, labor or natural resources, and is combined with them in varying factor proportions in productive processes.

2. From a second perspective, management is a system of authority. In industrial society there are the managers and the managed. The exercise of authority by management is indispensable to industrial development, and the nature of that development will be critically influenced by the manner in which such authority is applied.

3. From the third perspective, management is a class or an elite. In any industrial society, the members of management are a small, but usually aggressive minority. In varying degrees in different countries, they enjoy a measure of prestige, privilege, and power as an elite. Entry into the management class is of necessity restricted, and thus it is important to map the avenues of access to its ranks and to identify those who are its gatekeepers. The matter of access has an important bearing upon the capacity of a country to accumulate the management it requires, and it also has a bearing on the operation of management as a system of authority.

Looking at management from each of these three perspectives, Harbison and Myers undertake to trace the logic of management development as related to the processes of industrial growth. A brief account of their analysis will be sufficient to show how patrimonial management is undermined by the requirements of the industrialization process.

Viewing management as an economic resource, Harbison and Myers point out that management has both quantitative and qualitative dimensions. As industrialization progresses, the numbers of persons in management increase both absolutely and relatively in the economy. This is the inevitable consequence of larger capital outlays, the pace of innovation, the use of more modern machinery and processes, the growth of markets, and the greater complexity of an advanced industrial society. At the same time business organizations become more complicated as they grow larger, and the effectiveness of management increasingly becomes dependent upon skill in reducing the inherent frictions and inefficiencies of complicated human organizations. "There is a direct relationship between the quality of the managerial organization and the productivity of labor, and...many plant-level labor problems stem directly or indirectly from management problems."[1]

From the second perspective, management is a system of authority within the enterprise. The functioning of this system has a direct bearing on the quality of management as a factor of production. It also affects the attitudes, aspirations, and general well-being of

---

[1]Harbison and Myers, op.cit., p. 118.

all individuals directly involved in the industrialization process. The system of authority has two important and closely related elements: first, the exercise of authority within the managerial group and, second, the attitudes and policies of management as the rule maker in its relationships with the workers and their unions.

In looking first at the internal power structure of management, Harbison and Myers reach the conclusion that the logic of industrial development calls for increasing managerial decentralization as enterprises grow in size and complexity. As industrial enterprises expand, decentralized administration of some kind is necessary to overcome the mounting organizational frictions and loss of energy which are inherent in any highly centralized system of management. Carried to extremes, of course, decentralization can cause an organization to disintegrate. For this reason, "the attainment of the proper balance between centralized control and decentralized administration is perhaps one of the most intricate problems inherent in modern industralism."[1]

With respect to management-labor relations, Harbison and Myers state that as industrialization proceeds, dictatorial and paternalistic philosophies of management are forced to give way to a kind of 'constitutional' management in which wages and conditions of employment are based upon laws and contracts; management is thus obliged to share its rule-making power with other contenders, such as the state and labor unions.

---

[1]*Ibid.*, p. 47.

From the third perspective, management may be thought of as a class or an elite group to which only selected persons may have access. In the early stages of industrialization, observe Harbison and Myers, management may be drawn largely from family dynasties or, in some cases, from political parties or the government service. But technological and organizational development tends to favor professionally oriented or careerist rather than political or patrimonial management. As industrialization follows its logical course, increasingly large numbers of trained engineers, technologists, and administrators are required. As the managerial class becomes larger, it also becomes less exclusive, since of necessity the avenues of access to its ranks must become broader.

In its logical development, therefore, management at all levels becomes more of a profession than a preordained calling or "priesthood". As the industrial society continues to lay stress upon scientific discovery, technological innovation, and economic progress, patrimonial and political managements tend to be displaced by the professionals. Decision-making is no longer based upon intuitive judgment; it depends increasingly upon objective analysis, the reports of specialists, the advice of consultants, and carefully directed collective thinking. Positions within the managerial hierarchy are more precisely defined; goals are more formally established, and criteria for successful performance more explicitly stated. The strategy of management becomes based upon a set of rigidly defined principles to guide its day-to-day tactics. The organization builders who direct, coordinate, and lead the swelling cadres of "organization men" must have knowledge as well as experience; they must know a little about many things as well as a lot about some things. They must master the art of developing people as well as the simple direction of subordinates; they must know when to delegate as well as when to exercise their authority of command. "Inevitably, the modern captains of industry and their associates in the managerial hierarchy become an elite of brains. They become an intelligentsia, and access to their ranks is gained increasingly through education rather than through family or political connections."[1]

---

[1] *Ibid.*, p. 120.

IV. CONCLUSION

It is futile to repeat the conclusions reached in each section of the preceding discussion. What ought to be emphasized, however, is that the controversy with which we are dealing--whether family firms impede or promote industrial development--would cease being a"controversy" if we look at it bearing in mind that there are "stages" of economic growth. Thus, from all that has been said above, we can conclude that in the early stages of economic development, family firms may be effective agents of industrialization--as a source of capital and a basis for "trust" and "loyalty" in business relationships; but as industrialization proceeds, family firms become a hindrance to further development because of such practices as nepotism, centralization of authority, conservatism, and paternalism.

We have seen that family firms may have an important role to play even in more advanced stages of economic development. But no matter how strong the "sense of continuity of the family tradition" may be, it loses its effectiveness if there is no response to the impact of technological innovation, growth in size of the firm, etc. Indeed, if family enterprises are to grow successfully and maintain or improve the "family name", they must conform to the requirements of industrialization.

It was pointed out earlier that while some economists believe that it is the family character of business enterprises that has been the main retarding factor in the economic development of a number of countries, others maintain that in these countries the character of enterprise was primarily a product of the economic environment rather than the reverse-for foreign concerns behaved in much the same way as the local, and the great corporations behaved in much the same way as the family. Before going into the study of family firms in Lebanon, then, it is essential to examine the environment in which they operate. What is the level of education and training, and what are the prevailing value orientations? For managerial performance is not only determined by the knowledge and skill of entrepreneurs and the personnel they employ; the quality of the decisions made in firms depends also on the frame of reference of those in charge, i.e. on the extent of their understanding of the situation which confronts them and on the nature of the values which guide their behavior. Frames of reference and values in turn are related to the nature of the institutions of a society, of the roles which individuals play in them and the behavior which is expected of them and approved.

The analysis of those features of Lebanese society which have special significance in determining values, attitudes, and frames of reference of businessmen will be followed by an examination of the economic environment. It is essential to know the stage of Lebanon's economic development, for as we have seen, whether family firms promote or hinder industrialization depends to a considerable extent on the country's stage of development. While it is true that in some more or less advanced countries family firms have hindered any further development, in others, they have proved to be the main agent of industrialization in the early stages of growth.

Finally, it is important to note that family firms do not all behave in the same way. For example, even though authority tends to be centralized, there are variations in the degree of centralization. In the same way, paternalistic practices may be of different types. We have discussed earlier the three types of paternalism prevailing in Italian family enterprises and described by Ferrarotti as "feudal or authoritarian", "manipulative", and "democratic or participative". Each one of these types involves a different atmosphere--different attitudes toward delegation of authority, appointment of outsiders in key positions, basis for promotion, etc.--and consequently each one of them plays a different role in the process of industrialization.

In a study such as this, valid conclusions can be drawn only if the case-studies of family firms are examined in the light of the environment in which these firms operate. The setting in which family enterprises in Lebanon operate will be examined in the following chapter. The behavior and practices of these family firms will be analyzed in chapter IV, devoted to the case-studies.

PART II

THE SETTING

CHAPTER III

THE SOCIO-ECONOMIC ENVIRONMENT

As explained in the preceding chapter, it is essential to examine the environment in which family enterprises in Lebanon operate before embarking on the actual case-studies of family firms. The analysis of the socio-cultural environment will include two broad features. First, an inquiry into the basic value orientations of Lebanese society will be made; there are rules of behavior and social roles in Lebanese society which impinge on businessmen in their offices and factories as well as in their homes, and the prevailing attitudes which permeate the community have naturally molded the mentality of businessmen, whether they are salaried employees in industrial concerns or entrepreneurs managing their own firms. Second, an examination of the level of education and training will be undertaken. Education has an important role to play in modifying and changing the value orientations of a society. Of course, social attitudes and cultural values cannot be changed overnight; the process of socio-cultural change is inevitably a slow one. But if attitudes and values are to be changed at all, the quality of the education provided in the primary and secondary schools, vocational centers and universities, is a crucial factor.

This analysis of the socio-cultural environment will be followed by an examination of the economic environment. The question to be answered is: in what particular stage of economic growth does Lebanon stand?

Having thus objectively examined the environment--socio-cultural as well as economic--in which family firms operate, we shall try to see, in the concluding section of the chapter, how the prevailing value orientations and economic conditions could affect the functioning of industrial enterprises in general and family firms in particular, and account for the peculiar role of the latter. Could it not be, for example, that some of the characteristics displayed by family firms--characteristics assumed to be inimical to industrial growth--are nothing but the product of the environment in which these firms operate? This would mean that the "unpropitious practices" of family firms are not inherent in that type of enterprise, but are somehow "forced upon" industrial concerns operating in such a setting, and one would expect, therefore, non-family firms to adopt the same practices and display the same characteristics as family firms.

I. SOME SOCIO-CULTURAL CONSIDERATIONS

A. Basic Value Orientations

1. Family Loyalty

In Lebanon, as in the other Middle Eastern societies, the family is the basic social unit, occupying a focal position in the culture of the area. "The place of the individual within his society is determined, to a large extent, by his membership in an extended family"[1]--that is, a person's status in society, his occupation and social prestige are largely an expression of his family position. The outstanding characteristic of Middle Eastern culture, and particularly in the traditional segments of the society, is the "subordination of the individual to his family and his participation in larger social groupings on a family basis."[2] Family loyalty and obligations take precedence over other loyalties and obligations. To serve one's family is a first prerequisite for gaining approval, and "the role of a person who has power in an organization is to use it to find jobs for his kinsmen in family and sect."[3]

Deeply rooted in Middle Eastern behaviour, family loyalty has naturally had great effect upon economic life. Yusif Sayigh, stating that in Lebanon "There are certain traditional practices that limit the freedom of action of the entrepreneur and make him less of the

---

[1]Raphael Patai, "The Middle East as a Culture Area," The Middle East Journal, Vol. VI, No. 1 (Winter 1952), p. 11.

[2]Ibid., p. 20.

[3]Arthur E. Mills, Private Enterprise in Lebanon (The American University of Beirut, 1959), p. 48.

motive force that he can be," notes in particular "the strong family bonds tying the entrepreneur's hands and making it difficult for him to draw rationally-conceived plans and decisions."[1] Most business is still done through family firms, and from the account given by Mills, it would appear that the outlook of these firms is very much like that of the French and Italian family enterprises described in Chapter II:

> Business is a family affair, in all partnerships and most companies, and employers view their firms in much the same way as they view their private house and estate...The firm is the source of the family income and prestige, to be managed, inherited, or sold in the interests of the family alone. Important decisions are family decisions, and there is resistance to the idea of delegation. Business affairs, being family affairs, are secret and personal. A university research-worker is prying into family secrets when he wishes to observe the firm at work. Labour unionists who attempt to push up wages are encroaching on the rights of family property. The law which forces businessmen to pay indemnities and family allowances to employees is weakening not only business but also the institution of the family by burdening it with responsibilities shouldered in other countries, at least in part, by government itself."[2]

Strong family feeling tends to maintain the predominance of the personal proprietorship and partnership forms of business organization. In his study of business enterprises in Lebanon, Mills points out that widespread family control with its associated

---

[1]Yusuf A. Sayigh , "Lebanon: Special Economic Problems Arising from a Special Structure," Middle East Economic Papers (Economic Research Institute, American University of Beirut, 1957), p. 76.

[2]Arthur E. Mills, "Economic Change in Lebanon," Middle East Economic Papers (Economic Research Institute, American University of Beirut, 1956), pp. 80-81.

secretiveness is one of the major obstacles to the growth of corporate enterprise: "The family firm makes it clear to third parties that its affairs are private. It does not welcome visitors, and will allow no outsider to have information of costs and revenues, assets and liabilities. Such secretiveness naturally dispels any confidence on the part of outside investors."[1] Furthermore, the industrialist himself is usually unwilling to accept capital from persons outside his family or intimate circle of friends. Outsiders must be kept out, for "outsiders menace the family's control over its vital interests." It is not surprising, then, that "family control tends to prevent the merging of small units even where they are uneconomic, and where amalgamation would make possible a larger and more efficient scale of operation."[2]

2. Ethnocentrism

Another important feature of Lebanese society is ethnocentrism. True, almost all known societies or groups are to some extent ethnocentric--individuals everywhere give preferential values to their own culture or subgroup. Ethnocentrism in Lebanon, however,

> is peculiar in at least two respects: in the first place, the 'mosaic' and fragmented character of the society with its divided loyalties, confessional sects and minority groups intensifies the ethnocentric bias. In the second place, when such tendencies are carried to extremes, as is often the case in Lebanon, each group makes its own norms or values the point of reference for judging all others.[3]

---

[1] Mills, Private Enterprise in Lebanon, p. 29.

[2] Ibid., p. 31.

[3] Samir Khalaf, "Managerial Ideology and Industrial Conflict in Lebanon" (unpublished Ph.D. dissertation, Princeton University, 1963), p. 198.

In fact, sectarianism has turned the communities into separate groups vying with each other as groups for power and benefits.

As Sayigh has pointed out, two serious problems related to sectarianism "weigh heavily on the wheels of social and economic progress." The first is "political feudalism" which characterizes a system of political relationships between share tenants and large landowners in the plains area, between small estate owners and descendants of the ruling elite of the past two or three centuries in the mountain area, and between the city mass (mostly immigrants from the countryside) and influential politicians whose power largely derives from origins in the countryside supplemented by urban political affiliations and economic affluence. The followers in this system owe allegiance to the leader personally and support him in elections. On the leader's side, the obligation is to seek benefits and public-works funds for his men, help them out if they fall into trouble, and generally act as their political guardian.[1] Needless to say, "political feudalism"--"this limited form of paternalism"--assures neither the election of the best men, nor the optimum allocation of public funds over the country.

Luckily this anomalous feature of the electoral system is giving way to a truer expression of the electorate's will. However, a second problem exists, even more closely related to sectarianism. This is "political confessionalism" whereby parliamentary seats are

---

[1] Sayigh, Entrepreneurs of Lebanon, p. 2.

allotted according to an agreed pattern to the various religious communities. The general recognition of their assumed rights leads the communities to consider that the best safeguard for their rights is adequate representation in parliament through people of their own religious denomination. The sectarian pattern is not restricted to the seats of parliament. By precedent, it governs the distribution of executive offices, from that of the president of the republic down to the level of section chief in a ministry.[1]

As Sayigh aptly observes,

> The combined effect of political feudalism and political confessionalism has been to push the unqualified man forward if he is of the right sect and has the necessary backing; to produce inefficiency and superfluity in the civil service; and to give the laws of the land little authority and effectiveness--in short, to retard far-reaching reform in all aspects of society's life. Although the public at large is aware of the necessity of reform, it is generally kept so busy with its community rivalries that it leaves the field virtually free for narrow vested interests.[2]

Family loyalty is more intense than it would otherwise be owing to the excessively ethnocentric nature of Lebanese society, and this adds to the reluctance of owners to employ outsiders in responsible positions. It also makes them prefer the personal forms of business organization, and retards the growth of corporate enterprise where it is more readily possible to introduce outsiders into the policy-making board of direction.

---

[1] *Ibid.*

[2] *Ibid.*, p. 3.

Ethnocentrism has other effects. Firstly, it causes intense emotional insecurity among workers who are forced to work alongside persons of different sects from their own. In the first generation of industrial experience, men and women who have been accustomed to life in the village are anyway averse to factory discipline with its rigid hours and pace of activity. In Lebanon ethnocentric emotions are added to this disturbing context with significant effects on workers' motivation.[1] Secondly, it encourages the practice of nepotism in all types of institution, political as well as economic.

It is fitting to conclude the foregoing discussion by quoting Khalaf:

> Whether it is loyalty to one's family, sect or ethnic group, the consequences of such particularistic and ascriptive attitudes are almost always the same. In industrial organizations, they have not only violated the workers' sense of justice and equality in competitive opportunity, but they have also betrayed some of the rational and universalistic principles of evaluating productive resources.[2]

3. Mercantile Mentality

Another major determinant of social values and of behaviour is the mercantile mentality which is pervading Lebanese society. Terry Prothro's "Studies in Stereotypes: Lebanese Business Men," clearly indicate that the Lebanese themselves take it as an established fact that they are "mercantile-minded".[3]

---

[1]Mills, Private Enterprise in Lebanon, p. 48.

[2]Khalaf, op.cit., p. 199.

[3]The questionnaire prepared by Prothro consisted of a list of adjectives followed by instructions to select from the list as many words as needed to characterize the following people: Americans,

This is hardly surprising, since commerce is the major income-earning activity of the Lebanese and, as an occupation, has the highest prestige. Fitting into the center of the Asian front on the Mediterranean, Lebanon is within convenient reach of suppliers and markets, and therefore enjoys a suitable location for trade and transit services. (These activities alone account for over one fourth of national income.) Means of transportation have certainly changed, but the modern Lebanese trader and middleman, no less than his Phoenician and Arab ancestors, takes full advantage of his country's location and of his own skill to collect wares from suppliers and spread them in markets far and near. Lebanese merchants are particularly clever in finding buyers and sellers and in bringing them together; "they are born brokers... They are 'middlemen' by nature,"[1] and they have certain characteristics which are peculiar to the intermediary. They are concerned with the immediate transaction, and once they have taken their commission they are off on the search for a new transaction; "it is very much the outlook of the merchant adventurers of the late Middle Ages and the merchants of 15th and 16th

---

Chinese, English, Germans, French, Irish, Italians, Japanese, Lebanese, Russians and Turks. "Mercantile" (scoring 39%) came at the top of the list of the ten adjectives most frequently assigned by the sample of Beirut businessmen to Lebanese, followed by "clever" (36%). (Terry Prothro, "Studies in Stereotypes: IV. Lebanese Business Men," The Journal of Social Psychology, Vol. 40, 1954, pp. 277-278).

[1] Mills, Private Enterprise in Lebanon, p. 45.

century Europe."[1] Their aim is quick profits. They do not like to become engrossed in long-run entanglements, but to be free to go where the profit happens to be most attractive. The merchant can switch from one agency to another, from one type of article to another according to the vagaries of taste. Those merchants who became industrialists when manufacturing was the source of the greatest profits do not throw off that outlook as soon as they substitute the factory for the warehouse; and many a merchant who has cast in his lot with manufacturing does not give up his commercial agencies because they are profitable.

However, serious consequences derive from the occupation by trade and services of a place of honor in the economy. They are of an economic and a noneconomic nature.

It is true that the prosperity of trade and services "reflects a brisk and refined business sense, sensitivity to world markets and to price fluctuations, mental alertness, skill in trading and in the performance of services, and an ability to cater to clients' tastes."[2] But the Lebanese tend to take undue pride in the fact that theirs is a services economy, and consequently neither industry nor agriculture receives the attention it deserves from government, or the esteem it deserves from the rest of the business community.

The bias in favor of services in Lebanese society raises misgivings not only because of the subordination of agriculture and industry;

---

[1] <u>Ibid.</u>

[2] Sayigh, "Lebanon: Special Economic Problems Arising from a Special Structure," <u>op.cit.</u>, p. 86.

as we have seen, it has also affected the national character. As Sayigh puts it,

> In this trade-centered society, cleverness enjoys a premium over creativity. The emphasis on gains made through clever bargaining is greater than the emphasis on steady business relations and on deals based on the respective merits of the goods exchanged. And the search for a quick turnover and large easy profits accentuates an inclination to speculative enterprise and militates against sustained effort and long-term investment promising long-term, though low, profit rates. 'Catering', which is a major feature in a services-biased economy, is an attitude and a frame of mind. Its imprint on the quality of entrepreneurial resources and on entrepreneurial behavior can hardly be escaped.[1]

4. Hierarchical Consciousness and Authoritarianism

Only half a century ago, Lebanon was quite medieval in its social structure and relationships. No wonder, then, that there is a legacy of feudal attitudes giving rise to well-defined conceptions of status, the employer managing the firm autocratically and considering operatives and supervisors as an inferior class, and the latter tending to accept orders uncritically. Indeed, employers for the most part talk of their workers as lords talked of their serfs, while workers appear to accept their employer in the role of a superior being who gives orders and makes all arrangements which they themselves obediently accept.

Sayigh, in discussing worker-management relationships in the Middle East, notes that "...both management and labor carry their relative social positions and importance largely intact from the

---

[1]Sayigh, Entrepreneurs of Lebanon, p. 11.

social into the economic realm,"[1] and that "...labour's acceptance of authority deriving from the projection of the privileged social position of management leads to general acquiescence on the part of labour."[2] Mills, observing that "In all types of institution authority is autocratic," emphasizes that "...in most firms, offices, and farms, employees and peasants are found to expect it to be so. Brought up under strict paternal authority, educated in schools where discipline and teaching methods are still as they were in Western schools two generations or more ago, it is small wonder that the demand for such Western luxuries as delegated authority, joint consultation, is scarce."[3]

The prevailing master-serf mentality breeds inauspicious results. For one thing, contact with machines and tools is felt to be degrading. Operatives are paid to perform that kind of inferior work and should be left to do so with supervision only by men of their own class. As Mills aptly observes,

> Men of feudal outlook do not easily expend money on training what they consider to be an inferior category of people. The attitude affects not only training but planning and control. The owner who considers the machine-shop the province of persons of inferior status is thereby barred from detailed planning and control which must be a top executive responsibility.[4]

---

[1]Yusif Sayigh, "Management-Labour Relations in Selected Arab Countries: Major Aspects and Determinants," International Labour Review, Vol. 77 (January, 1958), p. 522.

[2]Ibid., p. 523.

[3]Mills, "Economic Change in Lebanon," op.cit., p. 82.

[4]Mills, Private Enterprise in Lebanon, p. 97.

Another detrimental outcome is that such a feudal attitude not only has created a passive and submissive labor force, it has also been one of the obstacles halting the growth of an effective and aggressive labor movement. Labor generally feels at the mercy of management--mostly because of the abundant supply of unskilled and semi-skilled labor services which can readily be drawn upon if labor organizations become difficult to handle and too demanding for management's taste.[1] As for the government, its attitude is more or less consistant with its theory and practice of general economic freedom. On the one hand there is a labor code covering several important aspects of management-labor relations; on the other, management and labor are largely left alone to find their formula of peaceful coexistence, the government intervening only when strife looms large.[2]

5. Hostility and Hospitality

Deeply rooted in Arab culture is the presupposition that the environment is hostile--that people outside one's family or group are generally hostile and may take advantage of one another at any time.[3] Arab life is filled with interpersonal rivalry--tribal feuds in the desert, family and village feuds in the settled areas, and intergroup hostility (more controlled, however) in the towns. As Morroe Berger points out,

---

[1]Sayigh, "Management-Labour Relations in Selected Arab Countries: Major Aspects and Determinants," op.cit., p. 525.

[2]Ibid., p. 536.

[3]Obviously, the assumption of a hostile and antagonistic environment reinforces family loyalty: since one cannot "trust" the people around, it is only natural to turn to one's relatives whenever a reliable person is needed--to work in one's business or contribute funds.

> Conflict is so much on the verge of breaking out that interpersonal relations seem to be largely directed at avoiding or covering up the slightest tendency toward the expression of difference. There are few informal mechanisms for the serious discussion of opposing beliefs without a display of intense animosity; except among a few highly educated members of one elite group or another, people do not discuss differences, or they do so with a bitterness that is constantly at or over the edge of violence. People seem to sense that the slightest tendency to verbal disagreement may easily lead to unmanageable discord, and must therefore be suppressed or channeled through a mediator."[1]

The competitiveness, mistrust, and lack of cooperation which permeate Lebanese society are simply outward manifestations of such underlying hostility. The reluctance of Lebanese to give information about themselves to strangers and officials can be partly explained in terms of the prevailing attitude of suspiciousness. A more serious result is the lack of cooperation among businessmen and their unwillingness to associate with others, even when there is promise of high rewards. As Sayigh observes,

> This fragmentation is carried to the absurd point at which definite damage is suffered by groups and individuals because of lack of cooperation. The most conspicuous instance is in the fruit export industry where a lucrative line of business is being damaged owing to the absence of common standards of grading, standardized packing, and uniform pricing. There is little long-term rationality in the business leader's attitude, and it is doubtful that he makes substantial gains from his atomistic approach except in the very short run.[2]

---

[1] Morroe Berger, The Arab World Today (New York: Doubleday and Company, Inc., 1962), p. 161.

[2] Sayigh, Entrepreneurs of Lebanon, p. 96.

Finally, managers and workers alike have been so embedded in this atmosphere of hostility that each group is singularly motivated by the intention of looking after its own interests. As Khalaf points out, "The basic issues in labor-management relations after all arise from the fact that each group is concerned primarily with its own individual welfare and interprets the actions of the other as a threat to its own survival."[1]

Hostility, however, represents just one side of the coin with respect to Arab interpersonal relations; the other side is typified by hospitality. Indeed, these are the extremes of Arab interpersonal relations: excessive hostility alternating with excessive politeness. Berger emphasizes that while in the desert hospitality comes about as a means of overcoming the individual's helplessness in so harsh an environment, in the villages and cities it has a different function; "it reduces the tendency of the everpresent hostility to burst into violence at every moment. Exaggerated hospitality and politeness are reactions to exaggerated hostility, at least in part."[2]

In any case, hospitality, which is in Arab society almost a religious rite, impinges on businessmen in their offices and factories as well as in their homes. The Arab keeps an open door, and a friend is welcome at any moment of the day; he will be offered a smoke and a coffee and great interest shown in his own and his family's health.

---

[1]Khalaf, op.cit., p. 184.

[2]Berger, op.cit., p. 161.

Hospitality is far higher in the Arab's standard of values than adherence to a strict routine of work and attainment of a predetermined target. Overworked managers cheerfully chat with visitors, knowing that the problems are piling up and important decisions being delayed; and this feature of business behaviour is the more serious because of the overcentralization of decision-making characteristic of almost all Arab institutions. There can never be an assurance as to dates. It is seldom that an Arab completes a task by the time agreed, since there will always be someone dropping in to delay him. Time, indeed, still means little to the Arab, even in the cities. He is not surprised or offended if you fail to turn up at a "rendez-vous", and he expects you not to be if he in turn fails to show up. The future cannot be foreseen. To quote Mills,

> It is clear that the Arab's politeness and hospitality, coupled with his fatalistic outlook which makes him feel no responsibility if he breaks his word through events he had not troubled to foresee or to evade, make systematic planning and control in a business appear to him a strange method of running it. The pattern of behaviour in Arab society, from the family, through school, sect, farm, factory, and office, is one which is inappropriate to a system in which time is a determining factor, in which man's responsibility extends into the future, and in which behaviour is governed by targets consciously determined.[1]

The inappropriateness is made more marked by other features of the environment: the shortage of reliable statistics and the effort to evade taxation by concealing accounting records. A further

---

[1]Mills, Private Enterprise in Lebanon, p. 94.

factor of the social environment leading to the same result is the pervasiveness of fatalism. It is logical to expect that, in a region where religion still plays a profound part in the life of individuals and of the community, the attitudes it has provoked towards God should be projected on to fields other than personal religious life. "There seems to be a desire," writes Mills, "to leave the firm's fortunes to the will of God; to attempt to plan the future would be sacrilege, for that is the function of the Supreme Power alone."[1]

B. Education and Training

The principal type of knowledge underlying technical and managerial progress is scientific. Lebanon is at a stage of evolution when its culture and philosophy are not yet imbued with the scientific outlook. All its educational institutions except the foreign universities give little attention to science and research; the emphasis has all along been on liberal arts and law. "A high premium is placed on mental 'cleverness', on verbal prowess, which is not the best preparation for facing a country's material problems."[2] It is only since the War that the American and French universities themselves have placed emphasis on science and the practical fields in which it is applied, such as engineering and agriculture. One decade is too short a period for such novelties to influence community attitudes; and so long as the schools at every level remain biassed against

---

[1] Ibid., p. 95.

[2] Sayigh, Entrepreneurs of Lebanon, p. 3.

scientific teaching, the significance of the university training will be small.

Though Lebanon is the most literate of the Arab countries, the training problem in it is just as acute as elsewhere. In spite of the financial advantage from having a considerable proportion of the country's educational facilities provided by private institutions and paid for privately, the government has failed to provide technical and supervisory training for the growing industries and commercial undertakings. Here is one of the reasons why,

> If we look closely enough at the social and economic order in Lebanon, we see a profound lopsidedness: a mass of unskilled labour at the bottom, a small group of trained or partially trained leaders and risk-takers at the top, and an almost denuded series of middle ranks. It is like an inverted mushroom. Both the creative and organizational upper levels found in Western countries and the supervisory level are virtually absent, while among operatives the skilled level upon which all the superior levels in the hierarchy must rely for quality in performance is likewise virtually non-existent.[1]

Mills points out that the educational level of workers being uniformly low,[2] managers in all factories claim that it is impossible to train supervisors "out of such material." Besides, in most factories the industrialist is himself not skilled in the difficult art of supervision, and is unable therefore to teach it even if he can find the time. Recruited from the ranks, the sympathies of foremen

---

[1]Mills, Private Enterprise in Lebanon, p. 43.

[2]Most have had little more than six or seven years of schooling.

are usually with the operatives rather than the owners, especially since they usually receive no assistance or cooperation from the latter, have no opportunity for training, and receive low wages.[1]

One point which needs special emphasis here is that the typical pattern of Middle Eastern life today is one of conflict between East and West, "between the old inheritance and the new potentiality."[2] Indeed, contacts with the West, provided by trade, foreign missions and schools, and by military occupation, have exposed the traditional Arab world, which had inherited from its classical age a system of ideas and a way of life, to a slow process of social and cultural change, and this is particularly true of Lebanon.

However, the forms of Western life are usually adopted long before its spirit is valued or understood. Eban, emphasizing that there is a gap in time between imitation of the European forms and assimilation of the European outlook, writes: "The externals of Western life have developed in Europe from a series of inward expressions. But an Arab, bent on assimilating Europe, is forced to go through the converse process: he must begin with the visible outward form and work his way inwards--from the body to the soul...That is all the difference between being Western and becoming westernized."[3] And as Eban

---

[1] Ibid., p. 44.

[2] A.S. Eban, "Some Social and Cultural Problems of the Middle East," International Affairs, Vol. XXIII, 1947, p. 367.

[3] Ibid., p. 368.

so rightly observes, "...an uncomfortable intermediate stage occurs where men have cut themselves adrift from a complete and unified culture which was their own, and have merely touched the surface of another world which they aspire to enter."[1] This is the situation in Lebanon today.

[1] *Ibid.*, p. 369.

II. SOME ECONOMIC CONSIDERATIONS

The over-all performance of the Lebanese economy is very good by Afro-Asian standards. After a period of continuous growth since the war, national income currently averages about $325 per capita. The most peculiar feature of the economy is the singularly high proportion of income earned in the trade sector, namely 28 per cent. This is higher than anywhere else, in most other countries the proportion ranging between 8 and 18 per cent. Generalized, this peculiarity is the preponderance of "services" over "goods" in the national product. The ratio is roughly two to one, while in most other countries the pattern is reversed.[1] This is no accident; it is the product of the country's poverty in natural endowments, forcing an energetic and ambitious population to take the role of middleman for which its country's location and its temperament and tradition are suited.

Agriculture lies between trade and industry in the ranking of sectors on the basis of their contribution to the national income. The strong point of Lebanese agriculture is the excellence of its vegetables and fruits. Lebanese fruits, because of their high quality, have been successful in many European markets, Western and Eastern, despite the exporters' failure to develop effective grading, packing, and marketing mechanisms and practices, and to respect shipment specifications rigorously.[2]

---

[1] Sayigh, "Lebanon: Special Economic Problems Arising from a Special Structure," op.cit., pp. 70-71.

[2] Sayigh, Entrepreneurs of Lebanon, p. 9.

Industrialization is a process that takes several decades, even when planned ruthlessly by communistic authorities. In Lebanon, the process is less than a generation old. Beginning feebly under the French Mandate, it gathered some momentum during the thirties; but it was the favourable conditions of the war years which gave it a really strong impetus. Most of the firms which began at that time were family establishments set up by merchants and financed from the profits due to stock appreciation and inflation. The management of these firms was, and continues to be, conditioned by the merchant mentality, the desire for wide margins and quick profits, with little understanding of the problems of machines and men. As Mills aptly observes, "The change from the merchant outlook to that of the industrialist is one involving sociological, psychological, and cultural changes of a kind which, owing to the deep strength in the human mind of habit and tradition, cannot be expected to occur in the space of a few years, especially in countries where education is stereotyped and book-bound and where technical and administrative training is minimal."[1]

We have seen that some of the basic value orientations of the Lebanese have a retarding effect on the industrial development of the country. To these noneconomic features of the environment must be added some other features, of an economic nature, which hinder, too, industrialization. Passing mention will be made to three such features: the imperfect development of financial institutions, the scarcity of corporate enterprise, and the size of the market.

---

[1]Mills, "Economic Change in Lebanon," <u>op.cit</u>., p. 85.

The outstanding feature of the financial framework in Lebanon is the dearth of facilities for granting medium and long-term funds. The growth of monetary and banking institutions reflects the predominance of commerce over other economic activities. While the vast demand for commercial credit has been largely met, the need for industrial capital and credit has remained virtually unsatisfied by banks.[1]

In addition to the drive for liquidity limiting the ability of banks to grant term loans, another limiting factor is that in Lebanon no specialized credit information service exists. The banks are well informed only about the more substantial trading firms, and know little about small traders and industrialists. Moreover, firms do not keep reliable records, available for inspection by bankers, and the risk of lending is consequently high. Credit has to be on a purely personal basis of trust.

On the whole, industry has financed its requirements for both fixed and working capital mainly from its own resources, namely the private fortunes of industrialists and their families and profits ploughed back into the enterprises. The origin of the private fortunes of families owning industrial firms has for the most part been

---

[1]The Bank of Syria and Lebanon (BSL), which has been exercising some of the functions of a central bank, is not a true central bank but a profit-making institution controlled from Paris. It is hoped that the new central bank will encourage the development of an organized money market. Moreover, it will have an important role to play in the country's economic development by granting medium and long-term loans for the expansion of industry and agriculture.

in war profits but has in many cases been also in business abroad. A large number of emigrants have returned to Lebanon over the last generation with their savings and know-how acquired in the Americas or Africa. And most of those who have remained abroad send remittances, which, along with the funds derived from the commercial activities of the family, are used to finance manufacturing.

There are several forces which help to hinder the growth of corporate enterprise. One of them--widespread family control with its associated secretiveness--has already been mentioned. The others, of an economic nature, are: the embryonic nature of the Stock Exchange, the progressive tax on profits, and the small scale of most plants which are engaged in light industry and which are faced with limited markets.[1]

In all but a few industries, firms complain of the narrowness of the domestic market accentuated by the fierce competition of more experienced and favoured foreign rivals and by their difficulty in entering foreign markets. Often, however, industrialists fail to realize that they are the ones to be blamed for not improving the quality of their products and for their passive attitude to marketing. As Mills observes, "...we should avoid accepting as universally valid the claim that the narrowness of the market is the major check on industrial expansion. That claim needs to be examined industry by industry. In some it is indeed the most serious check to growth. In

---

[1]Mills, Private Enterprise in Lebanon, p. 31.

others, however, frustration, stagnation, and decay arise from quite different causes..."[1]

It is obvious from the foregoing discussion that the process of industrial growth has started in Lebanon. But this process is at its very early stage; there can be no abrupt change from a traditional social system to complete commitment to an industrial way of life. Writes Sayigh:

> Regardless of the sector in which entrepreneurial activity is manifested, the adoption of forms of organization and of authority-sharing formulas best suited to the activity undertaken and to its targets and problems is a touchstone of successful enterprise. The form may be that of single ownership, partnership, or corporation. The formula may be one of monolithic concentration, of sharing of authority among equals, or of institutionalization in a hierarchy where decisions are dispersed yet integrated according to a master plan. What determines the form and the formula is the stage of development of enterprise and in turn society's general level of organization and development.[2]

What are the prevailing forms of organization in the industrial sector of the Lebanese economy? The Industrial Census of 1955 indicates that of the establishments surveyed, more than 60% were single ownerships, 37% were partnerships, and only 2% were corporations.[3] This is

---

[1] *Ibid.*, p. 20.

[2] Sayigh, *Entrepreneurs of Lebanon*, p. 126.

[3] Republic of Lebanon, Ministry of National Economy, *Industrial Census, 1955*, table 20 (June, 1957), p. 37.

hardly surprising, in view of the socio-cultural as well as economic environment. In addition to certain economic factors which hinder the growth of corporate enterprise--the embryonic nature of the Stock Exchange, the progressive tax on profits, etc.--we have seen that, owing to the deeply rooted precept of family loyalty, most business is done through family firms, "outsiders" are kept out of responsible positions, and capital coming from persons outside one's family is refused. Moreover, because the family firm makes it clear to third parties that its affairs are private and does not keep reliable records available for inspection, few outside investors are willing to risk their funds "blindly".

Another important consideration in this connection is that trade is the major income-earning activity of the Lebanese. The process of industrialization being less than a generation old, and considering the fact that most of the industrialists were originally merchants, it is not surprising to find that the sole proprietorship and partnership are the prevailing forms of organization. For if the corporate form of organization is the most commendable with respect to industrial activities, the single ownership and the partnership are quite appropriate as far as trading activities are concerned. Furthermore, most of those merchants who turned to manufacturing have kept their commercial agencies because they are profitable. Under such conditions, the Lebanese businessman needs some time in order to realize that the form of organization which is most suitable for one kind of activity is not for the other.

Let us consider next the question of authority-sharing formulas. From our discussion of the socio-cultural environment--and particularly in the section dealing with "Hierarchical Consciousness and Authoritarianism"--it clearly appears that the prevailing formula is that of "monolithic concentration". It was also indicated in Chapter II that such a formula usually denotes a not very advanced stage of industrial development. The logic of industrial growth calls for increasing managerial decentralization as enterprises grow in size and complexity.

It is interesting to note at this point Sayigh's findings with respect to delegation of authority in Lebanese enterprises. In his study of Entrepreneurs of Lebanon, he found out that much more delegation of entrepreneurial authority takes place in finance and services than in industry and agriculture. As Sayigh observes, the explanation may lie in the forms of ownership. Unlike industry and agriculture, banks are mostly corporations, a form in which division of labor in the entrepreneurial-managerial pyramid is more "accepted". "When the association between delegation of authority and form of ownership is examined, clear evidence emerges that business leaders in corporations have a much greater tendency to share their authority with senior staff than business leaders in partnerships or in single ownerships."[1]

---

[1] Sayigh, Entrepreneurs of Lebanon, p. 63.

That "monolithic concentration" is the prevailing authority-sharing formula in Lebanese industrial enterprises, then, is no more surprising than the fact that the single ownership and the partnership are the most common forms of organization. One would naturally expect such a state of affairs, since authoritarianism is one of the basic value orientations of Lebanese society, and since the prevailing forms of organization are precisely those in which division of labor in the entrepreneurial-managerial pyramid is not easily accepted.

Furthermore, decentralization of managerial authority becomes indispensable only as the enterprise grows in size and complexity. The sovereign rule of a single man or family, which is inappropriate for large enterprises, is not necessarily so for smaller ones. Since in Lebanon most of the industrial concerns are small, decentralization of managerial authority has not yet become "a matter of life or death." Indeed, the country's stage of economic development is such that businessmen have not yet been forced to recognize that they can no longer go on with their "obsolete" forms of organization and authority-sharing formula--these are "obsolete" for countries which have reached an advanced stage of industrial development.

Lebanon, as we have seen, is in a stage of transition--"crossing over" from a backward into a somehow more advanced stage of economic development. More specifically, the country is entering the early stages of industrialization. By its very nature, this transition requires a coexistence of the backward with the advancing and the advanced. It is one of the objectives of the present study to find out what are the backward, advancing and advanced characteristics displayed by family firms and the reasons underlying them. But before doing so, let us stop for a while and try to see how family firms fit in the setting described above.

First of all, it would appear from a simple examination of the environment that it is somehow inevitable that most businesses be family firms. Nepotism in Lebanon is not only "good" behavior, but "expected" behavior. A man must be above all "loyal" to his family--and one way to prove his loyalty is to provide jobs for his relatives. It is only natural for him, then, to keep outsiders out and appoint relatives in responsible positions. Family loyalty, furthermore, is reinforced by another value-orientation of the society, namely, the presupposition that the environment is hostile--that people outside one's family or group are generally hostile and may take advantage of one another at any time. Since one cannot "trust" the people around, one must necessarily turn to one's relatives whenever a reliable person is needed, whether to work in the business or contribute funds, for "a member of the family" is supposedly more trustworthy than a stranger.[1] Moreover, family loyalty is not the only feature of Lebanese society which breeds nepotism and favoritism--the ethnocentric bias has the same effect. And it really makes no difference whether the basis of selecting individuals for responsible positions is membership in one's family or membership in one's

---

[1]Such a situation reminds one of the Brazilian experience, reported in Chapter II: there, too, key positions are reserved for relatives "...not only out of a sentiment of family solidarity but... above all they can count on the loyalty of their own kin."

sect or ethnic group: the criterion remains particularistic and ascriptive.

Since family loyalty and ethnocentrism are deeply rooted in Lebanese society, would it not be reasonable to expect all industrial enterprises--family and non-family firms alike--to practice nepotism and favoritism? After all salaried managers in non-family firms and patrimonial managers are the product of the same environment. Family loyalty, which makes the latter appoint relatives in their own firms, urges the former to use whatever power they have in the organization in which they work to find jobs for family members--and for kinsmen in sect and ethnic group as well.

Another point which must be stressed in this connection concerns the "lack of cooperation" for which family firms are severely criticized. Is this "lack of cooperation" peculiar to family firms? It would not seem so from our discussion of one of the major features of the community, namely hostility. If family firms are reluctant to cooperate and unwilling to associate with others because of their desire to keep their affairs private--"no outsiders"--non-family firms display the same tendencies because of the presupposition of a hostile and antagonistic environment: that "the others" will only try to "cheat" and turn things to their own advantage.

We have seen in Chapter II that one of the most frequently made charges against family firms in France, Italy, and Brazil concerns their deficiencies with respect to planning and control. Since the business "is not an end in itself," and since its purpose is not to be found in any such independent ideal as production or service, but it exists "by and for the family," there results a serious lack of understanding of the managerial functions of planning and controlling. Carefully prepared long-term plans are practically non-existent. In the French family firm, for example, the main objective is to avoid use of credit and to make the highest rate of profit possible on a given turnover. Referring to our discussion about the "mercantile mentality" of the Lebanese, it may be easily realized that this outlook, characteristic of family firms in France, is prevalent in almost all Lebanese industrial enterprises. Both family and non-family firms are after "a quick turnover and large easy profits." Thus in Lebanon one of the factors hindering the effective performance of the managerial functions of planning and controlling--the "mercantile mentality"--affects non-family as well as family firms. And there are some other features of the environment which, too, have an adverse effect on these managerial functions, namely, the hospitality of the Lebanese and his fatalistic outlook, which, as indicated earlier, "make systematic planning and control in a business appear to him as a strange method of running it;" the shortage of reliable statistics, and the lack of trained supervisors. Given such an environment, then, one could hardly consider poor performance with respect to planning and control as being peculiar to family firms.

It was pointed out at the beginning of this chapter that education and training have a significant role to play in modifying and changing social attitudes and cultural values. We have seen, however, that education in Lebanon has not received the appropriate emphasis that would allow it to fulfill such a role: not only the emphasis placed on science by the American and French universities is too recent to have any significant influence on community attitudes and values, but also the efforts displayed by the universities are not being matched by the schools. We have also seen that there is a flagrant lack of vocational centers, and that the educational level of workers being uniformly low, "managers in all factories claim that it is impossible to train supervisors out of such material." Thus, the charge made against family firms in countries like France and Italy--that family firms are reluctant to consider foremen as a part of management, and hence not only fail to make an investment in their training and development but are also unwilling to give them the necessary authority to carry out the responsibilities which have been assigned to them--applies in fact to all Lebanese industrial concerns. Furthermore, the lack of vocational centers is not the only factor accounting for the shortage of trained supervisors: the prevailing feudal attitudes have the same effect. As indicated earlier, men of feudal outlook do not easily expend money on training what they consider to be an inferior category of people. And of course, one would expect both patrimonial and salaried managers to have such an outlook, since they come from the same environment.

sonal basis of trust.[1] And finally, that since there is no organized money market, a business needing capital either to start or to expand cannot get the money by issuing stock and selling it on the market. Under such conditions, then, family firms have indeed an important role to play--both as a source of capital and as a means for obtaining bank loans.

There are some other contributions that family firms could make at this stage of Lebanon's economic development. Since, as we have seen, the educational system of the country is inadequate and training is sorely lacking, nepotism may not be so harmful after all. Nepotism--selecting individuals for responsible positions on the basis of "who they are" rather than "what they are"--has certainly inauspicious results in countries where skilled individuals are available--professional managers, staff experts, trained supervisors. But in countries where such individuals can hardly be found, where trained skills are scarce and the sons of the wealthy have much of the training, nepotism may be--to borrow Baldwin's phrase--"relatively costless". Whether patrimonial managers in Lebanon recognize the importance of education and send their sons abroad for training will be a matter for investigation in our case-studies.

---

[1]Mills reports that one large contracting firm with operating units in the majority of Arab countries finds it convenient to adopt the corporate form in Persian Gulf countries, where it has to deal with governments and planning boards, but to conserve the partnership form in Lebanon, the seat of its headquarters, because it is far easier to obtain loans from banks on the personal reputation of the chief partner. (Mills, Private Enterprise in Lebanon, p. 29).

Let us now turn to the question of paternalism--one of those "bad" practices of family firms which is assumed to be inimical to industrial growth. First of all, it must be noted that paternalistic practices in Lebanon are not peculiar to family firms: since, as we have seen, this master-servant mentality is one of the main value orientations of Lebanese society, it is likely to prevail in all industrial enterprises, whether family or non-family. Secondly, given the cultural background of the Lebanese worker, he is not apt to resent paternalistic practices the way a Western worker would. In fact, brought up under strict paternal authority, he is already accustomed, upon entering the factory, to such autocratic treatment. And we have seen in Chapter II that in the early stages of industrial development in many societies, the paternalistic approach is quite consistent with the prevailing social order. Paternalism, for example, has been a "logical first step" in countries such as Germany and Japan, where the members of the preexisting dynastic elites became the agents of industrialization. Finally, it must be recognized that paternalism often serves to smooth the major dislocations which an industrial way of life forces on the newly recruited worker. Since Lebanon is in a stage of transition--that stage precisely during which major dislocations are forced on the newly recruited worker--paternalism may have after all an important function to fulfill. Furthermore, we have seen in Chapter II that there are various types of paternalism with respect to the relationships within the hierarchical structure, each having a different impact on the process of industrial growth. Which type prevails in Lebanese family firms will be another matter for investigation in our case-studies.

Finally, we have seen in Chapter II that as industrialization proceeds and the expectations of industrial workers rise, employers and managers are often forced to become less authoritarian and less paternalistic in dealing with their employees and tend to function as "constitutional managers". Reference was made to those pressures which force management to adopt different approaches, namely, the social values of the society, pressures from individual workers, government labor legislation, labor organizations, technical factors, and pressures from other managements. Our analysis of the environment indicates that no such pressures can be detected in Lebanon. This is an additional testimony to the country's stage of economic development.

PART III

EMPIRICAL RESULTS

CHAPTER IV

THE CASE STUDIES

The interviews conducted for the present study sought the views and attitudes of the owner-managers of 10 firms in leading industries in Lebanon in relation to a wide variety of issues.

For each firm, the following matters were investigated: history of the firm, ideologies of top management, organizational structure, delegation of authority, personnel policies, performance of the managerial functions of planning, organizing, staffing, directing, and controlling.

Presentation and analysis of the findings follows below.

I. PERSONAL INFORMATION

What kind of men are the respondents? What is their level of education? Why have they chosen their present career?

The ten respondents are mostly under 50 years of age (that is, at the time of interviewing in 1963). Those from 30 to 39 constitute the largest single age group, numbering four men. Two of the respondents are in their 40's and two in their 50's. Of the remaining two, one is 60 and the other 27 years old. The leading family firms in the most important industries of Lebanon are thus headed by relatively young men. This can be ascertained by comparing the above figures with those supplied by Sayigh in his study of Lebanese entrepreneurs: at the time of interviewing, in 1959, he found out that his respondents were "mostly middle-aged and over."[1] Further evidence is provided by comparing our findings with those of Khalaf.[2] The average age of his sample of 68 Lebanese industrialists is 47, while that of our study group is 41. This is quite surprising, considering the common expectation that family enterprises are headed by "old men".

None of the men interviewed is without any formal schooling. Only one of the 10 respondents did not go beyond elementary school; the others completed high school, and 3 of them went on through college or university. Two of the 3 men having a university education are in the 50-59 age group, the third being in his 30's.

---

[1] Sayigh, Entrepreneurs of Lebanon, p. 55.

[2] Khalaf, op.cit., pp. 138-139.

The respondents were asked whether there is a tradition in the family to run that type of business, and if yes, how long (i.e., for how many generations). Eight of them said that there is indeed such a tradition in the family, running back three generations. However, when asked for father's important sources of income, only 4 out of the 8 said "manufacturing", and the others answered "trade". Asking for a clarification, the interviewer obtained an explanation which is revealing of the attitude of patrimonial managers: true, the fathers of the 4 respondents who answered "trade" were merchants, but they were merchants in the same line of business, that is, they bought and sold what their sons now manufacture. The following statement is typical of the kind of answers given: "My father used to import furniture, but I said to myself, 'Why import what can be produced here?' And this is how I decided, along with my brothers, to enter the furniture industry." Those 4 respondents were eager to emphasize the "tradition in the family"—that although father and son engaged in different sectors, they nevertheless dealt with the same product (or products), thus building up a "superior knowledge of it." In fact, manufacturing has been a "tradition in the family" in only 4 cases—the business being started by the grandfather (3 cases), or the father (1 case).

Six out of the 10 family enterprises were founded by the present owners (brothers, or brothers and cousins), and in only two of these 6 cases was the business established by a single owner.[1] As

[1]It will be explained later why these two single ownerships are treated here as family firms.

already indicated, the fathers of four of those respondents were merchants; the fathers of the remaining two were landlords, and they themselves had been merchants before stepping into industry. The fact that 6 of the 10 industrial enterprises were established by the present owners is hardly surprising since, as pointed out in our discussion of the environment, industry is a sector which started only recently to attract former merchants.

Asked "Why did you choose your present career?" the 4 respondents for whom manufacturing is a tradition in the family answered: "To follow up father's business career." Only one of the remaining 6 said that he was led to his present career by natural inclination to it--that is, he felt attracted by the career <u>itself</u> apart from the attraction of profit prospects, the pressure of urging by elders, or the prestige expected in the career chosen. The others (sons of merchants with the exception of one who is the son of a landlord and himself a merchant before becoming an industrialist) were motivated by pecuniary profit considerations in their choice of a career.

All 10 respondents have travelled outside Lebanon (in Europe as well as in the Arab countries), but only 2 went abroad before entering their present career. Business experience ranks highest among the purposes of such travel--"To examine the way European factories are run;" "Visit fairs;" "Learn about the new developments which are taking place in the West"--followed by business affairs, that is, calling on suppliers and customers. It is interesting to note that if the respondents rank rather low with respect to one form of education (college or university training), they are quite near the top of the ladder with respect to another form of education, namely, travel.

II. HISTORY OF THE ESTABLISHMENT

When were these "family firms" founded? How was capital raised? What do they produce? What are the forms of ownership?

Six out of the 10 industrial enterprises were founded before World War II: three of them towards the end of last century and the other three during the 1930's. Three of the remaining 4 firms were established during or immediately after the war, and the fourth in 1956.

In relating the date of founding of the establishment with father's occupation and reason for choosing present career, we notice that there is much in common between the owner-managers of two of the firms established during the 1930's and the owner-managers of two of the firms founded immediately after World War II: sons of merchants, they were attracted by the profit prospects of the industrial sector and they decided to manufacture those products that their fathers had been buying and selling. It would thus appear that those men who established their concern during the 1930's had "felt" the opportunities offered by the industrial sector even before the favourable conditions of the war years. The third firm established during the 1930's and the third concern founded during the 1940's--both single ownerships--are discussed below.

Another interesting point to note here is that it is the owner-manager of the "youngest" firm--the one established in 1956--who said that he was led to his present career by a natural inclination to it.

The partnership is, as one would expect, the prevailing form of ownership (6 out of the 10 firms).[1] But strangely enough, the single ownership has no prevalence over the corporate form; instead, two of the remaining 4 firms belong to the first category, and two to the second.

A few words as to why the two single ownership concerns are treated here as family firms are perhaps in order. One of them was founded during the 1940's by its present owner. Son of a landlord, he was involved in trading activities when he became attracted by the profit prospects of the industrial sector. He decided to give up trade and try his luck in industry. This he was able to do thanks to a financial gift from his uncle and to a guarantee from both his father and uncle that allowed him to borrow money from banks. Concerning the administration of the firm, it is managed by its owner (who is thus, according to our definition, a patrimonial manager), assisted by his father and his uncle. The owner goes to the factory in the morning and the father takes over in the afternoon. As for the uncle, he rarely visits the factory, but he is the "advisor" of the owner who generally decides on important matters only after having discussed them with his uncle.

---

[1]All are partnerships of the "nom-collectif" type.

The second firm was established during the 1930's by its present owner. Officially, the concern is registered as a single ownership, but it is actually managed as if it were a partnership, the owner and his four sons sharing the administration of the firm. There is a tacit agreement between them that upon the death of the father the firm will become a partnership. (It was impossible for the writer to interview the father--the "owner" of the firm. She was told, instead, to select and interview one of the sons, which was, as they put it, "the same thing." This may be taken as an additional evidence of the "family character" of this single ownership concern).

All the partnerships except one are owned by blood relatives: brothers or brothers and cousins. In only one case was it found that one of the partners had become a member of the family, and thus a partner in the firm, through marriage.

As for the two "Société Anonyme," one is tempted to say that, from the point of view of form of ownership, the only thing they have of the corporate form is the name. In fact, they are true "family concerns": one is owned by four brothers and the other by four brothers and their three cousins, and in both cases all the capital is paid up. As one of the stockholders proudly pointed out, "There are no shares in the market. We have them all."

The association between date of founding and form of ownership yields interesting results. Strangely enough, the corporate form is not found among the firms established towards the end of the last century. The three of them are partnerships. The two corporations are two of the firms founded during the 1930's. Started as partnerships, they were changed later on to corporations because, in the words of both respondents (they gave exactly the same answer), "We had children, the family became larger, and so we thought that the corporate form was more appropriate."

The case of the third firm established during the 1930's, a single ownership, was discussed above in relation to the reason why it is considered to be a family enterprise. What is interesting to note here is that before founding his own business, the owner had been a partner in two other industrial concerns, successively. He left the first partnership only to form another one (the partners were "outsiders", not family members), and it did not take him a long time before breaking the second partnership and establishing his own firm, in the same line of business. He had broken his previous partnerships because he had been "terribly disappointed" by his partners. He had found out, by experience, that it is far better to be alone in business, or else have a partnership formed by family members only, for "outsiders cannot be trusted."

One is entitled to wonder, under such circumstances, whether this third firm established during the 1930's would not have been a corporation, too, just like the other two concerns founded in the same period, had it not been for the unfortunate experiences of the owner. One is all the more inclined to think so because of the fact that the owner did not hesitate, at the time he was contemplating entry into the industrial sector, to embark with "outsiders" upon such a new venture. Had he not been "deceived by the others," he might have adopted a different point of view as to whether it is better to do business alone, and what is more, he would have probably made a true corporation of his firm, accepting outside investors, rather than gathering all the shares in the hands of the family, as the other two corporations did.

Two of the three firms established during the 1940's are partnerships. The third one is the single ownership concern discussed above. The "youngest" firm, established in 1956, is a partnership.

Only 4 out of the 10 family firms have changed their form of ownership since their establishment. Two of the three firms founded toward the end of last century were changed from single ownerships to partnerships (when the father died and the sons inherited the business), and the two firms which are now corporations were previously partnerships.

Though interesting in themselves, the findings emerging from attempts to correlate date of founding with form of ownership do not permit any general conclusion as to whether the "oldest" firms are the ones to adopt the corporate form. If the ten firms are taken as a whole, the answer is more likely to be in the negative, since none of the three firms established toward the end of last century is a corporation. If we leave out those three firms and consider only the ones established during the present century, then the answer is more likely to be in the affirmative.

As one would expect, in 9 out of the 10 cases the initial capital came from the owners' own resources--funds inherited or transferred from the previous trading business. In only one case was part of the capital borrowed from banks, thanks to the backing of the family, while the other part came from a "gift" offered by the owner's uncle.

As to the question of whether there has been any deletion or addition to the product line since the founding of the establishment, the behavior of the family enterprises may be considered rather progressive: 9 out of the 10 have added to their product line. The reasons were: "To complete the range," and "To meet the demand and satisfy the needs of the market." The owner-manager of the firm which introduced no new product said: "There is nothing to add to our product line. We have always been producing, from the very beginning, what a tanner is supposed to produce."

In all the firms but one, the number of employees has increased since the founding of the establishment. The concern which reduced the number of its employees did so because of the introduction of new labor-saving machinery.

From an average of 46 employees at founding, the family firms have reached an average of 244 employees, with some of them making enormous strides. For example, one of the firms established during the 1930's has jumped from 300 employees at founding to 1,200; another one, founded during the 1940's, grew from 6 to 130 employees.

III. ORGANIZATION AND ADMINISTRATION OF THE ESTABLISHMENT

How are these "patrimonial enterprises" organized? Is the administration divided into sections or departments on the basis of different areas of operation? What is the extent of delegation of authority? Are systems such as cost accounting, budgeting and financial planning applied? What kind of personnel policies are followed?

In all the firms but one, the administration is divided into sections or departments on the basis of different areas of operation, namely, production, marketing, administration and finance (the last two sometimes grouped together). No research department exists in any of the firms. The departments are headed by the owner-managers themselves, the various sections being divided between the brothers, brothers and cousins, or father and sons, as the case may be. The only concern where there are no such sections is the sole ownership founded during the 1940's.

No firm was found with employees possessing decision-making power. Authority is entirely concentrated in the hands of the owner-managers.

If, however, there is no vertical sharing of authority, there is much horizontal sharing of it. More specifically, all the respondents but one stated that they share their authority with their partners or the other members of the board of directors. Asked "What are the powers of the person(s) sharing authority with you?" the respondents answered without hesitation "Joint decisions." None checked

"Power to decide in certain areas on the basis of division of labor," as one would expect in view of the fact that the administration is divided into sections on the basis of different areas of operation.

The respondents were asked to explain such a state of affairs, and from their answers it became clear that though the administration is divided into departments, each department head can make up his mind independently only if the matter on hand is part of the daily routine of running his own section. If, however, the matter is of some importance, the section heads must consult each other before making any decision. Thus in the final analysis, the way authority is shared between the owner-managers "depends on the matter on hand," as one of the respondents put it. Joint decisions are always made when the issue is of a certain magnitude, and each department head can make independent decisions only for questions pertaining to the regular, day-to-day operation of his section.

It is interesting to note that even the owner-manager of the firm which is not divided into sections--the one who said that he shares his authority with nobody--rarely makes up his mind without having previously consulted his father and his uncle. Indeed, judging from the way he answered the various questions, one must conclude that he, too, belongs to the "joint decisions" group. The only difference between him and the others is that his "joint decisions" are not made with other department heads, but with family members who, though they are in charge of no section, participate nevertheless in the decision-making process.

Asked whether the duties, responsibilities and powers of each individual occupying a managerial position are carefully defined and delimited, all the respondents answered in the negative. This was to be expected, considering the fact that the heads of the various sections administer through "joint decisions".

Two remarks made by the respondents are worth reporting here. One of them is characteristic of the "family spirit": "Why define responsibilities and powers carefully? You don't do such a thing between brothers." The other reflects quite a different attitude: "Since our firm is a partnership, we all have unlimited liability. This is why we cannot afford defining and delimiting responsibilities and powers." In other words, since each partner is held liable for the actions of the others, it is his "legitimate right" to try to "protect himself" by checking on what his partners are doing or are planning to do.

Further evidence of the functional diffuseness prevailing in the ten family enterprises is the fact that none of them has an organizational chart. Most of the respondents candidly explained that they do not need one since they are "a family concern." Some did point out, however, that their firm is not big enough to warrant such a chart.

Half of the firms employ staff specialists--all foreign experts--but in only two of these are they part of the regular group of employees. In the other three firms, staff specialists are hired every now and then, for a year or two, to install new machines and teach the native employees how to use them. The two firms employing staff experts on a regular basis are, one a corporation, and the other a partnership (one of those founded toward the end of last century).

Two of the five owner-managers who do not employ now any staff specialists recognized that they had recourse to them at the founding of the concern. Asked how is it that they have never consulted any expert since then, the two respondents gave a similar answer: "We get new ideas from our trips abroad and from technical journals. What more could a so-called specialist teach us?" As for the three owner-managers who have never employed or consulted any staff expert, they stated that: "Here in Lebanon there are no specialists. And hiring a foreign one means a huge expenditure without satisfactory results. Foreign experts fail to comprehend local conditions. They try to apply here Western techniques, disregarding whether they are suited for an underdeveloped country like Lebanon, and for a firm like ours. Under such circumstances, we are the only proper specialists. We have acquired through our travels abroad in developed countries and the many years of working in our field a vast experience that qualifies us as true experts."

Of the following four systems--double entry system of bookkeeping, cost accounting, certified external auditors, budgeting and financial planning--only the first one is applied by all the firms without exception. Strangely enough, however, no less than seven firms apply budgeting and financial planning. The system might not be very developed in some of them, but the fact remains nevertheless that more than half of the firms attempt to produce financial budgets to help in the decision-making process. Cost accounting is applied by only three firms, and external auditing by only two.

The most striking feature in the application of these four systems is that the two firms which employ external auditors have also adopted all the other systems. One of them is a corporation, and the other is the "youngest" partnership. It is also interesting to note that the third firm applying cost accounting is the second corporation.

Most of the firms follow the same procedure for hiring a foreman or a worker.

In 9 of the 10 concerns, foremen are former workers who have been promoted on the basis of their competence--"They have shown greater ability in handling their job and more capacity for comprehending things and grasping facts than their fellow workers." The "youngest" partnership is the only concern following a different procedure: it has recourse to a placement agency or puts a notice in newspapers whenever a supervisor is needed.

None of the firms--except one--has any specific policy concerning the recruitment of workers and no standard procedure is followed. Individuals usually present themselves at the gate of the factory asking for a job. If workers are needed, the owner-manager has only to pick up some of them. Another way for getting men is to ask the workers to bring along their relatives and friends.

The only firm which faces some difficulty in recruiting workers is the one in the tanning industry. The explanation given by the owner-manager is that "Workers find that tanning is not a clean job." The labor force is mostly composed of workers who have joined the firm many years ago; the "new" workers are for the greater part the sons of these workers.

It is interesting to note that the only firm which has some kind of policy concerning the recruitment of workers is one of the two corporations. Preference is given to young boys of 12-14 years old because "they usually have a greater facility for learning the job than men who have already reached a certain age and acquired certain habits. We take them young so as to be able to train them properly, and mold them the way we want." How different is this point of view from that put forth by another respondent who said: "Whenever possible, we prefer to hire workers who have already been trained in some other firm operating in our field. Getting men who already know the a, b, c of the job saves both time and money!"

In all the firms there is a probation period during which workers are tried to see whether they are fit for the job. This period of trial varies greatly from one firm to the other, oscillating between one week and three months. No other training is provided apart from the training workers acquire on the job, under the supervision of the foreman.

The findings concerning the social services provided by the firms to their employees are interesting indeed: there is no profusion of social services, as one would expect from family enterprises. All the firms without exception provide medical care, but nothing more.

IV. IDEOLOGIES OF TOP MANAGEMENT

How do these patrimonial managers conceive their functions to be? Do they believe that an owner-manager is inevitably more efficient in his job than a salaried manager? What are the qualities they most require in their subordinates? In making major decisions, what considerations do they take into account? What are, in their opinion, the most powerful motives in business? What manifestations constitute, according to them, entrepreneurial success? Do they try to keep up with technical advances by visiting fairs and subscribing to journals? What is their attitude towards labor unions? Do they think that the government should intervene in management-labor relations? In short, what are the ideologies of these owner-managers? This is the broad question to which answers were sought.

Asked "As a top manager in the Establishment, what do you conceive your function or functions to be?" the respondents expressed the opinion that this is a difficult question to answer. After pondering upon the matter for a while, however, most of them were able to give some clear answers. These answers reflect, above all, the "market-consciousness" of the respondents. "Studying market conditions" is considered to be one of their main functions. In the words of one respondent, "Much of my time is devoted to finding out what are the needs and wants of the consumers, what are the changes occurring in them, and how could they be best satisfied."

"Following up the developments taking place in the West," is regarded by the respondents as being another of their main functions. This is the search for improvements--keeping track of the advances made abroad and examining local conditions to see whether they could be profitably applied by their firm.[1] "We must not only keep ourselves informed about the machines already existing in Europe and the techniques being used," said one of the respondents, "but we must also be aware of the new technical advances."

All the respondents indicated that they consider "Price-setting" as one of their main functions.

These three functions which the respondents consider to be the main responsibilities of their job could be grouped together under the heading of "Decision-making"--decisions as to what to produce, technical decisions (choice of machines, processes, etc.), and pricing decisions. Another group of answers given by the respondents cluster around the managerial function of control. Actually, they do not limit themselves to controlling the upper and middle levels of the organizational structure--their senior staff and supervisors. Some of them, complaining that "foremen are not careful enough," extend their personal control down to the rank and file level. "Whenever I go over there to observe the workers at their job," said one of the respondents, "I discover many things that are not properly done and that pass unnoticed by the foremen."

---

[1]This brings to one's mind Sayigh's notion of "adaptive innovation". (See Entrepreneurs of Lebanon, chapters II and V).

Such a strange combination of attitudes as that displayed by these owner-managers is quite striking. On the one hand, their search for improvements and their reasoning concerning the introduction of technical advances denotes a broad perspective and progressive views. On the other, their conception of the managerial function of control indicates a limited outlook and retarded views. But could it not be that their way of exercising control is somehow provoked by the shortage of trained supervisors? After all, Lebanese managers have often been heard uttering bitter complaints about the difficulty of training supervisors out of their illiterate labor force and about the readiness of foremen to sympathize with the workers and to carry leniency much too far. Such a combination of contrasting attitudes may be taken as another sign of the transitional stage of the country in which these industrialists operate.

About half of the respondents concluded their explanation as to how they conceive their functions to be by emphasizing that "As a top manager in the Establishment, I am responsible for maintaining the good reputation of the firm. Customers must feel that they can rely on our product, and that they have received a fair value for the expenditure made."

To the question "Which of your different experiences have in your own opinion proved most useful for your present career?" 9 out of the 10 respondents checked "Experience" first, then "Travel," and lastly "Education". It is only natural for those respondents who have not gone beyond the high school level to believe that experience has been more useful than education. But it is quite surprising indeed to find out that 2 of the 3 university-trained men have identical views, rating experience before education. "Experience," stated one of them, "is necessary, while education (that is, education beyond the high school level) is not. So much the better if one is a university graduate, but that is not a requirement for success in business." The other one (B.A. in Economics) sighed: "All those theories over which I broke my head for four years, I never had the opportunity to put them into practice!" It is interesting to note that all those respondents who placed experience before education in their evaluation made it a point to emphasize that by "experience", they mean both the experience acquired on the job through the years, plus that gained by travelling abroad in developed countries.

Education had the first place in the ranking of only one respondent, the third man having a university training. But he was careful to add that education alone "is not enough." It must be complemented by experience. "The making of a manager," he explained, "is identical to the making of a physician." How similar are the views of this owner-manager on that matter to those of Lyndall Urwick, the famous management scholar who said:

> Broadling speaking, and for the common run of men and women, administrative skill is very comparable with medical skill. It is a practical art, and practice is essential to make it perfect--much practice. But practice wholly divorced from study is as likely to be limited in its results as study undisciplined by practice is likely to prove sterile and misleading.[1]

---

[1] Lyndall Urwick, <u>The Elements of Administration</u> (New York: Harper and Brothers, 1943), p. 14.

Unlike the German "unternehmer" described in Chapter II, Lebanese patrimonial managers do not seem to believe that managers are "born"--that is, that managerial ability is the result of certain innate qualities. Such a statement can be safely made considering the fact that none of the ten respondents checked "Born" in a list which also included "Made"[1] and "Both".

Only one out of the 10 respondents said that he believes that managers are "made"; all the others expressed the opinion that managers are both "born" and "made"--that is, a man must have certain innate qualities to be a capable manager, but these "raw" aptitudes are not sufficient by themselves, they must be developed through experience. (An interesting remark: the only respondent who did not neglect to add "education" to "experience" is the university-trained owner-manager described above).

Asked whether they believe that an important task of the manager is to develop future managers out of his subordinates, no less than seven respondents answered in the negative. As they see it, the manager's task is to develop "reliable assistants" ouf of his subordinates, not "future managers." Some of these respondents specified: "Reliable assistants who would be capable of replacing me for a day or two if circumstances force me to absent myself for a while."

A tentative explanation of the owner-managers' attitude on

---

[1]"Managers are made" is contrasted to "managers are born"--"made" meaning that managerial ability can be acquired through education and experience.

that matter may be advanced here: they do not see any point in attempting to develop future managers out of their subordinates since there is no possibility of their even becoming managers in the family enterprise.

Of the three respondents who answered the question in the affirmative, two maintained that the manager should first try to find out whether his subordinate has any disposition that would make the teaching efforts worthwhile. Otherwise it would be a waste of time. The third respondent--the owner-manager of the "youngest" firm and one of those respondents having a university education--stated that a manager should try to develop future managers out of his subordinates for "expansion purposes"--that if the firm grows beyond the point where it can be properly managed by the partners, there will be trained men in the organization to take charge of a new department or section.

The respondents were asked whether they think that "ownership creates a sense of responsibility." An emphatic "yes" was uttered by nine of them. The only one to point out that this is not necessarily so was the university-educated shareholder--the same one who stood alone in emphasizing the complementarity of education and experience. To his mind, "the sense of responsibility" is something much more related to a man's nature and background than to his economic status.

A supplementary question was posed to those respondents who answered the previous one in the affirmative. Would they say that an owner-manager is inevitably more efficient in his job than a salaried manager? Certainly they would. An owner-manager "feels for his firm," a salaried employee does not. While an owner-manager is faced with the alternative of making profits or incurring losses--which is "a basic source of motivation"--the employee who receives a fixed monthly salary has no such "pushing". "He doesn't care about the firm as long as he is getting his pay regularly...You cannot make him put forth his best efforts unless you give him a share in the profits."

When the views of the respondents concerning the question of whether managers are "born" or "made" are related to their views as to whether an owner-manager is inevitably more efficient in his job than a salaried manager, one is tempted to advance the following speculation: that the reluctance of Lebanese patrimonial managers to hire salaried managers is not due to their fear that the latter might lack the "innate qualities" that it takes to make an able manager, but rather to their conviction that salaried employees are deprived of the powerful profit motive which "pushes" the owners to put forth their best efforts.

A number of questions were posed to the respondents in an attempt to find out what, in their opinion, are the proper criteria for selection and promotion.

The respondents were first asked: "Assuming that there is a vacancy in your establishment and that a number of individuals apply for the position, what would be your criterion for selection?" They were given a list of four criteria--"Loyal friend of the family," "Member of your ethnic group or sect," "Technical competence," "Accepts a low salary"--and were requested to select one of them (otherwise to specify which criterion they would use). "Technical competence" won the votes of all the respondents. And what is more, most of them expressed their surprise to see that criteria such as the first two were included in the list.

The respondents were then asked to rank the following criteria for a managerial promotion: "Seniority", "Kinship", "Membership in your ethnic group or sect", "Competence". Only two of these were checked by the respondents: "Competence" first, and then "Seniority". As for the other two criteria, they were left out because, in the words of the respondents, "they are irrelevant."

All ten respondents agreed not only in their choice of criteria, but also in ranking them. Competence, they specified, is the first thing to look for, seniority enters second into the picture. If, however, the two candidates for promotion are of equal competence, then preference must be given to the one with the greatest seniority.

The third question was put to the respondents in the form of a hypothetical situation, and they were asked to state their opinion. Let us assume, they were told, that there is an opening for a higher position in a business organization and that there are two candidates: one is not very competent, but he is a relative of the owner; the other is quite competent, but he is not a relative of the owner. The head of the organization decides to promote the outsider rather than his relative. Do you think this is a sound decision? All the respondents answered in the affirmative, declaring that under the circumstances, this is a sound decision indeed, because "the interests of the firm come before anything else." They all added, however, that if the relative and the outsider were of equal competence, then it would be the part of wisdom to select the relative for after all he is "a member of the family."

The answers given by the respondents to the foregoing group of questions may have been somehow biased: the respondents might have not expressed their own personal views on the matter but rather tried to give the "ideal" answers, those that a "good" manager should make. However, this is not the impression the interviewer got while listening to them. As a matter of fact, they seemed quite sincere. At any rate, the fact remains that they all gave identical answers. The sample might be small to justify sweeping generalizations, but considering the complete agreement that exists between those who compose it, it would be advisable to reconsider the charges of extreme nepotism made against family firms when it comes to family enterprises operating in Lebanon. This thorny question will be more elaborated further on.

In order to throw light on what sort of men the respondents would like to have as their senior staff, they were given a list of ten qualities and asked to indicate the qualities that appeal most to them. One striking result is that all the respondents checked the same four qualities, with only a slight variation in the ranking. The runner-up as first choice was "honesty", followed by "technical efficiency", then "hard work", and finally "ability to get along well with people."

Most of the respondents made it a point to emphasize that they would rather have honest employees, even if they are not very shrewd businessmen, rather than the reverse. Some of them seized the opportunity of being asked this question to complain about the "difficulty of getting an honest man at one's service." One respondent reported that he once caught the head of his salesmen offering to a customer the product of a competitor. Similar stories were reported by two other respondents, one accusing his production supervisor and the other his purchasing assistant of robbery. It would thus appear that the respondents' choice concerning the first quality that they would like their senior staff to have is dictated by experience.

Not surprisingly, when asked "If you were to decide to expand your business, what would your preference be as to the source(s) of finance?" all the respondents answered "reinvesting profits"--rather than "borrowing from relatives," "new partners or share-holders," or "borrowing from banks." Two of the respondents said that their choice was dictated by the prevailing shortage of credit facilities for medium-term and long-term loans --"What is the use of borrowing from banks if you have to pay them back after three months?" The others stated that they would reinvest profits because "It is better to use one's own means whenever possible rather than have recourse to outsiders."

The respondents were then asked: "If you are reluctant to expand your business, is it because of (a) Feeling that you cannot handle a large business without sharing your authority with someone else, (b) Feeling that you would lose your independence by bringing in outside capital, or (c) Some other reason?

A surprisingly large number (6 out of the 10 respondents) answered that what would prevent them from expanding their business are marketing considerations--"Why increase your output if you cannot get rid of it?" As for the other four respondents, they said that their reluctance to expand their business would be mostly due to the second factor rather than to the first, because "a capable man can always expand his concern without losing control of it." "Besides," they added, "since many of us are controlling this enterprise, we can always divide the increased responsibilities between us."

Asked "If you were to find out that the size of your plant is uneconomical and that by merging with another firm in the same activity you would reach an efficient scale of operation, would you undertake the merger?" only three respondents said that they would, provided that the transaction allows them to retain control of the enterprise. The other respondents stated that they "do not like very much" the idea of a merger, because, to quote one of them, "I'd rather be the only captain on my ship--along with my brothers, of course."

Since 2 of the 10 firms under study are now corporations, the question "Have you ever thought of changing the form of ownership of your Establishment?" was posed only to the owner-managers of the other enterprises. Five of those eight patrimonial managers answered by asking another question: "Why change the form of ownership? What for?" An affirmative answer was however obtained from the remaining three.

In one case--that of the single-ownership concern founded during the 1940's--the owner stated that he thought once of changing the form of ownership of his establishment but he soon changed his mind and the project was not carried out. The reason given is that "It would not have been profitable to adopt the corporate form--too costly, with all these taxes, among other things."

The second case is that of the firm in the tanning industry--a partnership. Here, however, it is not simply a question of patrimonial managers deciding to change the form of ownership of their concern. Rather, there is a combined project for all tanners which is being studied by the "Ministry of Planning". The tanning industry is faced with serious problems of overproduction and limited outlets. There are, furthermore, great discrepancies as regards the stage of mechanization of the various concerns: some are completely mechanized, others are partially, and a number of them are not at all. The proposal under study is to form a "Société Anonyme" of the five or six tanners who are in a position to meet demand in the most efficient way and eliminate all other concerns, whose owners would receive as compensation shares in the newly formed corporation.[1] The family firm under study is one of those five or six enterprises which would be merged into a corporation if the proposal meets the approval of all tanners.

In the last case, changing the form of ownership is something that will have to be done because of circumstances: upon the father's death, the firm, which is now a single ownership, will be changed into a partnership shared by the sons.

---

[1]It is interesting to note that such an approach was used successfully in Great Britain in 1930-40.

The respondents were asked: "Do you think that certain managerial practices which may be acceptable in a small firm become inappropriate as the firm grows in size and complexity?" No less than seven answered in the affirmative, one of the remaining three uttered a categorical "No", and the other two replied that they "Don't know."

Those seven respondents who answered in the affirmative were asked to give one or two examples. With the exception of three, all were at a loss for answering. The examples given by the three were:

"When the firm was small two brothers were able to manage it. Later on when it became bigger, a third brother was needed to relieve the others from their too many burdens, then a fourth, and now we are five brothers sharing the responsibilities of managing the business."

"One can supervise ten or twenty employees, but not 180!"

"When the firm was small, workers worked overtime and nobody complained. Now that the enterprise has grown in size and the number of employees has increased, they refuse to do so and they are backed by their unions."

While the first two examples reveal that the men who gave them were able to view the problem in its right perspective, the same thing cannot be said about the third respondent. His example indicates a failure to comprehend the situation and grasp the core of the matter. Perhaps the question was too "academic" for him, as it was for those who could not give any example. Indeed, this possibility was foreseen while preparing the questionnaire, and it was decided that the respondents would be first asked to give one or two examples of their own--

so as to find out the nature and direction of their views on that matter--and then requested to indicate their opinion on a specific issue: whether they believe that as the business enterprise grows in size and complexity two changes are called for, first, decentralization of authority, and second, appointment of professional managers and staff specialists.

That only one of the seven respondents answered the first point of the issue in the affirmative is hardly surprising. As they see it, decentralization of authority--that is, delegating authority to employees--does not become a requirement as the firm grows in size and complexity because the increased responsibilities can be shared by the brothers, or brothers and cousins, or father and sons, as the case may be.

Interestingly, however, all seven respondents answered the second point of the issue in the affirmative. They stated that they do believe that professional managers and staff specialists are called for, but only if the firm continues to grow beyond a certain point. Up to that point, the enterprise can very well do without the services of these men: the members of the patrimonial group are more than adequate. All seven respondents were careful to emphasize that though their firm is growing, it has not yet reached that critical point. To use the words of one of them: "There is still a long way to go before our firm reaches such a size so as to require the appointment of professional managers."

In order to obtain some more information about the respondents' attitude toward human relations and superior-subordinate relationships, two sets of subordinates were described to them, and they were requested to indicate which of the two in each set they are likely to prefer.

Eight out of the ten respondents said that they prefer a subordinate who has a tendency to "speak out his mind" rather than one who accepts orders unquestionably. Credit must be given to these men who, though very jealous of their authority, are nevertheless willing to listen to what their subordinates have to say. Five of those eight respondents emphasized that they usually seek the opinions of their subordinates before deciding on technical matters concerning their own departments. Of course, the final decision is theirs, but this decision is reached in the light of the various arguments advanced by the subordinates. Thus these men who concentrate all powers in their hands and are reluctant to delegate authority do not hesitate, nevertheless, to let their subordinates express their opinions so as to be able to make sound decisions based on an analysis of a variety of views pulled together. The other three respondents adopted a different attitude, however. Certainly, they stated, they do prefer a subordinate who has a tendency to "speak out his mind," but "unfortunately, with Lebanese subordinates, one must expect very few valid points and lots of nonsense." This is due, they believe, both to ignorance and lack of interest on the part of subordinates.

Only two respondents said that they prefer a subordinate who accepts orders unquestionably. However, as it appears from their statements, when they spoke of their subordinates in such terms they had in mind their workers rather than their senior staff.

"Workers have to do what they are told to do and not waste time by arguing. Thinking is not their job, it is ours."

"When I tell one of my workers to do something in a certain way, it is because this is the best way of doing it. There is therefore no need for him to 'speak out his mind.'"

It is interesting to note that these statements which express very similar views were made the first by a shareholder, and the second by a single proprietor.

The second set of subordinates included the following two types: (a) one who needs detailed instructions to perform an assignment and is reluctant to accept responsibility; (b) one who prefers to receive broad instructions concerning a specific assignment so that he can "think his way through" and exercise his own judgment. The same eight respondents who stated that they prefer a subordinate who has a tendency to "speak out his mind" said that they would choose the second type of subordinate provided that he has the ability to cope with the responsibilities of the assignment. In the words of one of them, "Whether I give detailed or broad instructions to my subordinates depends on a number of factors: the ability of the man, the type of work to be done, and whether it is the first time that he is doing it." Detailed instructions are generally issued if the owner-managers consider the job to be "complex" and also if the subordinate has never done it before.

The other two respondents said that they prefer to issue detailed instructions to subordinates for "one can never trust the judgment of workers."

The respondents were asked whether they think that there are enough able foremen or supervisors to communicate between management and labor. Half of them answered in the affirmative, stating that "The Lebanese worker learns quickly" (it will be recalled that, in most of the firms, foremen are simply former workers who have been promoted).

Three of the five respondents who answered in the negative held that it is quite difficult for them to select and develop foremen out of their workers for "they rarely make an effort to think and they have no sense of responsibility." As for the other two, they complained about the general shortage of capable foremen and the failure of the government to meet this problem by establishing vocational centers. The shortage notwithstanding, the respondents stated that they provide no formal training at their expense for their personnel apart from training acquired in the performance of the job. As one of them put it, "Why spend money to provide formal training to our workers when they can learn while working on the job under the supervision of the foreman? Besides, it would be foolish to provide any formal training to the newly recruited men since some of them quit after a while to open their own shop."

Nine of the respondents declared that they believe the presence of foremen necessary for efficient operation, and only one said that it depends on the size of the business. That same one expressed the opinion that foremen should be regarded as part of management "to make them feel responsible;" all the others think that foremen are neither part of management nor part of the rank-and-file: "they are in-between."

One interesting point to note is that none of the respondents said that the presence of foremen is unnecessary because their function is not significant or because they themselves could perform it. But what is more arresting is that, contrary to what one would expect from businessmen in an underdeveloped country, and particularly from patrimonial managers, none of the respondents consider foremen as part of the rank-and-file--they are "a class apart, standing between management and workers."

The respondents were requested to select, and rank, the three motives for their business activities that were the most powerful, in their opinion, out of a list comprising "pecuniary profit," "power," "prestige and status," "sense of achievement," "satisfaction in expansion in one's business," and "philanthropy and social service through one's money." Their ranking gave the first place to "prestige and status" (most of the respondents specified: "the prestige and status of our firm"), second place to "pecuniary profit," and third place to "sense of achievement."

These results might be somehow surprising, in view of the reputation Lebanese have for their "mercantile mentality". However, the pattern is understandable when it is recalled that family firms generally give more heed to prestige and status than to pecuniary profit. It should be noted, nevertheless, that these two motives follow each other very closely in their ranking by the respondents.

There are many ways in which the length of the businessman's time horizon can be ascertained. The method selected in this study was to determine the preferences of the respondents with regard to the size of investment and the period of waiting for return, and with regard to the size of profit margin per unit related to a given capital turnover. The vote was divided in the proportions of 7 out of 10 and 3 out of 10 between (a) undertakings involving heavy investment and considerable waiting before returns begin to flow in, but promising a long period of flow, and (b) undertakings involving relatively little investment, a short period of waiting, and a quick capital turnover. It is interesting to note that three of those seven respondents who gave their preference to the first situation emphasized that the ideal situation would be "a combination of the two: to have a business that promises a long period of flow, but which nevertheless does not require considerable waiting before returns begin to flow in."

The next question brought forth a more clear-cut expression of opinion. Unanimous support was given to the alternative of a small profit margin per unit of sales on a large volume of business, against the alternative of a large profit margin per unit on a small volume of business.

It is evident that such results lend support neither to the widely publicized "mercantile mentality" of the Lebanese (their supposed concern for the immediate transaction, dislike of long-run entanglements, and emphasis on quick profits), nor to the contention that the main objective of family firms is to make a high gross total profit by restricting output. Lebanese family firms seem to have realized that cutting down on production in order to increase profits is an unrealistic economic view which should be discarded in favor of a more rational policy, namely, satisfying the market's needs and wants.

The respondents were asked whether, in making major decisions, they rely more on thorough calculation and statistical evidence or on their own perception and their "feel" of a situation. All ten respondents stated that they do both, these two ways being followed in the reverse order. In other words, their perception guides them among the many possibilities and opportunities their business presents, but it is down-to-earth calculation and factual evidence that helps them finally make up their mind one way or another. Thus in the final analysis the emphasis is on the course of calculation and evidence.

The respondents were asked: "In trying to promote your sales, do you mainly: (a) Catch up with changes already occurring in consumers' tastes by studying market conditions and following the whims of the market, or (b) Try to influence tastes by advertising, demonstrations, distribution of free samples, etc.?"

All ten respondents stated that theirs was the course of following the whims of the market. Some of them said that they also try to influence tastes by advertising, but they did not seem to have much faith in the effectiveness of this method. One of them even went as far as to say that "Here in Lebanon if a firm advertises too much people jump to the conclusion that it is in a shaky position and that it is trying to get customers in this way because it cannot attract them by the quality of the product itself."

It is thus the contention of these owner-managers that in Lebanon advertising is not regarded by the public as a means of displaying the superior characteristics of a product, but rather as a technique for hiding its shortcomings and "blinding the people." Could it be that their lack of aggressiveness in marketing is due to this belief of theirs? Or do they put forth such an argument in an attempt to justify their relatively easy-going marketing attitude?

What is the attitude of these owner-managers toward research institutions? Two complementary questions were posed to them: do they think that research institutions render a valuable service to business? Have they ever asked such an institution to carry on a study for them?

Only one respondent said that he once asked a research institution to undertake a study for him. He specified, however, that "the findings of the study were of no use to my business." Concerning the service that research institutions render to business, half of the respondents held it to be valuable while the other half confessed that they fail to see any value in it. They stated that "Research institutions cannot render any valuable service to business in Lebanon," and that they themselves undertake the investigations required for the effective performance of their enterprise.

Examination of the answers given to these two questions yields two bewildering observations:

(1) The owner-manager[1] who once asked a research institution

---

[1]The sole proprietor of the concern founded during the 1940's.

to carry on a study for him is among those five respondents who believe that these institutions render no valuable service to business.

(2) None of the five respondents who expressed their appreciation of the service that research institutions render to business ever asked such an institution to undertake a study for him.

Such a discrepancy between expressed opinions and actual deeds may perhaps be taken as another evidence of the "transitional stage" of the country in which these industrialists operate.

Many a student of economic development has described the conservatism of patrimonial managers and their tendency to preserve what has been established. Such a negative attitude toward innovation, however, is far from being characteristic of the Lebanese owner-managers interviewed. We have already seen that they conceive their role to be, among other things, that of making "technical decisions"—examining the possibilities of introducing into their country the technological developments taking place in the West. Their wide travel experience has also been reported--travelling abroad in developed countries for gaining business experience and "see what is new."

Another major way in which men from underdeveloped countries can gain acquaintance with advanced technology is through fairs and exhibitions, technical journals and books. Where do the respondents stand in relation to these important carriers of information? When this question was put to them, they all answered that they do visit fairs where technical advances are exhibited (mostly in Europe), and that they do buy technical literature for themselves and their staff, both in Arabic and in foreign languages.

The respondents were asked: "Do you think it is useful to know what other managements in your field of business are doing?" Six of them answered in the affirmative, stating that "One must always keep an eye on competitors." The remaining four declared that they are not interested by what other managements in their field of business are doing here in Lebanon. As one of them put it, "Our firm is always the first one to introduce technological improvements, so let our competitors worry about what we are doing." On the other hand, they emphasized that they closely follow what other managements in the West are doing, because "their example is instructive for us."

Much has been said about the lack of rational planning in family firms. Likewise, the inability of Lebanese businessmen to perform the managerial function of planning has been widely decried. It was no small surprise, then, to find that 8 out of the 10 respondents answered without hesitation "No" to the question: "Some businessmen think that planning is a waste of time because one cannot foresee the future. Do you agree?"[1] Planning, they stated, is an essential task of the manager. As one of them put it, "Without planning, where would the firm go?" True, they admitted, one cannot make any accurate prediction of the future. But this makes planning all the more necessary. Plans are needed for future operations, then if events turn out not to be as expected, these plans must be modified to fit the new conditions. To use again the words of one respondent, "Making

---

[1]It will be recalled that a previous question requested the respondents to describe what they conceive their functions to be. This question, however, made no mention of any particular function. The present question was posed in order to get some specific information about the respondents' views on planning.

plans and later modifying them in the light of new expectations or changed circumstances is a requirement for the successful management of any organization."

As it can be seen, then, the answers given by these owner-managers not only stand in contrast to the alleged patrimonial attitude to planning, but also to the widely publicized failure of Lebanese businessmen to perform the managerial function of planning.

Only two respondents stated that they think that planning is a waste of time because one cannot foresee the future. When told that present plans can always be modified later on if the future brings unexpected circumstances, they answered: "What is the use of planning, if you have to keep modifying your plans constantly?"

It is obvious that these two respondents have not yet grasped the true meaning of planning, but they are only two out of a group of ten, and in view of the two introductory remarks, it can be safely said that our sample of respondents has scored quite well on that matter.

One additional point is worth recording here: that even though they live in an environment where hospitality is regarded "almost as a religious rite," all the respondents without exception put their "business obligations" above anything else. To the following hypothetical situation: "Suppose a business manager arrives at his office one morning and finds several persons waiting to see him. Among them is an acquaintance of his. Is it proper to keep this man waiting because others came before him?" they all answered in the affirmative.

Thus another of the factors often held to hinder the Lebanese businessmen in their performance of the planning function--their excessive hospitality which forces upon them continuous interruptions--does not seem to impinge on the owner-managers interviewed.

The forces that motivate the patrimonial manager can in part be ascertained from the way he evaluates these forces on looking inward. In part, they can also be ascertained from his evaluation of the manifestations of entrepreneurial success.

Ten manifestations of entrepreneurial success were suggested out of which the respondents were to pick no more than four. Ranked according to frequency, the four leading manifestations are: (1) Expansion of the business; (2) Assurance of continuity of the business; (3) Large profits; (4) Introduction of important technical improvements.

Here again the results give no support to all that has been said about the "mercantile mentality" of Lebanese industrialists--"large profits" does not occupy the top place in the ranking but the third. More importantly, the priority given to "expansion of the business" over "assurance of continuity of the business" indicates a dynamic spirit, a willingness to progress rather than simply "perpetuate" the business without growth. This emphasis on growth and innovation--"introduction of important technical improvements"--denotes an attitude which is not in line with that attributed to patrimonial managers by a number of writers who hold that it is characteristic of these businessmen to place the focus on stability as against economic achievement, on assuring a regular income for the maintenance of a family status as against focus on innovation and risk.

None of the respondents considered "branching off into other fields of activity" as a manifestation of entrepreneurial success. Asked what would they do if faced with the alternative of expanding their business or branching off to new fields, they all stated that they would adopt the first alternative. Here perhaps can be discerned a desire to stick to the patrimonial enterprise. However, this desire is not limited to maintaining what has been established, but rather expanding and modernizing the family firm.

The respondents were asked whether they think that the development of labor unions would lead to better management-labor relations. With the exception of one, they all answered in the affirmative, but with one qualification: that union leaders modify their present "one-sided attitude." Union leaders, stated the respondents, do not know yet what their proper role is. They are "uneducated, irresponsible, biased and very limited in their outlook." Instead of trying to reach a compromise with management when there is a disagreement, they just stick to their exaggerated demands in a hostile and aggressive manner, refusing to consider any other point of view but their own--which is not necessarily that of the workers they are supposed to represent. "How can we discuss with them," said one respondent, "if they always refuse to have an objective look at the arguments of the other side?" Furthermore, charged the respondents, union leaders are really more interested in getting money for themselves than in promoting the welfare of the workers. The conclusion was that in Lebanon, union-leaders have not yet understood that the right to act as representatives of the labor force requires a recognition of duties and acceptance of the responsibilities involved. As long as union leaders maintain their present attitude, the development of labor unions is not likely to lead to better management-labor relations.

The sole respondent who immediately negated any possibility of improvement with the development of labor unions said: "Our workers do not need any union to protect their interests. We are a big, united family in this enterprise. If a worker has a problem, he can go directly to his supervisor."

The difference in attitude between this respondent and the others is quite clear: while the latter is typical of those managers who stand against labor unions because they think that they will encroach on their prerogatives, the former have gone beyond that stage. Though they have not yet realized that the behavior of union leaders is partly caused by their own attitude, they do accept, nevertheless, the principle of granting their workers the right to have representatives to discuss their complaints and demands with management.

In order to gain some insight into the patrimonial managers' views on "constitutional management," the respondents were asked whether they think that the government should intervene in management-labor relations. Seven out of the ten answered in the negative, stating: "The government has no business interfering in our relations with labor." Some of them added that the government's attitude is biased, its policy being to support the workers against management.

Such results are not surprising. It would be unrealistic to expect managers in an underdeveloped country like Lebanon to accept the principle of "constitutional management"--a concept that can be understood only in countries which have already reached an advanced stage of industrialization.

Those three respondents who stated that they favor government intervention in management-labor relations seemed to be wanting some sort of "constitutional management" not because of the principle itself, but rather as a means of "getting rid of" union leaders. As one of them put it, "It would be preferable to deal with government officials rather than with a bunch of rapacious union leaders."

Patrimonial managers have often been blamed for their unwillingness to retire once they have reached the retirement age. Such an attitude, it is argued, has inauspicious results: first, it constitutes a hindrance to the entry of "new blood" into industry, and second, there is a sharp decline in efficiency due to the fact that the organization is headed by an old and tired man. A pertinent question, then, was to ask the owner-managers whether they plan to retire from business at some future date. However, because all the respondents but one were far from the usual retirement age, this question seemed to have more than a touch of the unreal to them. Their answer was: "I never gave a thought to this question. In any case, I have no such plan." It is difficult to draw any conclusion from such answers since the fact that the respondents never thought of retirement may be attributed to their relatively young age. It should be noted, however, that the only respondent who is 60 years old--a shareholder--stated that he sees "no reason for retiring."

The respondents were asked to state some of the problems that their firm faces. The problems mentioned were, by order of importance: (1) narrowness of the market; (2) government's neglect of industry; (3) competition of foreign products; (4) shortage of skilled labor; (5) lack of specialists, and (6) obligation to follow a credit sales policy with the resulting loss in uncollectible accounts receivable.

Eight out of the ten respondents bitterly complained that there are not sufficient outlets for their products. These complaints centered mainly around the relatively recent loss of foreign markets--caused by the restrictive import policy followed by those Arab countries which used to be Lebanon's best customers, and also by European countries such as Greece and Italy. "Some years ago," said one respondent, "the greatest part of the firm's output was sold in foreign markets. Nowadays, foreign markets absorb only 5% of production." Most of the respondents held the government to be largely responsible for such a state of affairs. As one of them put it, "We individual industrialists cannot do anything against the import restrictions imposed by foreign governments; only the Lebanese government could do something. It should insist on including a clause in trade agreements whereby those countries which export their products to Lebanon should in turn import Lebanese products. But our government has proved to be inefficient in that respect, and nothing has been done to help industrialists solve their marketing problems."

The government's primary concern for trade and agriculture at the expense of industry was harshly criticized by more than half of the respondents. Said one of them: "While it is putting forth its best efforts to support merchants, the government does nothing to assist industrialists."

Foreign competition is a main problem for four of the respondents. To fight against such competition, they try to improve the quality of their products and reduce the price as much as possible. They stated, however, that they cannot afford decreasing their prices any more, and that the situation is "quite difficult" for them.

Surprisingly enough, only three respondents complained about the shortage of skilled labor and only one about the lack of specialists. Perhaps the lack of experts constitutes no major problem for these owner-managers who consider themselves to be the best specialists in their field in Lebanon, in view of their numerous travels abroad in developed countries where they go regularly to learn about the new developments and gain experience.

One respondent stated that the policy of credit sales that he is forced to follow in order to keep up with competitors creates a serious problem for him because the amount of uncollectible accounts receivable is a substantial one.

All in all, the problems mentioned by the owner-managers interviewed bring out nothing new for our purposes. In fact, their three major problems--narrowness of the market, government's neglect of industry, and foreign competion are, as we have seen in our discussion of the environment, the problems about which almost all industrialists in Lebanon complain.

CHAPTER V

CONCLUSIONS

The results of the questionnaire were presented and analyzed in the preceding chapter. In this chapter, tentative explanations and conclusions concerning the role of family firms as a factor in Lebanon's industrialization are put forth. The various issues discussed in Chapter II are examined in the light of our findings in an attempt to ascertain the extent to which family firms in Lebanon may be considered as inimical to industrial growth. More specifically, what are the goals and aspirations of Lebanese patrimonial enterprises? How do they score on such matters as nepotism, paternalism, conservatism, centralization of authority? Where do they stand in relation to the requirements of the industrialization process?

Goals and Aspirations of Lebanese Family Firms

As we have seen in Chapter II, in countries such as France and Italy, where a large proportion of firms are family enterprises, it is often impossible to distinguish between the objectives of the family and the objectives of the firm. French and Italian family enterprises, it is held, have been typically preoccupied with assuring the status of the family over time, maximizing security and continuity rather than any combination of more dynamic objectives, with the result that the compulsive urge toward growth inherent in business for the sake of business is either diluted or absent.

In a "kinship culture" like Lebanon, however, where family firms are expectedly predominant, this does not seem to be the prevailing state of affairs. Our analysis of the findings reveals that Lebanese patrimonial managers tend to distinguish between the objectives of the family and the objectives of the firm. More often than not, their behavior indicates that the interests of the firm are given precedence over any other consideration.

It has often been said that family considerations make it difficult for the patrimonial manager to draw rationally-conceived plans and decisions. Should a family firm operate in an environment which superimposes upon the layer of "family obligations" its own peculiarities, it would be rather strange, to say the least, that systems such as budgeting and financial planning be applied. Yet, they are in Lebanese family firms--patrimonial enterprises operating in an environment characterized by a mercantile mentality (with its stress on a quick turnover and large and easy profits), hospitality (with the constant interruptions it forces upon businessmen in their offices), and fatalism (with its assumption that man cannot foresee the future). Notwithstanding such adverse forces, Lebanese patrimonial managers generally engage in planning and tend to undertake the kind of calculation which is necessary to efficient management.

Lebanese patrimonial managers have a strong urge to expand their business, and far from being mainly preoccupied with maximizing security, they are keenly interested in promoting more dynamic objectives. It is true that the Lebanese owner-manager, just like his French or Italian counterpart, is greatly concerned with family independence and consequently is reluctant to undertake any merger which might be desirable for higher levels of technological efficiency. But while the European owner-manager is inclined to postpone opportunities for development simply because expansion might sooner or later compel recourse to outside capital or necessitate the employment of "outsiders", the Lebanese patrimonial manager holds such considerations to be of secondary importance and makes his expansion decisions primarily on the basis of marketing considerations. And if he usually prefers to reinvest profits rather than borrow from banks, how could he be blamed for such a preference since long-term and medium-term credit facilities are sorely lacking in the country?

Conservatism

Family firms have often been criticized by students of economic development for their conservatism. It was reported in Chapter II that in Indian and Chilean family enterprises, traditional patterns have strengthened and legitimized tendencies to the habitual, to continuing with old methods. Such charges, however, cannot be made against Lebanese family firms. The urge of Lebanese patrimonial managers to adopt new machinery and new techniques, their eagerness to learn about the latest developments taking place in the West need hardly to be emphasized here. Far from learning the business by sitting at the desk and listening to what his father or uncle says, as did the Indian mill-owner described in Chapter II, the Lebanese patrimonial manager gets his training by travelling abroad in developed countries. Just like the Japanese entrepreneur, he displays a ready willingness to abandon old ways and learn the new. Indeed, in all fields but marketing, Lebanese family enterprises seem to be animated by the same willingness to venture and to learn which played such an important role in Japan's economic transformation. Unfortunately, they display a striking timidity in facing the market, and Sayigh's remark about Lebanese entrepreneurs applies equally well to patrimonial managers: "It is indeed puzzling that a group of men that seem so active in trying to innovate in their production and organization should declare themselves largely nonaggressive in their sales policies and practices."[1] But such a state of affairs is largely due to ignorance of the potency of advertising as a promoter of sales--something that can be learned only with time.

---

[1]Sayigh, Entrepreneurs of Lebanon, p. 87.

Nepotism

Among the most frequent charges made against family firms is that of nepotism. In Lebanon, however, nepotism cannot be regarded as peculiar to family enterprises. Because family loyalty is deeply rooted in the culture of the area, it would appear that particularistic criteria are adopted by all enterprises--family as well as non-family. On these grounds, then, the contention that nepotism is characteristic of family firms must be refuted when it comes to business concerns operating in Lebanon.

But to say that in Lebanon the practice of nepotism is not restricted to family firms is not all that there is to say. An analysis of the answers obtained in the questionnaire reveals quite an arresting fact: that it would be difficult to accuse Lebanese family enterprises of nepotism. All respondents made it a point to emphasize that in their firm, competence constitutes the basis for selection and promotion. To hold that the fact that the administration of the concern is entirely in the hands of the patrimonial group is an evidence of nepotistic practices would be a hasty conclusion. A number of factors could be advanced to support this point.

First, we have seen that there is in Lebanon a critical shortage of professional managers and staff experts, and that the educational institutions have not yet reached such a level so as to be able to generate the required manpower resources at home. Under such conditions, and in view of their training abroad, patrimonial managers have good reasons to consider themselves as the most competent men for managing their enterprise. Second, among the basic value-orientations of Lebanese society is the presupposition that the environment is hostile--that people outside one's family or group are generally antagonistic and may take advantage of one another at any time. Under such circumstances, it is only logical to avoid placing "outsiders" in key positions. Third, Lebanese patrimonial managers are convinced that "ownership creates a sense of responsibility." Their reluctance to hire outsiders for managerial positions, then, may stem from their belief that a salaried employee is not likely to be as efficient and careful in his job as an owner-manager. The former is apt to "take it easy" since he will not have to bear personally any material loss resulting from his actions. Thus Lebanese owner-managers may be accused of not having yet understood the significance of professional management and grasped modern theories of motivation, but they cannot be charged with pure nepotism. Finally, Lebanese family firms have not yet reached such a size so as to make the employment of outsiders in managerial positions a question of real meaning. Typically, the members of the patrimonial group are in adequate number and can effectively share among themselves the responsibilities of managing the firm. Furthermore, they do recognize that the process of dividing responsibilities between themselves cannot continue indefinitely, and that as the firm grows beyond a certain point, the hiring of "outsiders" to fill managerial positions becomes a vital requirement.

Thus, one should be cautious in formulating charges of nepotism against Lebanese family enterprises for what might appear to be nepotistic practices may actually be the outcome of some peculiar conditions in the environment.

The findings of the present study concerning this particular point might appear to be somehow strange, since they are contradicting two widely held contentions: first, that family firms are generally nepotistic, and second, that nepotism in Lebanon is the product of a value-orientation which is deeply rooted in the society, namely, family loyalty. At any rate, even if nepotism prevailed in Lebanese family enterprises, it could not possibly have inauspicious results in an environment where family members are precisely those men who are best qualified for occupying managerial positions.

Centralization of Authority

It was reported in Chapter II that the typical organizational structure of a family enterprise is highly centralized, and in this matter, Lebanese family firms do conform to the general pattern. Such a statement, however, cannot be made without adding certain qualifications.

First, it should be pointed out once more--at the risk of being repetitious--that since authoritarianism is a basic value-orientation in Lebanese society, it is only natural to expect all managers -- patrimonial as well as salaried--to be inimical to the concept of delegation of authority.

The reluctance of Lebanese managers to delegate authority may also be traced back to another basic value-orientation of the society: the presupposition that the environment is hostile, that "strangers" cannot be trusted. And this distrust is often reinforced by the subordinates' attitude: every now and then, they do not hesitate to engage in dishonest practices.

This lack of trust and confidence prevailing in the society, which makes managers in industrial enterprises suspicious of their subordinates and consequently unwilling to delegate authority, can be considered as one of the main factors retarding economic development. For as George Homans aptly observes, "Confidence is a form of capital that is just as much a prerequisite for industrial change as any other form."[1] But then, this factor is not peculiar to family firms: it applies to all Lebanese industrial enterprises.

There are, however, a number of reasons for believing that centralization of authority, in Lebanon, might not be as serious a hindrance to industrialization as some writers are inclined to think.

To begin with, it would appear that in Lebanese family enterprises, authority is not entirely concentrated in the hands of a single individual--the head of the family--but is shared by the members of the patrimonial group: brothers, brothers and cousins, or father and sons, as the case may be. Far from resembling the German "Unternehmer", who is known to be uncompromising and insistent on undivided authority, emphasizing even the subordination of his immediate entourage of upper management, the Lebanese patrimonial manager favors the "horizontal" sharing of authority at the top. We have seen in our case-studies that "joint-decisions" are usually made when the issue is of a certain magnitude and that each department head can make up his mind indepen-

---

[1]George Homans, "Industrial Harmony as a Goal," Industrial Conflict, eds. A. Kornhauser, R. Dubin and A. Ross (New York: McGraw-Hill Book Company, Inc., 1954), p. 54.

dently only for matters pertaining to the regular, day-to-day operation of his section.

Such a state of affairs is very similar to that prevailing in Japan—a country where centralization of authority, because of the peculiar way in which it is practiced, has not produced inauspicious results. The Japanese enterprise illustrates a rather unique mixture of highly centralized authoritarianism and democratic-participative management, and so does the Lebanese family firm. In one sense, it is highly centralized. Major authority is concentrated at the top, and even the most routine decisions are often pushed up from below because of reluctance of subordinate groups to assume responsibility. In another sense, however, there is apt to be rather wide participation in decision-making. Top executives (the members of the patrimonial group) seldom take individual responsibility. They will act only after thorough discussion and examination of alternatives by the group. Under such circumstances, then, centralization of authority in Lebanese family firms cannot be said to be of the "suffocating" type. Furthermore, even though there is no vertical delegation of authority, subordinates are generally allowed to "speak out their mind" and encouraged to express their opinions when it comes to matters they are likely to know. Moreover, contrary to the attitude of patrimonial managers in other countries, Lebanese owner-managers seem to appreciate the role of the foreman as a link between management and workers; they do not consider him as part of the rank-and-file, but rather (as do professional managers in developed countries) as the "man-in-between".

Finally, it cannot be said that centralization of authority has hindered the growth of the Lebanese family firm. We have already noted how eager is the Lebanese owner-manager to expand his business, provided that marketing conditions are favorable. The increased responsibilities of managing the growing firm are shared by the members of the patrimonial group, a method which has proved to be effective because expansion has not yet placed the firm beyond the span of management of the patrimonial group. As the firm continues to grow beyond a certain point--the point at which the members of the patrimonial group are no longer sufficient to insure effective administration--it is likely that the notion of professional management will be more readily accepted than that of decentralization of authority. However, there are good reasons to believe that the Lebanese patrimonial manager can be amenable to more advanced ideas concerning delegation of authority.

Unlike the German "Unternehmer", the Lebanese patrimonial manager does not believe that he is born to rule his enterprise and that his authority is based upon a kind of natural law rather than upon his function in the organization. In fact, he thinks that he is entitled to concentrate authority in his hands because a salaried employee cannot be as efficient in his job as he is. Firmly believing that "property creates a sense of responsibility," he is apt to question the willingness of a salaried employee to take the interests of the firm at heart and put forth his best efforts in trying to find sound solutions to business problems.

Such an attitude on the part of owner-managers has not been uncommon in the early stages of development of those countries which are today known as "advanced". With time, as the process of development goes on, as education bears its fruits and fosters a more scientific outlook in the society, patrimonial managers are likely to gain a better understanding of modern theories of motivation and consequently modify their present attitude toward delegation of authority.

Paternalism

Paternalism, in Lebanon, is of a peculiar kind. Outwardly, it is not manifested by a profusion of social services, as is the case in other countries, and there is no "Social Department" in Lebanese family firms. Nevertheless, the employer-worker relationship remains paternalistic: the "master-servant," or "father-son" kind of relationship.

The Lebanese owner-manager feels responsible for his workers, but, in the realm of social services, this concern does not go beyond the provision of medical care. However, if he expects his workers to be loyal, grateful, and obedient, it is not only because he shows some concern for their health; it is also because he "treats them well," that is, he is "fair". Workers are given a chance to "speak out their mind," but then, the employer has the right to scold them or reward them, in the same manner that an authoritarian father would. The Lebanese patrimonial manager likes to think of himself as a "benevolent autocrat"--which is, in Middle Eastern countries, the role of the head of the family.

Moreover, it should not be forgotten that only half a century ago, Lebanon was quite medieval in its social structure and relationships. Little wonder, then, that there is a legacy of feudal attitudes giving rise to well-defined conceptions of status, the employer managing the firm autocratically and considering workers as an inferior class, and the latter tending to accept orders uncritically.

We have seen in Chapter II that in the early stages of development in many countries, the paternalistic approach is quite consistent with the prevailing social climate. Lebanon is a good example of such a country. Brought up under strict paternal authority, workers upon entering shop or factory readily accept the identical system of social relationships to which they are culturally attuned. To quote Amitai Etzioni, "The worker from the traditional society tends to accept paternalistic-authoritarian supervision as a natural extension of the father, teacher, patriarchal community and religious authority he experienced before."[1]

Under such conditions, the Lebanese worker is not likely to "resent" the paternalistic approach the way a Western worker would. On the contrary, at this stage of the country's development, paternalism has an important role to perform: it "serves to smooth the major dislocations which an industrial way of life forces on the newly recruited worker."[2]

Up to this point, our discussion concerning paternalism was related to employer-worker relationships. Another important aspect of this question has to do with the relationships within the managerial

---

[1] Amitai Etzioni, "Human Relations and the Foreman," Pacific Sociological Review, Vol. I, No.1(Spring 1958), pp. 35-36.

[2] Kerr et al., op.cit., p. 150.

hierarchy under a paternalistic system. Such an issue could be tackled by applying to Lebanese family enterprises the approach Ferrarotti used in his analysis of Italian industry. It will be recalled that Ferrarotti, on the basis of intensive interviews made with business executives, abstracted three main types of paternalism--"feudal or authoritarian", "manipulative", and "democratic-participative"--the objective criterion for differentiation being afforded by the power position of the family in the managerial structure.

An analysis of the answers given by patrimonial managers to questions pertaining to that matter reveals that the "feudal or authoritarian" type of paternalism is the one prevailing in Lebanese family firms. The business enterprise is completely family owned and controlled. The family is the only source of power, and there are no outsiders as such in the management hierarchy.

Such a state of affairs, however, could be explained on the grounds that the enterprise is still small enough to be completely and effectively managed by the members of the family. We have already seen that in Lebanese family firms, no one person concentrates all the major functions of management in his hands, but that the administration of the firm is divided between the members of the patrimonial group. We have also noted that, even though the firm is growing, it has not yet reached the point where it can no longer be efficiently managed by the members of the family. Thus it would appear that "feudal paternalism" is the prevailing type of paternalism in Lebanese family firms mainly because there has been no need, up to now, for hiring professional managers. Since patrimonial managers do not hesitate to admit that the employment of professional executives becomes a requirement once the firm has outgrown its present managerial group, it would be more appropriate to say, perhaps, that "feudal paternalism" is prevailing at present in Lebanese family enterprises because of their size, but it is very likely that it will give way to "manipulative paternalism" as the firm grows in size and complexity. The family will still own and control the enterprise, but it will no longer be the sole source of managerial personnel. Certainly, the problem, then, for Lebanese owner-managers will be the same as that of the Italian managers: to ensure "loyalty" to the family from persons who hold managerial positions but who do not belong to the family--a policy which might not be compatible with the prerequisites of industrialization, since "loyalty" takes precedence over "competence" as a criterion for promotion. However, this is a stage through which family enterprises must inevitably go before adopting "democratic paternalism". In the same manner that a country cannot jump from a pre-industrial way of life to a highly industrialized one, patrimonial management cannot adopt the notion of "participative paternalism" without having first shifted from "feudal" to "manipulative" paternalism.

In short, the point to be emphasized here is the following: the fact that "feudal paternalism" is now prevailing in Lebanese family firms must not be taken as a factor retarding industrialization, for in view of the size of these firms, such a system is relatively "costless". And there are good reasons to believe that once the family firm has reached a "critical size","feudal paternalism" is likely to give way to more modern philosophies.

Failure to distinguish between the objectives of the family and the objectives of the business, lack of rational planning, nepotism, conservatism, paternalism, centralization of authority--these are, as we have seen, the main charges made against family firms by some students of economic development who hold that patrimonial enterprises act as deterrents to industrialization.

At first glance, it would appear that Lebanese family firms have more than one reason for indulging in some of these practices: in addition to the fact that they are "patrimonial enterprises," they operate in an environment where family loyalty and authoritarianism are among the basic value-orientations of the society. A more penetrating analysis, however, indicates that Lebanese family firms, notwithstanding what has been written and said about family firms in general and Lebanese industrial enterprises in particular, either do not exhibit such tendencies, or if they do, the outcome is relatively costless. At any rate, even if we were to accept the charges made against family firms elsewhere as being valid for Lebanese family enterprises, then we should add the following qualification lest our statement be misleading: that in Lebanon, such charges are valid not only for family firms, but for all industrial enterprises, because of the environment in which they operate. Under such circumstances, it becomes absurd to argue that family firms in Lebanon act as deterrents to industrialization.

Actually, there are good reasons to believe that at this stage of the country's development, family firms have an important role to fulfill. Under the prevailing shortage of medium-term and long-term credit facilities, the family is a blessing, "economically" speaking:

it provides the initial capital for starting a business and later, the additional funds needed for expanding it. In addition to being a source of capital, the family, in a country like Lebanon, may also be considered as a necessary bond between business associates. For in societies where men cannot rely on strangers to give faithful service, the family may be the most appropriate unit for large scale enterprise.

The Requirements of the Industrialization Process

It will be recalled that an analysis of the requirements of the industrialization process was made in Chapter II, based on Harbison's and Myers' study. Technological and organizational development, it was pointed out, tends to favor professionally oriented or careerist rather than patrimonial management; however, in the early stages of industrialization, management may be drawn largely from family dynasties. A legitimate question, then, would be: "Why consider family firms in Lebanon as inimical to industrialization since the country is still in an early stage of development?" The Lebanese family firm has not yet reached such a size and complexity so as to warrant the appointment of professional managers, particularly since the members of the patrimonial group are usually in sufficient number to divide the responsibilities of managing the enterprise among themselves. Furthermore, they are the ones who have the best training, owing to their numerous travels abroad in developed countries.

The case of Japan's house of Mitsui is significant: as long as it could do with blood relatives, it postponed the employment of"outsiders". Once the need for the professional was felt, it did not hesitate to delegate managerial responsibility to hired executives and ever-increasing numbers of technicians and engineers. There are good reasons to believe that matters do not stand very differently in Lebanese family firms. Once the family is no longer able to recruit and generate from within its own orbit the managerial resources needed, it is most likely that it will resort to professional management. For there comes a point where the family interests are better promoted by turning over the operation of the enterprise to a competent professional managerial careerist. This is what happened in the case of hundreds of family enterprises in the United States, and the same trend is apparent in the larger enterprises in England, Germany, and even France and Italy today. Why not expect the same development to take place in the Lebanon of to-morrow? Reasons for being hopeful are provided by the Lebanese patrimonial managers themselves: they do not hesitate to recognize that "outsiders" must be admitted in the managerial structure once the firm has grown too big for them to manage it.

It was pointed out in Chapter II that the logic of industrial development calls for increasing managerial decentralization as enterprises grow in size and complexity. As industrial enterprises expand, decentralized administration of some kind is necessary to overcome the mounting organizational frictions and loss of energy which are inherent in any highly centralized system of management.

True, Lebanese family firms are highly centralized and the owners are not very favorable to the idea of delegating authority. However, it must be recognized that centralization of authority in

Lebanese patrimonial enterprises is not of the "suffocating" type. Authority is not concentrated in the hands of a single individual, but shared by the members of the patrimonial group. In fact, we have seen that the situation is very much like that prevailing in the Japanese family enterprise, with its rather unique mixture of highly centralized authoritarianism and democratic-participative management. Practiced in this way, centralization of authority cannot have dramatic consequences. Furthermore, the fact that Lebanese family firms are usually small or medium-sized should not be lost of sight: in such organizations, decentralization has not yet become a matter of "life or death." Decentralization becomes a vital requirement only if the enterprise has reached too big a size for a limited group of men to be able to manage it effectively. Furthermore, the notion of delegation of authority cannot come but slowly and gradually in a country where prevails authoritarianism. Such a value-orientation should be modified through education and foreign contacts before the Lebanese manager--whether salaried or patrimonial--accepts the idea of investing some of his authority in his subordinates.

The third requirement for industrialization concerns management-labor relations: as industrialization proceeds, dictatorial and paternalistic philosophies of management are forced to give way to a kind of "constitutional" management in which wages and conditions of employment are based upon public laws and formal contracts; management is thus obliged to share its rule-making power with other contenders, such as the state and labor unions.

"Constitutional" management as described above can be conceived only in countries which have already reached an advanced stage of development. It cannot be easily accepted in a nation which was only half a century ago quite medieval in its social structure and relationships, and where employers for the most part talk of their workers as lords talked of their serfs, while workers tend to accept their employer in the role of a superior being who gives orders and makes all arrangements which they themselves obediently accept. How could "constitutional" management work out in a society where such a "master-servant" type of relationship between management and workers still prevails?

None of the pressures which in other countries exert themselves upon employers and managers to force them to give up authoritarian and paternalistic ways for a more "constitutional" approach can be found in Lebanon. The social values of the society, pressures from individual workers, government labor legislation, labor unions, pressures from other managements--none of these factors is powerful enough to bring about a shift from "authoritarian-paternalistic" to "constitutional" management. Lebanon is still in too early a stage of development for such forces to have gathered momentum.

In fact, not only such pressures are nonexistent in Lebanon, but the"authoritarian-paternalistic" philosophy seems to be quite consistent with the prevailing social climate. Workers do not "resent" such an approach; they "expect" it. At this stage of the country's development, paternalism is not likely to have inauspicious results. Rather, as already pointed out, it may serve to smooth the major dislocations which an industrial way of life forces on the newly recruited worker.

One final conclusion could be drawn from the foregoing discussion: that it would be difficult to accuse Lebanese family firms of retarding industrialization. On the contary, there are good reasons to believe that at this stage of the country's development--a stage of "transition"--patrimonial enterprises have an important role to play as promoters of industrial growth. In Lebanon, the forces that act as deterrents to industrialization are to be looked for elsewhere, and not in family firms.

APPENDIX A

INTRODUCTORY LETTER SENT TO THE RESPONDENTS

Dear Sir,

The Department of Sociology at the American University of Beirut is presently undertaking a study of some aspects of industrial organizations in Lebanon. More specifically, the study attempts to assess how leading industrialists in Lebanon respond to some of the urgent problems they face in the course of industrialization.

Since your firm has had a relatively successful record, and enjoys an unquestionable reputation in your own specific field, those conducting the study can benefit a great deal from your opinions and experiences on the subject. Accordingly, I am sendind you this letter in the hope that you will, to the extent that you can, help us in gathering the necessary information for the study.

We have prepared, as part of this research, a series of questions to be answered by a few leading industrialists like you. Miss Emilie Shwayri, a graduate student in the Department of Business Administration of this University, will get in touch with you to arrange for an appointment. The interview will take place at any specific time or date which suits your own convenience and will not take more than an hour of your time.

It should be understood that the objective of this research is purely scientific and is being undertaken solely in an attempt to obtain some information about the structure and functioning of industrial establishments in Lebanon. I hope then that you will cooperate with us in an effort which, I think, merits your serious attention.

Thanking you in anticipation,

Sincerely,

Samir Khalaf
Chairman, Department of
Sociology and Anthropology

APPENDIX B

QUESTIONNAIRE USED IN INTERVIEWS

I. PERSONAL INFORMATION

I would like to ask you first a few personal questions.

1. Name of respondent: ______________________________
2. Position (or title) in Establishment: ______________
3. Age of respondent:
   ______ years.
4. Educational certificates attained:

Location

______ None
______ Elementary
______ Secondary
______ Technical or vocational
______ College or university

(N.B. Please indicate name of degree obtained and location of institution)

5. What is (was) your father's business or occupation?

6. a. Is there a tradition in the family to run that type of business (or career)?

   _____Yes
   _____No

   b. If yes, since when? (For how many generations)?

7. What are (were) your father's important sources of income?

   a. ________________________
   b. ________________________
   c. ________________________

8. Why did you choose your present career? (Check one or more)

______ Natural inclination
______ Urging by elders
______ To follow up father's business career
______ Pecuniary profit considerations
______ Prestige
______ Other (specify)

9. Did you travel outside Lebanon before starting your present business career?

_____ Yes
_____ No

10. If yes, state:

Places travelled to   Duration of trip   Purpose

a.

b.

c.

(N.B. The purposes are education, recreation, business experience, or some other purpose to be specified by you)

II. HISTORY OF THE ESTABLISHMENT

Now I would like to ask you some questions about the history of the firm.

11. Date of founding of present establishment_______________

12. Name of founder(s) _______________________________

13. What is the form of ownership of the Establishment?

_____ Individual proprietorship
_____ Partnership of the "nom-collectif" type
_____ Partnership of the "société en commandite-simple" type
_____ Partnership of the "société en commandite-par action" type
_____ Other (specify)

14. a. Has there been a change in the form of ownership since the founding of the Establishment?

_____ Yes
_____ No

b. If yes, please indicate the change and the reason for it:
Changed from   to
Reason:

15. Could you give me an idea of how capital was raised?
(Check one or more)

______ Resources of owner(s)
______ Borrowing from relatives
______ Borrowing from other individuals
______ Borrowing from banks
______ Sale of stock (or subscription of stock)
______ Sale of bonds
______ Transfer of funds from previous business (specify sector)

______ Other (specify)

16. What product (s) does your Establishment produce?

17. Has there been any deletion of addition to the product line since the founding of Establishment?

______ Yes
______ No

18. If yes, state why:

19. Indicate number of employees in Establishment:

a. At founding______
b. Now______

III. <u>ORGANIZATION AND ADMINISTRATION OF THE ESTABLISHMENT</u>

Now, I would like to ask you some questions about the way your firm is organized and managed.

20. Is the administration divided into sections or departments on the basis of different areas of operation?

______ Yes
______ No

21. If yes, please check which of these:

______ Production (including technical section)
______ Marketing (including advertising)
______ Administration (including personnel)
______ Finance
______ Research
______ Other (specify)

22. How were the heads of these departments or sections appointed?

23. Are there employees in the Establishment who possess decision-making power?

_____ Yes
_____ No

24. If yes, indicate his (their) title(s) and functions:

Title	Function
a.	
b.	
c.	

25. If your authority itself is jointly shared, indicate who by:

_____ Partner(s)
_____ Board of directors
_____ Creditors

26. What are the powers of the person(s) sharing authority with you?

_____ Joint decisions
_____ Veto power
_____ Power to decide when issue is of a certain magnitude
_____ Power to decide in certain areas on the basis of division of labor
_____ Other (specify)

27. a. Is there an organizational chart in the Establishment?

_____ Yes
_____ No

b. If not, state why:

28. Are the duties, responsibilities, and powers of each individual occupying a managerial position carefully defined and delimited?

_____ Yes
_____ No

29. a. Does your Establishment employ staff specialists?

_____ Yes (specify)
_____ No

b. If not, state why:

30. a. Have you ever asked a research institution to carry on a study for you?

_____ Yes
_____ No

b. If yes, what was it?

31. Which of the following systems are applied in your firm?

_____ Double entry (debit or credit) system of bookkeeping
_____ Cost accounting
_____ Certified external auditors
_____ Budgeting and financial planning

32. Please describe briefly the procedure followed for hiring:

a. A manager

b. A foreman or supervisor

c. A worker

33. Do you provide for the training of personnel in your organization apart from the training they acquire on the job?

_____ Yes
_____ No

34. Do you have a specific policy concerning promotions?

_____ Yes (specify)
_____ No

35. How would you rank the following criteria for a managerial promotion?

______ Seniority
______ Kinship
______ Membership in your ethnic group or sect
______ Competence

36. Do you provide social services to your employees? (Check one or more)

______ Medical care
______ Food
______ Housing
______ Transportation
______ Recreational activities
______ Other (specify)

IV. IDEOLOGIES OF TOP MANAGEMENT

Now I would like to ask you some questions concerning the ideologies of top management.

37. As a top manager in the Establishment, what do you conceive your function or functions to be?

38. Which of your different experiences have in your own opinion proved most useful for your present career? (Rank them in order)

______ Education
______ Training (other than in school)
______ Travel
______ Experience
______ Other (specify)

39. Do you feel there is a shortage of able managers in your field of business in the country?

______ Yes
______ No
______ Don't know

40. If yes, what would you recommend to meet the shortage?

______ Training of managers on the job
______ Training them in technical and educational institutions
______ Hiring foreign managers
______ Other (specify)

41. In your opinion, are managers "born" or"made"? That is, is managerial ability the result of certain innate qualities or can it be acquired through education and experience?

______ "Born"
______ "Made"
______ Both

42. Some people believe that an important task of the manager is to develop future managers out of his subordinates. Do you agree?

______ Yes
______ No

Probe: Why?

43. a. Some people think that "ownership creates a sense of responsibility". Do you agree?

______ Yes
______ No

b. If yes, would you say that an owner-manager is inevitably more efficient in his job than a salaried manager?

______ Yes
______ No

44. Assuming that there is a vacancy in your Establishment and that a number of individuals apply for the position, what would be your criterion for selection?

______ Loyal friend of the family
______ Member of your ethnic group or sect
______ Technical competence
______ Accepts a low salary
______ Other (specify)

45. a. Let us assume that there is an opening for a higher position in a business organization and that there are two candidates: one is not very competent, but he is a relative of the owner; the other is quite competent, but he is not a relative of the owner. The head of the organization decides to promote the outsider rather than his relative. Do you think this is a sound decision?

______ Yes
______ No

b. Why do you think so?

46. What are the qualities you most require in your business associates, i.e. your partners or senior staff?
(Check one or more, ranking them)

_____ Honesty, even if they are not very shrewd businessmen
_____ Shrewdness, even if they are not very honest (provided, of course, your own business was not the victim of their attitude to honesty)
_____ Hard work
_____ Ability to get along well with people (that is, being good public-relations men)
_____ Influence in government circles
_____ Technical efficiency in your line of business
_____ Being a close relative of yours
_____ Not being a close relative
_____ Willingness to take orders or suggestions readily
_____ Independence and ability to operate without your orders or guidance
_____ Other (specify)

47. If you were to decide to expand your business, what would your preference be as to the source(s) of finance?

_____ Reinvesting profits
_____ Borrowing from relatives
_____ New partners or shareholders (as the case may be)
_____ Borrowing from banks
_____ Other sources (specify)

48. If you are reluctant to expand your business, is it because of:

_____ Feeling that you cannot handle a large business without sharing your authority with someone else?
_____ Feeling that you would loose your independence by bringing in outside capital?
_____ Other reasons (specify)

49. a. If you were to find out that the size of your plant is uneconomical and that by merging with another firm in the same activity you would reach an efficient scale of operation, would you undertake the merger?

_____ Yes
_____ No

b. If no, state why:

50. Have you ever thought of changing the form of ownership of your Establishment?

_____ Yes
_____ No

Probe: why?

51. a. Do you think that certain managerial practices which may be acceptable in a small firm become inappropriate as the firm grows in size and complexity?

_____ Yes
_____ No

b. If yes, give one or two examples.

52. Some people believe that as the business enterprise grows in size and complexity, two changes are called for. Do you agree?

	Yes	No	Don't know
a. Decentralization of authority	___	___	_____
b. Appointment of professional managers and staff specialists	___	___	_____

53. In taking major decisions, do you mainly:

_____ Make up your mind independently and without consultation with friends or subordinates whose opinion you are not required to take?
_____ Consult friends (including close relatives) but not subordinates?
_____ Consult subordinates but not outsiders?
_____ Consult both subordinates and friends?
_____ Consult experts outside the Establishment?
_____ Other (specify)

54. Here are two sets of subordinates. Which of the two in each set are you likely to prefer?

A. _____ One who accepts orders unquestionably

_____ One who has a tendency to "speak out his mind"

B. _______ One who needs detailed instructions to perform an assignment and is reluctant to accept responsibility

_______ One who prefers to receive broad instructions concerning a specific assignment, so that he can "think his way through" and exercise his own judgment

55. Do you think there are enough able foremen or supervisors to communicate between management and labor (i.e., to play the role of business sergeant-majors between the officer class and the rank and file)?

_______ Yes
_______ No
_______ Don't know

56. Do you believe the presence of foremen or supervisors

_______ Necessary for efficient operation?
_______ Unnecessary because their function is not significant?
_______ Necessary, but their function of communication of orders, establishing discipline, and supervising work can be performed by you or some other manager in the Establishment?
_______ Depends on the size of business?

57. Do you think that foremen should be regarded as part of management?

_______ Yes
_______ No

Probe: why?

58. Which, in your opinion, are the 3 most powerful motives in business (listed in their order of importance) in the following list?

_______ Pecuniary profit
_______ Power
_______ Prestige and status
_______ Sense of achievement
_______ Satisfaction in expansion in one's business
_______ Philanthropy and social service through one's money
_______ Other (specify)

59. As you know, different lines of business involve different intensities in capital investment, different rates of turnover, different periods of waiting before returns begin to flow in, and different degrees of rigidity of investment. With this in mind, indicate your preference(s) among the following situations:

_____ Undertakings involving heavy investment and considerable waiting before returns begin to flow in, but promising a long period of flow
_____ Undertakings involving relatively little investment, a short time to establish, and a quick capital turnover
_____ A small profit margin per unit on a large volume of business
_____ A large profit margin per unit on a small volume of business
_____ Other (specify)

60. If you were to shift to a new process, what considerations would you take into account? Would you:

_____ Base yourself more on thorough calculation and statistical evidence?
_____ Rely more on your perception and your "feel" of the situation ?
_____ Other consideration (specify)

61. If normally you are not inclined to make such shifts, what are your reasons? (Check one or more)

_____ Learning new know-how is disagreeable
_____ Shifting involves great loss in existing installations
_____ Shifting involves you in new and costly capital investment
_____ You do not like change
_____ Other (specify)

62. In trying to promote your sales, do you mainly:

_____ Catch up with changes already occurring in consumers' tastes by studying market conditions and following the whims of the market?
_____ Influence tastes by advertising, demonstrations, distribution of free samples, etc.?

63. Do you think that research institutions render a valuable service to business?

_____ Yes
_____ No

64. Do you usually visit fairs where technical advances are exhibited?

_____ Yes
_____ No

65. Do you subscribe to technical journals or buy technical books (for yourself or your staff) to keep up with such advances?

_____ Yes
_____ No

66. Do you think it is useful to know what other managements in your field of business are doing?

_____ Yes
_____ No

67. Suppose a business manager arrives at his office one morning and finds several persons waiting to see him. Among them is an acquaintance of his. Is it proper to keep this man waiting because others came before him?

_____ Yes
_____ No

Probe: why?

68. a. Some businessmen think that planning is a waste of time because one cannot foresee the future. Do you agree?

_____ Yes
_____ No

b. What is your opinion in that respect?

69. In your opinion, what manifestations constitute entrepreneurial success (Check three or less)

_____ Large profits
_____ Expansion in the business one operates
_____ Branching off into other fields of activity
_____ Assurance of continuity in the business
_____ Increase in product variety
_____ Introduction of important technical improvements
_____ Change of form of business organization (from partnership to corporation, for example)
_____ Improving product quality, without expansion in size of business
_____ Encouraging the self-development of people working in the Establishment
_____ Other (specify)

70. a. Do you think that the development of labor unions would lead to better management-labor relations?

______ Yes
______ No

b. Why do you think so?

71. a. Do you think the government should intervene in management-labor relations?

______ Yes
______ No

b. Why do you think so?

72. Do you plan to retire from business at some future date?

______ Yes
______ No

73. If yes, at what age?

______ Years

74. What do you intend to do after retirement?

75. Have you already any plans for the handing over in due course of your functions and responsibility?

______ Yes
______ No

76. Now I would like to conclude one interview by asking you a general question. What are some of the problems that your firm faces?

APPENDIX C

METHODOLOGY

The search for the family firms to be studied revolved around the records of the Association of Lebanese Industrialists whose membership comprises around 70% of the capital invested in industry.

The files existing in the Association were first sifted in order to pick out the patrimonial enterprises. While many of these files contained all the data needed, some were rather lean, offering skeletal information. Luckily, the officers of the Association possessed intimate knowledge of the activities and characteristics of these firms. Then followed a second round of elimination on the basis of number of employees: in each industry, the family firm with the largest number of employees was selected. Since small-sized family enterprises have no bearing on the issue under consideration, it was considered appropriate to exclude them from the sample. A third round of elimination was then undertaken: from the group of family firms already selected on the basis of number of employees the ten family enterprises with the largest amount of capital invested were sorted out.

The industries represented by the family firms selected are among the most important industries of Lebanon: food-processing, textiles, tanning, leather articles, wooden furniture, metal furniture, soaps, paints and polishes, metal working, and water pumps.

By the time the list of family enterprises to be studied was ready, the questionnaire had been completed too. A number of questions, of direct relevance for our purposes, were borrowed from the questionnaire used by Sayigh in his interviewing of Lebanese entrepreneurs. The pretesting of the questionnaire prior to actual interviewing afforded an opportunity for clearing up ambiguous questions. Three respondents were interviewed, two businessmen and a professor.

Letters were sent out to the respondents informing them of the study and explaining its purposes, and requesting an appointment for an interview. A few days later, contact was made for the arrangement of an appointment.

The reaction of the ten patrimonial managers contacted was very friendly. They cooperated hospitably and with frankness. This can perhaps be explained as a result of two factors: the study was conducted under the auspices of the American University of Beirut; in the request for an appointment, the significance of the study was pointed out and the fact duly underlined that only a select group of industrial managers was to be interviewed, of which the person addressed was a member.

Half of the respondents stated that they would prefer to be interviewed in French. The questionnaire was naturally written in English, but its translation into French presented no difficulty to the interviewer. On the average, each interview took about two hours.

Analysis of the findings proceeded along the calculation of frequency distributions and of proportions. In view of the size of the sample, there was no need for elaborate statistical manipulation.

BIBLIOGRAPHY

PUBLIC DOCUMENTS

Republic of Lebanon. Ministry of National Economy. Industrial Census, 1955. June 1957.

BOOKS

Bendix, Reinhard. Work and Authority in Industry: Ideologies of Management in the Course of Industrialization. New York: John Wiley and Sons, Inc., 1956.

Berger, Morroe. The Arab World Today. New York: Doubleday and Company, Inc., 1962.

Dupriez, Leon H. (ed.). Economic Progress. Louvain: Institut de Recherches Economiques et Sociales, 1955.

Earle, Edward Mead (ed.). Modern France: Problems of the Third and Fourth Republics. Princeton, New Jersey: Princeton University Press, 1951.

Ehrmann, Henry W. Organized Business in France. Princeton, New Jersey: Princeton University Press, 1957.

Glover, John. Fundamentals of Professional Management. New York: Simmons Boardman Publishing Corp., 1958.

Harbison, Frederick H., and Myers, Charles A. Management in the Industrial World: An International Analysis. New York: McGraw-Hill Book Company, Inc., 1959.

Hartmann, Heinz. Authority and Organization in German Management. Princeton, New Jersey: Princeton University Press, 1959.

Hooper, F.C. Management Survey. New York: Pitman Publishing Corp., 1948.

Hoselitz, Bert F. (ed.). The Progress of Underdeveloped Areas. Chicago: The University of Chicago Press, 1952.

Kerr, Clark, Dunlop, John T., Harbison, Frederick H., and Myers, Charles A. Industrialism and Industrial Man. Cambridge, Massachusetts: Harvard University Press, 1960.

Kindleberger, Charles. Economic Development. New York: McGraw-Hill Book Company, Inc., 1958.

Kornhauser, A., Dubin, R., and Ross, A. (eds.). Industrial Conflict. New York: McGraw-Hill Book Company, Inc., 1954.

Kuznets, S., Moore, W.E., and Spengler, J. (eds.). Economic Growth: Brazil, India, Japan. Durham, N.C.: Duke University Press, 1955.

Levine, Solomon B. Industrial Relations in Postwar Japan. Urbana, Illinois: University of Illinois Press, 1958.

Levy, Marion J., Jr. The Structure of Society. Princeton, New Jersey: Princeton University Press, 1952.

Lewis, Arthur W. The Theory of Economic Growth. London: George Allen and Unwin Ltd., 1955.

Mills, Arthur E. Private Enterprise in Lebanon. The American University of Beirut, 1959.

Presthus, Robert. The Organizational Society: An Analysis and a Theory. New York: Alfred A. Knopf, 1962.

Sayigh, Yusif A. Entrepreneurs of Lebanon. Cambridge, Massachusetts: Harvard University Press, 1962.

Shannon, Lyle W. (ed.). Underdeveloped Areas. New York: Harper and Brothers, 1957.

Urwick, Lyndall. The Elements of Administration. New York: Harper and Brothers, 1943.

ARTICLES AND PERIODICALS

Belshaw, H. "Some Social Aspects of Economic Development in Underdeveloped Countries in Asia," in Underdeveloped Areas, ed. Lyle W. Shannon. New York: Harper and Brothers, 1957.

Cochran, Thomas C. "Cultural Factors in Economic Growth," The Journal of Economic History. Vol. XX, No. 4, December 1960.

Eban, A.S. "Some Social and Cultural Problems of the Middle East," International Affairs. Vol. XXIII, 1947.

Etzioni, Amitai. "Human Relations and the Foreman," Pacific Sociological Review. Vol. 1, No. 1, Spring 1958.

Gerschenkron, Alexander. "Social Attitudes, Entrepreneurship and Economic Development," in Economic Progress, ed. Leon H. Dupriez. Louvain: Institut de Recherches Economiques et Sociales, 1955.

Habakkuk, H.J. "The Historical Experience on the Basic Conditions of Economic Progress," in Economic Progress, ed. Leon H. Dupriez. Louvain: Institut de Recherches Economiques et Sociales, 1955.

Hagen, Everett E. "The Process of Economic Development," Economic Development and Cultural Change. Vol. V, No. 3, April 1957.

Hagen, Everett E. "How Economic Growth Begins: A General Theory Applied to Japan," The Public Opinion Quarterly. Vol. XXII, 1958.

Harbison, Frederick, and Burgess, Eugene. "Modern Management in Western Europe," The American Journal of Sociology. Vol. LX, No. 1, July 1954.

Homans, George. "Industrial Harmony as a Goal," in Industrial Conflict, eds. A. Kornhauser, R. Dubin, and A. Ross. New York: McGraw-Hill Book Company, Inc., 1954.

Kuznets, Simon. "Problems in Comparisons of Economic Trends," in Economic Growth: Brazil, India, Japan, eds. S. Kuznets, W.E. Moore, and J. Spengler. Durham, N.C.: Duke University Press, 1955.

Landes, David S. "French Business and the Businessman: A Social and Cultural Analysis," in Modern France: Problems of the Third and Fourth Republics, ed. Edward Mead Earle. Princeton, New Jersey: Princeton University Press, 1951.

Landes, David S. "Observations on France: Economy, Society, and Polity," World Politics. Vol. IX, No. 3, April 1957.

Levy, Marion J., Jr. "Contrasting Factors in the Modernization of China and Japan," in Economic Growth: Brazil, India, Japan, eds. S. Kuznets, W.E. Moore, and J. Spengler. Durham, N.C.: Duke University Press, 1955.

Linton, Ralph. "Cultural and Personality Factors Affecting Economic Growth," in The Progress of Underdeveloped Areas, ed. Bert F. Hoselitz. Chicago: The University of Chicago Press, 1952.

Lockwood, William W. "The State and Economic Enterprise in Modern Japan, 1868-1938," in Economic Growth: Brazil, India, Japan, eds. S. Kuznets, W.E. Moore, and J. Spengler. Durham, N.C.: Duke University Press, 1955.

Mathias, Peter. "The Entrepreneur in Brewing, 1700-1830," Explorations in Entrepreneurial History. Vol. X, No. 2, December 1957.

Mills, Arthur E. "Economic Change in Lebanon," Middle East Economic Papers. Economic Research Institute, American University of Beirut, 1956.

Patai, Raphael. "The Middle East as a Culture Area," The Middle East Journal. Vol. 6, No. 1, Winter 1952.

Prothro, Terry E. "Studies in Stereotypes: Lebanese Business Men," The Journal of Social Psychology. Vol. 40, 1954.

Sawyer, John E. "Social Structure and Economic Progress: General Propositions and Some French Examples," The American Economic Review. Vol. XLI, May 1951.

Sayigh, Yusif A. "Management-Labour Relations in Selected Arab Countries: Major Aspects and Determinants," International Labour Review. Vol. 77, January 1958.

Sayigh, Yusif A. "Lebanon: Special Economic Problems Arising from a Special Structure," Middle East Economic Papers. Economic Research Institute, American University of Beirut, 1957.

Siegel, Bernard J. "Social Structure and Economic Change in Brazil," in Economic Growth: Brazil, India, Japan, eds. S. Kuznets, W.E. Moore, and J. Spengler. Durham, N.C.: Duke University Press, 1955.

Stein, Stanley J. "The Brazilian Cotton Textile Industry, 1850-1950," in Economic Growth: Brazil, India, Japan, eds. S. Kuznets, W. E. Moore, and J. Spengler. Durham, N.C.: Duke University Press, 1955.

Vakil, C.N., and Brahmanand, P.R. "Technical Knowledge and Managerial Capacity as Limiting Factors on Industrial Expansion in Underdeveloped Countries," in Economic Progress, ed. Leon H. Dupriez. Louvain: Institut de Recherches Economiques et Sociales, 1955.

Wythe, George. "Brazil: Trends in Industrial Development," in Economic Growth: Brazil, India, Japan, eds. S. Kuznets, W.E. Moore, and J. Spengler. Durham, N.C.: Duke University Press, 1955.

UNPUBLISHED MATERIAL

Khalaf, Samir. "Managerial Ideology and Industrial Conflict in Lebanon." Unpublished Ph.D. dissertation, Princeton University, 1963.