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# Family Ties and Business Deals: Resolving a Partnership Dispute through Negotiation

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## Abstract

This article explores a family business negotiation involving a silent partnership in northeastern Brazil. The management and silent partners encountered a financial impasse in their real estate development project. They considered various options, such as selling a rural area or obtaining a bank loan, before ultimately negotiating a deal to dissolve the partnership. This negotiation challenged family harmony and the ability to reach a mutually beneficial agreement without disrupting family relations. The article concludes with a discussion and managerial recommendations.

## *Keywords:*

Real estate; Type II negotiation; Silent Partnership.

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## 1. INTRODUCTION

This case describes a family business negotiation in João Pessoa, Northeastern Brazil, involving managers and silent partners on partnership dissolution. Both parties engage in an Integrative, Type II negotiation (Dias, 2020), where two parties negotiate multiple items. The equivalent to Silent Partnership in Brazil is named Sociedade em Conta de Participação (SCP), which, according to the Brazilian Civil Code (Brasil, 2002), is defined as "the activity constituting the corporate purpose is carried out solely by the ostensive partner, in his/her name and under his/her own and exclusive responsibility, with the others participating in the corresponding results." (Art. 991) However, only the managing partner is responsible for dealing with third parties; the silent partner deals with the managing partner solely. In sum, there are two types of partners in the silent partnership: the manager partner and the silent partner. For ethical reasons, the silent partnership company is hereby Participations Ltd. In addition, all the real identities of the partners and companies were suppressed or substituted for fictitious names for compliance and ethical purposes.

Firstly, Participations Ltd, together with Mr. John Doe - a fictitious name - nephew of one of their partners, bought Granja Formosa in February 2015 for the amount of $232,000, with a total area of 58.0 hectares and located in the municipality of Sapé, Paraiba State, northeastern Brazil. The silent partners paid another R$ 40,000 and constituted a Silent Partnership (SCP) with a total capital stock of R$ 500,000 and a 50% stake for each partner, with Sylar as a Managing Partner and Severino as a Participating Partner. Although acquired and fully paid in equal parts among the partners, the property was deeded in the name of Participations Ltd, with the specific purpose of carrying out an Urban Allotment. This article presents a Type IV Negotiation (Dias, 2020) involving multiple parties and issues. Negotiation has been defined as "a process of combining conflicting positions into a common position, under a decision rule of unanimity" (Kissinger, 1969, p.1) or "a process in which individuals work together to formulate agreements about the issues in dispute. This process assumes that the parties involved are willing to communicate and to generate offers, counter-offers, or both." (Rubin and Brown, 1975, p.461).

Real estate negotiations, as well as business negotiations, have been studied recently (Dias et al., 2023; Dias, 2023; Dias, 2023a; Dias,2023b; Navarro & Dias, 2024; Santos & Dias, 2024). Negotiations, in general, have been addressed in different dimensions, such as decision-making process (Bazerman & Moore, 1994); as integrant part of the communication process (Acuff, 1993; Fisher, Ury & Patton, 1981; Lax & Sebenius, 1986; Salacuse, 2003, 2006; Shell, 2006), in conflict management (Zartman, 1988); as part of social interaction (Dias, 2016; Schatzki & Coffey, 1981), involving diplomacy (Kissinger, 1969), associated to Game Theory (Raiffa, Richardson & Metcalfe, 2002; Rubin & Brown, 1975; Pruitt, 1981). Business negotiation has also been investigated in different business scenarios, such as buyer-seller negotiations (Dias, Toledo, Silva, et al., 2022; Dias, Lafraia, Schmitz, et al., 2024; Dias, Pereira, Teles & Lafraia, 2023; Dias, Leitão, Batista & Medeiros, 2022); virtual business synchronous negotiations (Santos & Dias, 2024); Nonmarket Negotiations (Navarro & Dias, 2024); retail business negotiations (Dias, Pereira, et al., 2023; Dias, 2023; Dias, Pereira, Vieira, et al., 2023; Valente & Dias, 2023); civil project contract negotiations (Cunha & Dias, 2021; Dias, Nascimento, et al., 2021); military negotiations (Dias, Toledo, Silva, Santos et at., 2022; Dias, Pires, et al., 2022; Dias, Almeida, Silva, Russo, et al., 2022);

This work addresses Type IV negotiations, or a real estate negotiation between multiple parties and multiple subjects, following Dias (2020), as illustrated in Figure 1:


*Figure 1* The Four-Type Negotiation Matrix
*Source:* Dias, 2020. Reprinted under permission.

## 2. METHODOLOGY

By the framework established by Saunders, Lewis, and Thornhill (2009), this paper employed an inductive approach grounded in interpretative philosophy. Drawing on Yin (2004), we analyzed a real estate family business negotiation involving parties aimed at dissolving a silent partnership in the Brazilian real estate sector. This examination was further enriched by the direct participation of one of the authors.

## 3. BACKGROUND

In 2016, the city mayor approved the "Neighborhood Allotment" project for 36.0 hectares, including infrastructure, a water and power network, 100% paved streets, a green area, lots starting at 158.02m², urban mobility, and accessibility. An area of 22.0 hectares remained in Granja Formosa, which was not included in the subdivision project and remained a rural area. The project was also divided into two stages: execution and commercialization.

The works of the first stage of the subdivision began in 2016 and were budgeted at $ 150,000, requiring the additional payment of the partners in equal proportions of 50% for each partner. The sales speed of the lots in this first stage was lower than planned by the partners, resulting in some adjustments in the sales table and the construction schedule to minimize additional contributions of financial resources from the partners. This stage was completed and officially delivered in 2022, with 90% of the units sold.Dividend distributions allowed the partners to recover 70% of the invested capital from 2020 to 2022. The partiesat the beginning of the partnership are displayed in Figure 2:

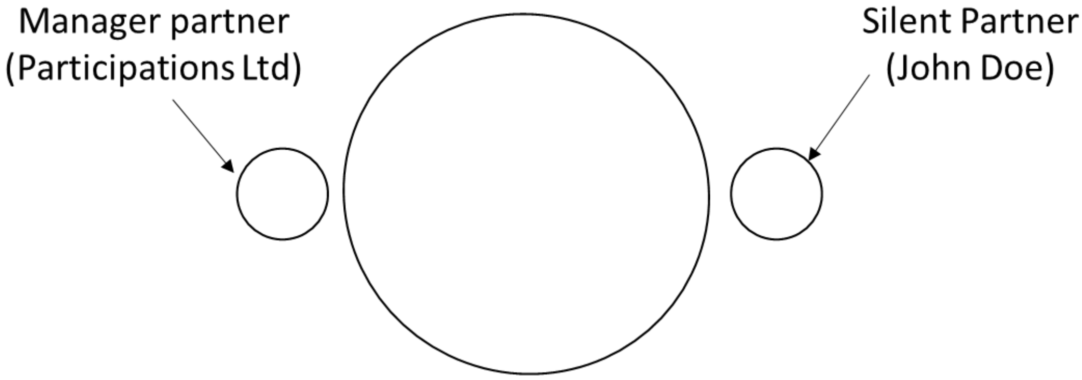


*Figure 2* Typical Type IV bargaining table.
*Source:* elaborated by the authors

## 4. TURNING POINT: PARTICIPATION LTD BUSINESS SUCCESSION

However, in September 2022, Participation Ltd.'s partner, the uncle of John Doe's managing partner, passed away, assuming their respective heirs.At the end of 2023, Participation Ltd.'s new partners, in agreement with the silent partner, decided to continue the project and start the work and commercialization of the project's second stage. The street, energy network, and water network work of this stage were carried out with financial resources from the subdivision's customer portfolio; however, to complete the sanitary sewage and paving works of the streets, additional contributions from the managing and participating partners will be necessary.

## 5. CONTRACT CHALLENGES

The contractual deadline for delivering the project to buyers and public agencies ends at the end of 2025. The disbursement for completing the works of this second stage was budgeted at $500.000, of which one million will be funded with resources from the receivable portfolio, and $ 350,000 should be contributed by the partners throughout 2025. John Doe informally communicated that it has no capital available to honor its contributions and suggested as an alternative that it put up for sale the remaining rural area of 22 hectares to pay for the work. The location was announced in 2024 for $500.000, but there were no interested parties.

## 6. OPTIONS AND BATNA

The BATNA (Best Alternative to a Negotiated Agreement) considered taking a bank loan of approximately $350,000 to complete the work, with amortization scheduled over the next three or four years using the project's receivables portfolio. This alternative encountered three major impasses: a) the partnership does not have the legal personality recognized by financial institutions to assume responsibility for the loan; b) banks did not accept the remaining rural area as collateral in the financial operation; c) John Doe has restrictions in his credit that make it impossible to guarantee this loan.

Participations Ltd. has been contributing surplus amounts to fund the work, allowing the fulfillment of the physical-financial schedule to honor the contractual deadlines agreed with customers and public agencies. In February 2025, John Doe's balance in the project was already negative by $ 42,000, and it is forecast to increase month by month since he informed us that he could not honor the monthly contributions of $20,000.

## 7. PARTNERSHIP AND FAMILY: IMPASSES

This impasse and the constant demands began to generate discomfort in the partnership and the family relationship between the John Doe cousins and Participations Ltd's partners, who have been very well-connected since childhood.Another alternative studied by Participations Ltd's partners is purchasing John Doe's stake in the project, but he has never shown interest in selling, and the parties do not know how to price the value of this stake.

## 8. NEGOTIATION ANALYSIS

**Type of negotiation:** This negotiation is integrative, Type IV(Dias, 2020), as it has numerous negotiated issues, and collaborative, as the parties have a mutual interest in reaching an agreement that is good for both and maintains family harmony between the cousins.

**Proposed alternatives:** a) sale of the rural area of 22 hectares; b) contracting of a bank loan for the completion of works; c) purchase of the participating partner's shares by the managing partner.

**BATNA:** judicial execution of the silent partnership contractual clauses that mention the collection of Brazilian index financial charges plus 1% per month on the outstanding balance not contributed by one of the parties, which may be amortized with the distribution of future dividends from the project since the receivables portfolio of this subdivision runs until 2033, in addition to the fact that there are still some unsold lots in stock, as well as the remaining rural area of 22 hectares that is deeded in the name of the Participation Ltd.

**Zone of Possible Agreement (ZOPA):** The managing partner is willing to buy the silent partner's share for between $35,000 and $50,000 with payment in installments over 12 months. The partner will assume the entire construction costs and 100% of the receivable's portfolio.

## 9. FOLLOWING THROGH: REACHING THE DEAL

To reach a better deal, one of Participation Ltd.'s new partners (heirs) invited his cousin, John Doe, to a barbecue at his house to create a friendly, open-minded, and cooperative environment. After debating the subject, they finally found an option that met the parties' wishes.Participation Ltd. will take out a bank loan of $ 400,000 as the sole guarantor, with a payment term of thirty-six months. It will pay John Doe $50,000 for his participation in the Project Allotment, exempting him from paying fines, charges, and other contributions. $500,000 will be used to complete the work.

The receivables portfolio, cash flow, and many inventories will all be Participation Ltd. Still, John Doe has a 50% stake in the 22-hectare rural area that will become effective when the area is sold.This collaborative negotiation, associated with the teachings and techniques applied, allowed us to reach a win-win agreement and maintain family harmony. Indeed, they will make new real estate developments in the future with relatives and friends, but reinforcing the contractual clauses of society.

## 10. IMPLICATIONS AND DISCUSSION

We found evidence that the case has several implications for business negotiations, family businesses, and conflict resolution, summarized into five following implications:

(a) **Importance of family business relationships**, and how to maintain family harmony in business negotiations, preserving relationships and attacking the problem, in accordance to Fisher, Ury & Patton (1981);

(b) **Engaging in collaborative negotiations is better than competitive negotiations**; evidence suggests the effectiveness of collaborative negotiation in resolving disputes, following Dias (2016; 2020);

(c) **Flexibility in negotiation:** Following Dias (2023) and Shell (2006), evidence also suggests that flexibility in negotiation can lead to creative solutions;

(d) **Planning the negotiation beforehand.** Evidence indicates that planning options, BATNA, and interests beforehand may “enlarge the pie,” following Salacuse (2003);

(e) **Implications for family business negotiations and conflict management.** This implies that family businesses should develop strategies for managing conflicts and preserving relationships (Lax & Sebenius, 1986; Salacuse, 2003, 2006; Shell, 2006). (f) Conflict resolution: Evidence demonstrates the effectiveness of negotiation in resolving conflicts, implying that negotiation can be a valuable tool for resolving disputes in various contexts. These implications can inform negotiation strategies and practices in various contexts, including family businesses and conflict resolution.

Finally, there are also some implications in other subfields of research, not restricted to(a) business negotiations (Dias, Waltz & Oliveira, 2021; Dias, 2020a; Dias, 2020b; Dias, 2020c; Dias, Duzert & Lopes, 2021; Dias, Lopes, Cavalcanti & Golfetto, 2020; Dias & Silva, 2021; Dias, Netto, Oliveira et al., 2021; Dias, Andrade, Sotoriva, et al., 2021; Dias & Lopes, 2021); (b) tangible and intangible assets negotiations (Sartori et al., 2020; Dias, Lopes & Teles, 2020; Dias & Lopes, 2020; Dias & Navarro, 2020; Dias, Lopes & Duzert, 2020), (c) trust in negotiations (Dias & Lopes, 2021; Dias, 2021), for instance.

## CONCLUSION

This paper examined an integrative, Type IV negotiation with numerous negotiated issues and a Zone of Possible Agreement (ZOPA) in which the managing partner agreed to buy the silent partner's share for between $35,000 and $50,000 in installments over 12 months. In conclusion, a collaborative negotiation between Participation Ltd. and John Doe led to a win-win agreement, maintaining family harmony and future real estate developments with relatives and friends.

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