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## Familial Bonds and Business Breakdowns: The Gaska Tape Conflict

My heart raced with shock and anger as I read the letter from my sister's attorneys. It was early January 2007, and I had held the position of President at Gaska Tape for 27 years. Gaska was a family business that our dad, Jack Sr., gave my sister, Judy, and me. I had perceived a growing distance and sharp disagreements with my sister about the company's direction. But I never thought of these as much more than squabbles. Suddenly, forcing a sale on me seemed very close to betrayal. Selling Gaska Tape sounded unthinkable to me. The legal notice actually gave me an alternative. We could keep the company in the family as long as I stepped down as CEO.

The prospect of losing my business was dire. I viewed my leadership as a continuation of my father's legacy. He had previously made a strategic decision under financial duress, buying out his sister Barbara's shares to secure the company for his children, Judy and me. Consequently, Gaska Tape represented not just a business to me but the living legacy of my father and the dream that I had to pass down to my own children one day.

My relationship with Judy had certainly been different from what it used to be for a while. There were multiple causes for the ever-increasing tension. First, the family structure had changed. Both of us had found a partner, and that altered our family relationships. Second, we differed on how we thought the business should be run. While I loved my sister and

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Professor Andreas Widmer (The Catholic University of America) and Professor Tatiana Rodríguez (Universidad de los Andes) prepared this case. This case was not funded by the company. Funding for the development of this case was provided by EnFocus and the Institute for Entrepreneurial Communities. .

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respected her position as a shareholder and employee, I had to make decisions she did not like. I thought that Judy did not understand her role in the company versus her role as a shareholder. Ultimately, she was the head of H.R., not the CEO. It was me who had to call the shots. Yet, I loved my sister dearly and did not want our work to make us grow further apart.

Confronted with this agonizing dilemma, I faced a problem: finding a way to preserve the company I had tirelessly built while also trying to maintain my relationship with Judy. Could I balance both?

## Gaska Tape, a leading SME of Elkhart, Indiana

In 2007, Gaska Tape was a reputable tape and foam tape manufacturer catering to various industries, like automobile, construction, industrial, and medical sectors. Gaska was founded in 1965 by three people: Fritz Grünberg, my aunt Barbara and my dad, Jack Sr.. It was a 40-20-20 split. Two of them had the idea, and the third one, my father, Jack Smith Sr, provided startup capital. In the humble confines of a two-car garage in Elkhart, Indiana, these three entrepreneurs began providing conversion services to the local market. While the business was good, things were not easy, and in 1973, Fritz sold its stock to the company. .

1975 saw the US in the grip of a crippling recession, and business was not good. As Gaska experienced trouble, my aunt found a buyer for her shares. My father was slightly surprised by his sister's sudden move, but he agreed that things would be tough for Gaska for the foreseeable future. He himself did not have the bandwidth to run the company above all his other obligations, and without the kind of leadership he could provide, he knew the company would never survive.

As he considered whether to sell, he took me on a visit to Gaska. I was still a teenager. As we walked around the factory, he asked me, "Do you have any interest in this?" I did not hesitate. "Yeah, I think this thing could make some money," I replied.

That's all he needed to hear. In a pivotal turn of events, my father bought out his sister's shares instead of allowing an external sale. This set the stage for a new era in the history of Gaska Tape.

My father foresaw Gaska Tape's future in his children's hands. He set up a grantor-retained annuity trust (GRAT) in the early 1980s, designating Judy and me as 50 / 50% owners. He also named me the CEO one year after I finished college and Judy the head of HR when she decided to leave school.

## Our role in the company.

Both my sister and I were very actively involved with the company. Judy was the head of human resources after leaving college after a year.

My involvement and commitment to Gaska Tape runs as far back as I can remember. I began working as an hourly employee precisely a week after graduating High School. Later, while pursuing my college education in business and labor, I took the opportunity to work at Gaska not to confine my learning to the classroom. I simultaneously worked across various levels at Gaska, garnering a comprehensive understanding of the business from the ground up. I went from operating the machinery to the oven, worked at the lab, sales, and finally, finances and accounting. This hands-on experience across different departments gave me an intimate knowledge of the company's operations and helped me build a rapport with the employees.

My father expected me to “push him out of business.” So, upon graduating at the age of 23, I first stepped in as president of Gaska Tape. This arrangement, where Judy was in charge of HR and I was president of the company, appeared to work very well for all of us...for a while.

## Early victories

Gaska Tape's commitment to quality and innovation was a cornerstone of its success. This focus wasn't just a mere corporate mantra but a deeply ingrained part of our operational ethos. Constant financial reinvestment in the company through plant expansion, new equipment, or hiring skilled staff was a testament to Gaska's forward-thinking approach. Such strategic investments ensured that we remained competitive and ahead of industry trends.

Underpinning the drive for quality was a unique blend of professionalism and playfulness, a culture instilled by Judy and me, reflecting what we learned from our father. I remember being featured in the Elkhart newspaper with a collection of Red Skelton Clown paintings that I had recently acquired. My quote was that "... while business is serious, you've got to have fun!". This was not just a personal motto but a reflection of the company's ethos. I think we created a positive and engaging work environment, contributing significantly to employee satisfaction and loyalty.

The impact of our company culture was evident in the exceptional employee loyalty Gaska Tape enjoyed. With an average tenure of over 15 years, Gaska Tape stood out in an industry where high turnover rates are the norm. This kind of commitment was not just a function of the work environment but also indicative of the mutual respect and value shared between the management and the workforce.

## Family Dynamics and Rising Tensions

The familial interplay at Gaska Tape took a complex turn when Judy married a fellow company employee, John, who worked at the time as an hourly employee on the shop floor. My father's insistent request to promote Judy's husband to a senior management position was stressful to me. I was reluctant, but I complied with my father's wish. After all, Judy's

husband was now part of the family. John was given the responsibility of managing the shipping and delivery fleet.

As Gaska Tape grew its market share and solidified its customer relationships, the number of employees surged, leading to increased overhead costs. This rapid expansion in personnel made me uneasy and became a recurring point of contention with Judy. I championed a more streamlined approach to innovation while my sister advocated for what I saw as an unjustified increase in staff. Such expansion, coupled with the shifting ambitions within the family, laid the groundwork for impending conflicts, subtly foreshadowing the origins of our present disagreement.

Things were about to become more tense. I met the love of my life. She was a successful, intelligent woman with a thriving career in business. Her drive for excellence struck a chord with me. I had been a longtime bachelor, and our relationship signified the beginning of a novel phase in my journey. Yet, this clearly strained my relationship with Judy and her husband. As I remember it, my marriage marked the beginning of new and intense disagreements at the board meetings that Dad, Judy, and I had. I think they felt that my evolving family structure might disrupt the balance of power in Gaska Tape.

Five years into our marriage, we were expecting twins. And as my family life transformed, things at Gaska were also about to change.

## Economic Uncertainty and Strategic Planning

In early 2007, amidst substantial growth since 2000, Gaska Tape faced a climate of economic uncertainty. I was confronted with conflicting reports about the economy's trajectory. Key indicators pointed towards a possible end to the economic recovery that started in 2001, primarily due to a downturn in the housing market. Once a robust driver of the economy, the housing sector was showing signs of significant decline, impacting construction activities and consumer spending.

Gaska Tape was at a critical juncture, deeply intertwined with the housing and automotive markets. Housing prices peaked in January 2007, but whispers of a bubble loomed large. Similarly, the automotive industry, a vital sector for Gaska, was also in a precarious position. Federal Reserve Chairman Alan Greenspan's observations about the potential for a recession in 2007 added to the growing sense of economic foreboding (Exhibit 4).

Contrasting sharply with these warnings, investor optimism, as reported by Gallup in 2007, remained high, with only a minority expressing concern about the upcoming year (Exhibit 5). This dichotomy between investor sentiment and economic indicators presented a complex landscape for me as I planned Gaska Tape's future.

Amid these uncertainties, my strategy focused on "right-sizing" Gaska Tape. My vision transcended mere workforce adjustments; it encompassed innovation in production processes, sales cycles, and distribution networks. I aimed to streamline certain areas while investing in others, ensuring Gaska's competitiveness regardless of the economic climate.

## Brewing Conflict and Fracturing Relations

The relationship between me and Judy, once underpinned by a shared vision for Gaska Tape, began to fray. My sister and her husband grew increasingly vocal about their belief that they could steer the company more effectively. Judy viewed me as overly dominant and risk-prone, seldom consulting her on key decisions.

This brewing discontent wasn't abrupt but a culmination of long-standing differences, some overt but many simmering beneath the surface. The different viewpoints led to a tense work environment. There was a sense of discord among the staff, who received mixed signals from the company's leadership.

## The Tipping Point: Judy's Legal Move

In early May 2007, the situation reached a boiling point when I received a legal notice from Judy's attorney. Judy had invoked corporate deadlock under Indiana law in 2008 (Exhibit 3). This was something that could happen, given that we had a fifty-fifty split of shares. Her lawyer put a choice in front of me. "We propose you choose among the following two options," explained the attorney, "Gaska is to be run by an independent president - which will be neither you nor Judy."

"It's not that one!" I replied instantaneously. "What's the other one?" "Well, if you won't agree to this, the other option is to liquidate or sell Gaska to a third party."

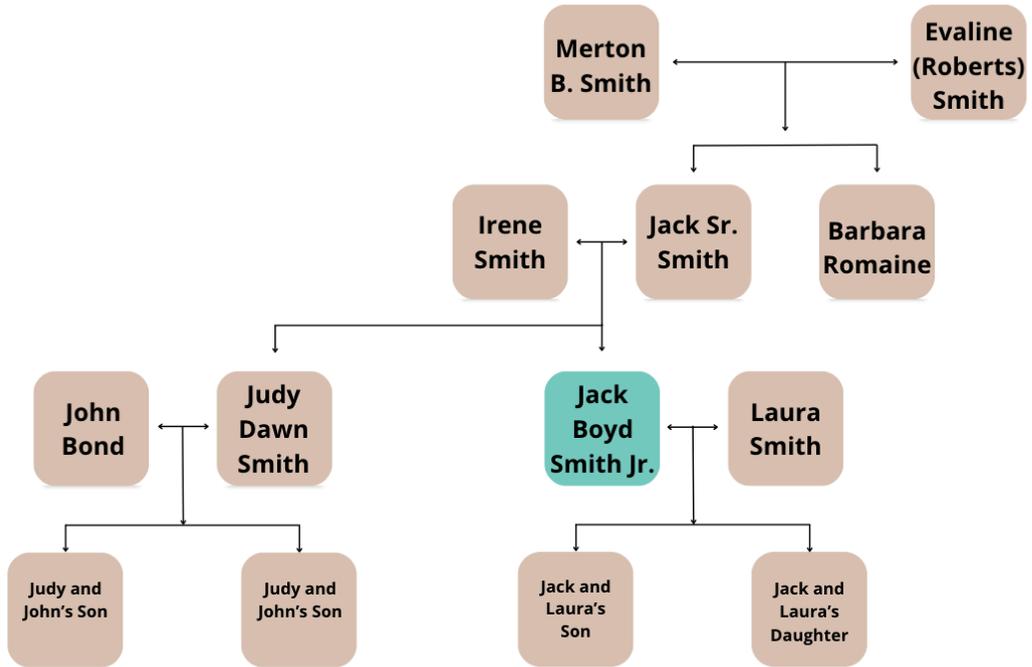
I still don't understand why Judy gave only those two alternatives. Why wasn't buying her out of the partnership on the table?

Judy and I only spoke through our attorneys from that point forward.

## Decision Time: Strategic Choices

Broken-hearted and despairing, I now needed to decide how to deal with this problem. People gave me advice that went entirely against my gut. I remember one banker with whom I was exploring a loan to buy Judy's shares telling me, "If I were you, I would take my money and run". Buying from Judy was an alternative in my head... but could I afford it? This honestly was not a desirable scenario for me. What I did know was that a life without Gaska was untenable to me. What could I do?

### Exhibit 1: Family Tree



### Exhibit 2: Automotive Industry-Domestic Car Production



Source: <https://fred.stlouisfed.org/series/DAUPSA>

## Exhibit 3: Indiana Code - Judicial Dissolution

### ARTICLE 1. INDIANA BUSINESS CORPORATION LAW

#### CHAPTER 47. JUDICIAL DISSOLUTION

##### IC 23-1-47-1

##### Judicial dissolution: when allowable

Sec. 1. The circuit or superior court may dissolve a corporation:

- (1) in a proceeding by the attorney general if it is established that:
    - (A) the corporation obtained its articles of incorporation through fraud; or
    - (B) the corporation has continued to exceed or abuse the authority conferred upon it by law;
  - (2) in a proceeding by a shareholder if it is established that:
    - (A) the directors are deadlocked in the management of the corporate affairs, the shareholders are unable to break the deadlock, and irreparable injury to the corporation is threatened or being suffered, or the business and affairs of the corporation can no longer be conducted to the advantage of the shareholders generally, because of the deadlock; or
    - (B) the shareholders are deadlocked in voting power and have failed, for a period that includes at least two (2) consecutive annual meeting dates, to elect successors to directors whose terms have expired;
  - (3) in a proceeding by a creditor if it is established that:
    - (A) the creditor's claim has been reduced to judgment, the execution on the judgment returned unsatisfied, and the corporation is insolvent; or
    - (B) the corporation has admitted in writing that the creditor's claim is due and owing and the corporation is insolvent; or
  - (4) in a proceeding by the corporation to have its voluntary dissolution continued under court supervision.
- As added by P.L.149-1986, SEC.31.*

##### IC 23-1-47-2

##### Venue; parties; preservation of corporate assets

Sec. 2. (a) Venue for a proceeding by the attorney general to dissolve a corporation lies in Marion County. Venue for a proceeding brought by any other party named in section 1 of this chapter lies in the county where a corporation's principal office (or, if none in Indiana, its registered office) is or was last located.

(b) It is not necessary to make shareholders parties to a proceeding to dissolve a corporation unless relief is sought against them individually.

(c) A court in a proceeding brought to dissolve a corporation may issue injunctions, appoint a receiver or custodian pendente lite with all powers and duties

the court directs, take other action required to preserve the corporate assets wherever located, and carry on the business of the corporation until a full hearing can be held.

*As added by P.L.149-1986, SEC.31.*

#### IC 23-1-47-3

##### Receivers and custodians

Sec. 3. (a) A court in a judicial proceeding brought to dissolve a corporation may appoint one (1) or more receivers to wind up and liquidate, or one (1) or more custodians to manage, the business and affairs of the corporation. The court shall hold a hearing, after notifying all parties to the proceeding and any interested persons designated by the court, before appointing a receiver or custodian. The court appointing a receiver or custodian has exclusive jurisdiction over the corporation and all its property wherever located.

(b) The court may appoint an individual or a domestic or foreign corporation (authorized to transact business in Indiana) as a receiver or custodian. The court may require the receiver or custodian to post bond, with or without sureties, in an amount the court directs.

(c) The court shall describe the powers and duties of the receiver or custodian in its appointing order, which may be amended from time to time. Among other powers:

(1) the receiver:

(A) may dispose of all or any part of the assets of the corporation wherever located, at a public or private sale, if authorized by the court; and

(B) may sue and defend in the receiver's own name as receiver of the corporation in all courts of this state; and

(2) the custodian may exercise all of the powers of the corporation, through or in place of its board of directors or officers, to the extent necessary to manage the affairs of the corporation in the best interests of its shareholders and creditors.

(d) The court during a receivership may redesignate the receiver a custodian, and during a custodianship may redesignate the custodian a receiver, if doing so is in the best interests of the corporation, its shareholders, and creditors.

(e) The court from time to time during the receivership or custodianship may order compensation paid and expense disbursements or reimbursements made to the receiver or custodian and the receiver's or custodian's counsel from the assets of the corporation or proceeds from the sale of the assets.

*As added by P.L.149-1986, SEC.31.*

#### IC 23-1-47-4

##### Decree of dissolution; winding up affairs

Sec. 4. (a) If, after a hearing, the court determines that one (1) or more grounds for judicial dissolution described in section 1 of this chapter exist, it may enter a decree dissolving the corporation and specifying the effective date of the dissolution,

and the clerk of the court shall deliver a certified copy of the decree to the secretary of state, who shall file it.

(b) After entering the decree of dissolution, the court shall direct the winding up and liquidation of the corporation's business and

affairs in accordance with IC 6-8.1-10-9 and IC 23-1-45-5 and the notification of claimants in accordance with IC 23-1-45-6 and IC 23-1-45-7.

*As added by P.L.149-1986, SEC.31. Amended by P.L.73-1988, SEC.3.*

**Exhibit 4:**

## Greenspan warns of U.S. recession risk

Former U.S. Federal Reserve Chairman Alan Greenspan warned Monday that the American economy might slip into recession by year's end.



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Feb. 26, 2007, 8:54 AM EST / Source: The Associated Press

Former U.S. Federal Reserve Chairman Alan Greenspan warned Monday that the American economy might slip into recession by year's end.

He said the U.S. economy has been expanding since 2001 and that there are signs the current economic cycle is coming to an end.

"When you get this far away from a recession invariably forces build up for the next recession, and indeed we are beginning to see that sign," Greenspan said via satellite link to a business conference in Hong Kong. "For example in the U.S., profit margins ... have begun to stabilize, which is an early sign we are in the later stages of a cycle."

"While, yes, it is possible we can get a recession in the latter months of 2007, most forecasters are not making that judgment and indeed are projecting forward into 2008 ... with some slowdown," he said.

Greenspan said that while it would be "very precarious" to try to forecast that far into the future, he could not rule out the possibility of a recession late this year.

The U.S. economy grew at a surprisingly strong 3.5 percent rate in the fourth quarter of 2006, up from a 2 percent rate in the third quarter. A survey released Monday by the National Association for Business Economics showed that experts predict economic growth of 2.7 percent this year, the slowest rate since a 1.6 percent rise in 2002.

Source: <https://www.nbcnews.com/id/wbna17343814>

**Exhibit 5: Gallup Index of Investor Optimism May Readings, 1999-2007**