

**EDUARDO MANUEL DE ALMEIDA LEITE**

**An academic contribution toward qualitative  
evaluations of surprise business takeover attack: an  
historical perspective**

Ph.D. in Management

**Academic advisors**

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**UNIVERSIDADE DE TRÁS-OS-MONTES E ALTO DOURO  
VILA REAL, 2013**

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## Specific Terminology

Throughout this dissertation when the author use the following technical terms they are mean the following.

*Hostile Takeover:* This classical method enables a person, group of people or company to bypass a targeted company's management that does not desire a merger or to be submerged into another company. We use the word "hostile" to indicate that the targeted company's board has rejected the offer, but the pursuer continues to insist, often by making an offer without having prior informed the targeted company's board.

According to Leonov: a “hostile takeover” is understood to be an attempt to obtain control over the financial and business activity or assets of a target company against the resistance of management or key participants in the company. Whether a deal is regarded as “hostile” depends rather on the reaction of the managers and (or) shareholders / participants (as in Russian practice) of the target company, provided that the attacking company has fulfilled all requirements of the regulatory bodies concerning announcement of its actions. Furthermore, analysis of publications in the business press suggests that the most widespread types of raiding, in terms of the strategies used to carry out the scheme, are: “the hostile takeover of companies that possess rights to attractive assets;” “acquiring control over assets by means of bankruptcy proceedings;” “disputing rights to assets in the courts;” “compelling the victim to conclude a deal concerning certain assets, using instruments of corporate blackmail or other means;” “acquiring control over an

asset by secretly stealing it or by means of fraud;” “concluding deals concerning assets by conspiring with officials of the target company; lobbying various state bodies by conspiring with state employees; and;” other types of raiding.

At present, the dominant type of raiding is the hostile takeover. However, it should be noted that in the majority of cases the types indicated above are observed as a combination rather than in their one pure form. Therefore, all above mentioned types of raiding action would be considered as raiding and hostile takeover activity. (Leonov, 2002).

*Internal Hostile Takeover:* An acquisition that occurs not between companies but rather between stockholders where the majority holder(s) force the buy out of the minority holders.

*Reliability:* This term is used to describe the stability of the measurement instrument, that is the accuracy of the research instrument.

*Validity:* The degree to which what is being measured in a research endeavor corresponds to what the researcher believes s/he is measuring. Validity connotes the degree of correspondence between the “operationalization” and the concepts as expressed in the theory.

*Verstehen:* The method of interpretation or empathetic understanding of the actors’ motivations. In this case the researcher tries to understand the data not only from his/her perspective but also from the perspective of the subject that is being studied.

## RESUMO

Este estudo estabelece uma comparação entre as guerras negociais, as quais chamamos de concorrência, e as batalhas políticas, as quais denominamos de guerra.

Baseámos essa comparação na obra *Surprise Attack* de Kam. Kam estabelece a hipótese de que no mundo político, existe sempre a possibilidade de acontecerem ataques de surpresa e que esses ataques não são previsíveis.

Contrariamente a kam, o estudo atual apresenta a possibilidade de que a maioria dos ataques nos negócios pode ser previsível. A razão para isso não acontecer, prende-se com a pobre natureza preditiva dos modelos estocásticos, pelo facto de captarem apenas o lado quantitativo de análise. Ou seja, muitas vezes nós analisamos os negócios apenas a partir de uma posição matemática e quantitativa, em vez de uma perspetiva holística. O estudo atual procura preencher esta lacuna, através da junção de um método qualitativo teórico sistematizado e que permite uma avaliação mais extensiva dos negócios, permitindo avaliar a exposição das empresas aos ataques de surpresa e aquisições hostis.

O estudo procura ilustrar o tema, através de uma história financeira tipo, analisando uma empresária portuguesa do século XVI, Dona Grácia Nasi. A vida de Dona Grácia serve como pretexto para a introdução de diversas ferramentas analíticas, complementares às existentes no mundo das finanças e dos negócios. Essas ferramentas são: Teoria Q, análise literária hermenêutica e as perspetivas sociológicas. A tese procura, então, preencher uma parte da lacuna na literatura académica de finanças e negócios, apresentando uma ferramenta analítica qualitativa.

**Palavras-Chave:** Aquisição hostil, Ataque de surpresa, Avaliação, PIE, Kam, Dona Grácia Nasi.

## ABSTRACT

This study addresses the similarities between two types of hostilities (business wars called competition) and physical altercations between nations called wars.

We have based this study on the theoretical work of Ephraim Kam. Kam hypothesizes that in the political world there is always the potential for the surprise bellicose attack and that these attacks are not predictable.

This study argues that, unlike in the political world, many attacks are predictable in business world. The study argues that the reason for past poor predictive success is that the stochastic model has been used only from the quantitative side. That is to say, scholars and practitioners have analyzed businesses from a mathematical and quantitative perspective rather than a holistic perspective. The current study fills in this gap by adding a theoretical qualitative systematized methodology that permits a more extensive business evaluation and its proclivity to be subjected to a hostile takeover.

The study accomplishes this goal by means of theoretical design of one moment in financial history, the study of Portugal's leading 16th century businesswoman, Doña Gracia Nasi. Doña Gracia's life sets the stage for introducing several new analytical tools to the world of finance and business. These are: Q theory, hermeneutic literary analysis, and sociological perspectives. By means of new academic tools, the thesis seeks to fill in some of the lacunae within finance and business academic literature.

**Keywords:** Hostile takeover, Surprise attack, Evaluation, PIE, Kam, Doña Gracia Nasi.

# Introduction

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**An academic contribution toward qualitative evaluations of surprise business  
takeover attack: an historical perspective**

## **Introduction**

This dissertation concerns one of the “grand dames” of XVI century world of European business and what her business relationships teach the twenty-first century reader both about business conflicts and hostile takeovers and the social conflicts that often lie below the surface. The dissertation’s historical setting is Sixteenth century Europe, the time of the great financial houses, such as the House of Medici. The dissertation focuses on the idea of a business surprise attack, not from a mathematical perspective, but rather from the perspective of a series of social indicators that have often been ignored in the literature of finance. The author has built on and adapted the theories of military historian Ephraim Kam to the business dealings of perhaps Portugal’s most important XVI century businesswoman.

The dissertation also seeks to place business battles within their historic context. As such the dissertation examines the role of the Portuguese Inquisition both as a financial arm of the state and as a method of ideological control. The dissertation examines the role of Doña Gracia as a businesswoman and as part of the category of people whom the Inquisition classified as “Cristãos-Novos”. That is, people of Jewish heritage who were forced against their will to convert to Catholicism and despite these conversions were still persecuted. The dissertation questions if the persecution of one of Portugal’s most important entrepreneurial group of people was due to religious persecution or as a pretext for economic control. As such, the Inquisition may be seen not merely as a symbol of religious intolerance, but as part of Europe’s largest hostile takeover fought on ideological grounds. This hypothesis is support by many of the actions of the

Portuguese king, Dom Manuel. Thus Yerushalmi notes: “While Manuel was thus prepared to close his eyes to the lingering Judaism of the converts, (sic) he would not tolerate emigration, for that would subvert the very purpose of the conversion. Royal decrees of April 10 and 11, 1499 forbade any New Christian to leave the country with his wife and children and, in order to render the sanction more effective, prohibited anyone from selling bills of exchange to New Christians or buying immovable property from them” (Yerushalmi, *Lisbon Massacre of 1506*, p.6).

The public and private life of Portugal’s Doña Gracia serves to provide insights not only into the workings of one of Lisbon’s most famous financial institutions, The House of Mendes, but also into how a businesswoman managed despite the prejudices of the times to become one of the great financiers of the time. The record concerning the case of Doña Gracia and the House of Mendes also serves as an example of the complexity of hostile takeovers and business relationships.

This dissertation’s offers its readers a multi-disciplinary approach to understanding business conflicts, surprise attacks and hostile takeovers. To accomplish this goal the author has developed a new theoretical perspective on business battles such as the hostile takeover. The dissertation employs the perspective of a historical biography to understand how many essential variables have been overlooked by quantitative studies. The historical record indicates that despite the odds, Doña Gracia managed to confront Europe’s economic and political elites and even its kings. By utilizing multiple perspectives in biographical research, social science and psychology the dissertation develops new tools for our understanding of the human side of hostile takeovers and how business relationships are often intertwined with the personal, social, and psychological milieu of the period.



## **Relationship between Evaluations, Business Conflicts and Hostile Takeovers**

The dissertation examines one of the great problems in the world of business, the issue of proper evaluations of potential threats. In a world of ever-possible conflict, businesses must constantly evaluate their own organization's strengths and weaknesses, and those of potential opponents. These evaluation needs are not new. The need to evaluate properly has been a part of the world of business ever since the very beginnings of business. While the need to evaluate has not changed, many of our tools-at-hand have. Sixteenth century Portuguese entrepreneurs may not have had modern statistical tools, but they found other, and no less valid ways to evaluate their situation and make business decisions. In this study we examine the business dealings of one particular Portuguese businesswoman, Beatrice de Luna, known in the literature as Doña Gracia Nasi. Doña Gracia did not have the statistical or computerized tools of the twenty-first century; as such she had to use other less "sophisticated forms of evaluations". Yet despite the lack of statistical sophistication, she often correctly evaluated her business context and made decisions that permitted the House of Mendes to prosper and grow.

The dissertation compares and contrasts these formats. Furthermore, as per this dissertation's theory section, the dissertation demonstrates that business conflict has been a ubiquitous constant throughout time. The dissertation seeks to understand such phenomena as hostile takeovers as a form of business conflict and to use the prism of history as a means of understanding the financial world of today. The dissertation clearly demonstrates that hostile takeovers are often clandestinely fought in the realm of

ideology and that he who controls an ideology is in a prime position to win a business battle. By examining the business life of Doña Gracia we are also able to begin to answer such questions as:

- Are business conflicts, such as hostile takeovers, always made from the perspective of rationality?
- What is the role of emotions and sentimentality in business?
- At what point do decision makers simply choose not to see “facts”?

Traditionally, academics have studied business takeovers from a quantitative perspective. For example, academics have looked at such theories as that of the “inefficient management” which studied the organization’s operating budget and capital, “the firm under evaluation” theory that studied market-to-ratio, the theory of “free cash flow” that studied the operating cash flow versus total assets, or the theories based on firm size that look a log of a business’ total assets. Each of these theories adds to our understanding of the business takeover process, and yet none of these theories goes beyond the micro-mezzo level of analysis. The norm has been to take a quantitative approach to understanding hostile takeovers and then adding some descriptive literature as a means to add profundity or background to the study.

Reviewing the business literature it also becomes apparent that modern scholars often study these hostile actions from the perspective of the aggressor or from the perspective of the attacked. These studies provide us with a good sense of the mathematics; however, they may also fail to show us such “soft-data” as motivation, commitment to a specific ideology or organizational loyalty. While it is true that each of these soft variables can be measured statistically, there is often a subtext that is never revealed in

the quantitative arena. In order to reach this deeper level, this dissertation utilizes many of the methodologies of literary analysis. In other words, this dissertation views the issue of the hostile takeover not only from the perspective of business, but as an historical treatise that provides the researcher with a host of sociological, psychological and philosophical insights.

To accomplish these goals, the dissertation confronts the research issue from a number of unique approaches and examines in its theory section the pros and cons of a number of analytical methods. For example, the author recognizes that quantitative research must assume full objectivity. Court records from around the world indicate that this assumption, however, does not always ring true in the real world. The records indicate that while they quantitative studies produce high levels of statistical reliability (the variable measured was successfully measured for what it was intended to measure) often there are low levels of validity (were the phenomena measured the correct ones). The many contradictory findings or data selected in this form or research forces the scholar to ask if there can ever be absolute validity. Thus, while the quantitative methods applied may be highly reliable, the methodological question of validity is still left open.

The qualitative researcher, as distinct from the quantitative researcher, recognizes that there is no full objectivity. That is to say, that qualitative research recognizes the problems of validity within statistical research and seeks to compensate for these potential research problems by adding multiple non-statistical methodologies. It should be emphasized that this dissertation does not question the value of quantitative research but rather adds to our knowledgebase by adding an additional element into the researcher's pallet.

Contrary to many of the classical takeover studies in the field of finance, this dissertation has created a theoretical biographical case study, not as a unique event, but rather to form a meta-analysis to better our understanding of business in general and of business hostilities in general. The author has designed his meta-a posteriori approach in a way that will allow the data also to be analyzed in a predictive manner and thus demonstrate both academic and applied value.

In order to accomplish this goal, the author has chosen to study the business life of one of Portugal's leading businesswomen. By examining the life of Beatrice de Luna (Doña Gracia) from a distance of half a millennium, the author is able to view her life with greater objectivity and to determine not only her evaluation methods, but also the role of historical context within the business decision-making model. Also as many of the records have now been lost, historical analysis permits us to develop a theoretical design that can become applicable to modern scholarship. This dissertation then adds to our understanding of how business works and how conflict within business is ubiquitous.

The author has developed a socio-financial-political model that seeks to explain the lacunae in the quantitative analyses as performed in this case. Furthermore, borrowing from the world of literary analysis, the author uses a number of hermeneutic devices to analyze not only what the parties expressed but also what may be the "text behind the text."

## **Dissertation's Historical Context**

The Sixteenth century may be considered Portugal's golden era with regards to finance. Located between the world's two great "seas", Portugal used innovative approaches to the world of finance. For example, Diffie et al write: "The state capitalism of the Portuguese was one of the most unusual experiments of early modern Europe. Western governments had licensed and regulated trade, and it was by no means unknown for them to make a discreet commercial investment or two, or toward the seventeenth century, to dabble in the monopoly of salt or of tobacco. But never before or since has one of them become the entrepreneur of an entire imperial undertaking and thrown its whole resources into the creation of profits from a trading monopoly on its overseas discoveries" (Diffie et al, p. 312).

Doña Gracia then operated in what was called the Empire Period. She also had to survive during the initial and perhaps most aggressive periods of the Portuguese Inquisition. The Portuguese "discoveries" not only served to affirm Portugal as a separate political entity but also greatly increased the power of the crown to control and centralize the national economy. Luciano Amaral has written that as predicted in this study's theory section: "It has already been mentioned that much of the political history of Portugal from the Middle Ages to the nineteenth century revolves around the tension between the centripetal power of the crown and the centrifugal powers of the aristocracy, the Church and the local communities. Precisely, the imperial episode constituted a major step in the centralization of the crown's power." (<http://eh.net/encyclopedia/article/amaral.portugal>, August 12, 2010).

Doña Gracia then began her career during a time of Portuguese economic greatness, ideological uncertainty, and as a member of a despised people. Was she successful due to the zeitgeist or because she understood the temper of the times is an open question that is still to be answered. What is true is that the Mendes family was in the right place when it came to economic opportunity, thus Amaral states: “A much visible effect of this phenomenon was the fantastic growth and size of the country’s capital, Lisbon. In the sixteenth century, Lisbon was the fifth largest city in Europe, and from the sixteenth century to the nineteenth century it was always in the top ten, a remarkable feat for a country with such a small population as Portugal. And it was also the symptom of a much-inflated bureaucracy, living on the gains of empire, as well as of the low degree of repercussion of those gains of empire through the whole of the economy.” (Ibid) *Economic History of Portugal*, (<http://eh.net/encyclopedia/article/amaral.portugal>, August 12, 2010).

## **Doña Gracia and the House of Mendes**

The following is a brief summary of her business life.

Doña Gracia Nasi, also known by her Portuguese name of Beatrice de Luna, was born into a crypto-Jewish family sometime in 1510 in Lisbon, Portugal. The early 16<sup>th</sup> century was a time of great economic expansion in Portugal as well as a period of political, economic, and ideological turmoil. From all indications, Beatrice de Luna (Doña Gracia) came from an upper class crypto-Jewish entrepreneurial Lisbon family. She married well (1528). The marriage would be a short one in that with the death of

her husband Francisco, she became a widow in 1538. At the time of her husband's death, she had one daughter, Brianda (known by her family as Reyna).

After becoming a widow she chose not to hand her business interests over to her husband's brothers, but rather in a period in which few women entered the world of business and finance, become a major businesswoman of the times. Her husband's death (along with multiple political factors in Portugal) may have been one of the reasons that she moved (or fled) to Antwerp where her brother-in-law, Diogo, had already established a branch office of their bank, the House of Mendes. In 1542, Doña Gracia's brother-in-law died, and she assumed control of the Mendes commercial empire.

Doña Gracia was not only a highly successful businesswoman. Her enormous wealth put her into a position to influence kings and popes. She also used her wealth to confront major powers in the protection of her people. For example, under Dona Gracia, the House of Mendes dealt with Henry II of France, Henry VIII of England, Charles V of Spain and the Holy Roman Empire, Maria of Austria, Regent of the Low Countries, Popes Paul III and Paul IV, and Suleiman the Magnificent, Sultan of the Ottoman Empire. These dealings involved commercial activities, loans, and bribes. Payments to the Pope delayed the establishment of the Inquisition in Portugal see History of the Jews in Portugal ([http://www.blurbwire.com/topics/History\\_of\\_the\\_Jews\\_in\\_Portugal](http://www.blurbwire.com/topics/History_of_the_Jews_in_Portugal) August 18, 2010).

During the course of her lifetime (1510-1569), Doña Gracia would confront Queen Marie, Regent of the Low Countries and sister of the Holy Roman Empire's Charles V, develop business dealings in Antwerp and Istanbul, survive both political and business

attacks against her by her own sister, and throughout the process manage not only to survive but also to prosper. Despite her business acumen, Doña Gracia as a businesswoman has received very little attention. Andrée Aelion Brooks notes that despite these many accomplishments: "...Doña Gracia (after her death) would swiftly vanish into cluttered attic of history" (Brooks, p. xx). The reasons for this historical demise may range from the fact that she ended her life in Turkey and therefore was outside of the European social milieu to the fact that Christian Europe preferred to ignore a successful woman who returned to her Jewish faith.

What makes Doña Gracia so important to the world of finance is that she not only was able to develop international businesses in a time of poor communications, coupled with intolerance. Thus, Andrée Aelion Brooks notes: "She would constantly mix profitable business dealings with her community work on behalf of the refugees she had taken under her wing, trading bribes and favors with the elite of the day. Even a journey alone through the Adriatic port of Ragusa (modern day Dubrovnik) on her way to the Ottoman capital of Constantinople became a moment to pause and extract a preferential trading agreement from the local authorities" (<http://www.sefarad.org/publication/lm/049/html/page46.html>, August 12, 2010).

Despite or because of these challenges, the modern reader learns from her life how she dealt with ideological issues (the basis for marketing theory) and how she survived internal takeover attacks. Her story is both tragic and inspirational and serves the student of modern finance and business with insights into the history of their academic field and the realization the world of finance is composed of more than mere figures, but also very much reflects the real world in which we live. The following chart provides an overview of Doña Gracia's business dealings starting in Lisbon and ending in Istanbul,



Turkey. The table provides a quick overview of her vast range of businesses, the family conflicts that plagued her businesses and the ever-present role of government in business regulations.

**Table 1:** Doña Gracia Business Tables

Type of Business	Years in Operation	Place(s) of operation	Business Conflicts	Stated reason for conflict
Merchant Banker and International trade/bills of exchange	1504-1521	Lisbon and Europe	Conflicts with João III	Crowns need for money
	Until 1537	Lisbon	Fear of losing money	Issue of Husband's will
Banking Spice trade, import and export markets	1537-1545	Antwerp	Self-exile from Lisbon	Relations with brother-in-law and English monarchs
	1543	Antwerp	Taking control of Diogo's assets and making her one of the richest woman in Europe	Right of family control, hostile takeover of assets
	1546-1552	Italy	Recuperation of loans.	Attempted hostile takeover by sister
Export and customs duties	1553-1569	Turkey	Relationships with the Sultan	Family issues leading to business battles

## Dissertation's Theoretical basis

Using a biographical approach presents the researcher with a myriad of academic challenges. For example, the researcher must always be aware of personal bias while at the same time using such Weberian techniques a *Verstehen*. As Alpern *et al* have noted: “this emphasis on attachment and re-visioning suggests that writing a woman's life requires an active, not a neutral voice from the biographer” (Alpern *et al*, p.11). This dissertation not only recognizes this challenge, but it also goes beyond the challenge by moving from the microanalysis of biography to the general analysis of theory.

After studying the classical takeover literature, the author noted that there was a dearth of literature examining the business and hostile takeovers in particular as an act of war. Furthermore, the numerous anomalies within the qualitative approach to takeover analysis forced the author to realize that new approaches to the study of this major business phenomenon were needed. For these reasons the dissertation's author chose to base his theoretical perspective on Kam's work and to use this work as the starting point in his development of new insights into hostile takeover theory.

The dissertation begins from the assumptive point that there are similarities between interstate hostilities and inter-business hostilities. That is to say, this dissertation assumes that both a nation and a business are open to a surprise attack and that an analysis of the military literature will provide business scholars and executives with new insights into their own business' vulnerabilities. The author assumes that by studying how complex organizations, such as the military, allow themselves to be open to a surprise attack, business scholars will also learn much about their discipline and why businesses fail to predict a surprise attack in the form of a hostile (or internal) takeover.

This study introduces a global biographical qualitative approach to the analysis of surprise attacks and business takeovers. The dissertation cuts across academic lines by integrating ideas from such disciplines as history, philosophy, psychology, and sociology. By seeking a holistic approach rather than a more focused and narrow approach to the study of business hostilities and hostile takeovers the dissertation offers new explanations as to why these phenomena occur and why business professionals are often not prepared for these attacks. To accomplish this unique holistic approach to takeover analysis the dissertation's author has woven into his analysis such major

classical European and American thinkers as Martin Buber, D. Emile Durkheim, Max Weber, and Karl Mark.

Traditionally, these authors are not connected with the idea of business hostilities in the form of a surprise attacks. If we carefully observe the world of business, however, we realize that the science of business is not a purely mathematical phenomenon. The student of the art of business soon realizes that its practice involves the full range of human emotions, from greed to caring, from feelings of betrayal to the need for loyalty. The researcher then must go beyond the numbers and also enter into the social – psychology of the people involved within the business relationship(s) and who compose this relationship. Thus, among the many questions then that must be addressed in order to understand business hostilities such as a surprise hostile takeover, this dissertation uses biographical data to force us to ponder and to confront questions such as:

1. How do personal relationships impact the hostile takeover?
2. At what point do organizations collapse?
3. Is business hostility (in the form of competition) ubiquitous?
4. What are the social dynamics within the takeover process?
5. How do business executives misinterpret the data?
6. How do these executives decide which data are valuable and which are not?

## **Relevancy of Dissertation**

This dissertation's topic is relevant for a number of reasons. Among these reasons are:

1. We live in a world of economic problems in which takeovers are bound to occur with greater frequency. The current economic crisis throughout the Western world means that the probability of a financial surprise attack in the form of a takeover occurring is ever greater.
2. A review of the literature indicates that almost no qualitative studies have been conducted concerning the takeover problem.
3. No qualitative mezzo-theory has been developed to explain the socio-political reasons that takeovers occur both from the perspective of the attacker and also from that of the defender.
4. This work is the first of its kind to explore the interdisciplinary relationships between academic military science and that of the world of finance.
5. This dissertation combines not only the numerous academic disciplines that permit the world of finance to be viewed from a much wider perspective than is the norm.

## **The need to understand business evaluations and misevaluations**

Throughout this dissertation runs the subtext that successful businesses must have both a quantitative and qualitative evaluation process. The biography of Doña Gracia reveals the relationship between good evaluations and success. As such the dissertation provides insights into when evaluations fail or succeed. By using a historical setting, the author enjoys the luxury of temporal distance analysis. This separation by time provides us with a useful taxonomy not only in our analysis of Doña Gracia's evaluation techniques and where her business sense may have been overridden by personal emotions, but also a road map into the modern world of finance.

### **Ephraim Kam**

Ephraim Kam is an Israeli scholar and military theoretician. Living in a small country surrounded by enemies, Kam sought to understand why despite vast quantities of money spent on military intelligence by nations around the world surprise attacks occur against both strong and weak nations. Kam examined eleven successful surprise attacks and developed a theory to explain why military failures occur and why the surprise attack is such a deadly weapon. Kam clearly states that it is not his goal to prevent all surprise attacks but rather to understand them and how they occur. To a great extent Kam's military analyses also provide insights into the business challenges faced by Doña Gracia. Being often "out-gunned" by stronger powers, Doña Gracia had to be ever-aware of the world in which she operated and the forces that could combine to hurt her at any time. The historical record reveals that she enjoyed precious little room for a margin of error.

This dissertation begins with a simple research question: Is the work of Ephraim Kam relevant to the world of finance and are there similarities between competition in business and hostilities between nations? In order to better understand the basis upon which this dissertation is written it is essential to understand the work of Ephraim Kam. Kam is a member of the faculty of Israel's national defense institute and senior analysis with the Israeli Ministry of Defense. Kam notes that from the historical perspective the surprise attack has been a constant part of military history. Yet, while the surprise attack has been a constant throughout military history, history has not been a good teacher to military analysis. Just as in the work of Nassim Taleb, Kam argues that "the surprising thing about a surprise attack is that in retrospect one can never quite understand how it happened... In fact, in almost all the cases of surprise attack...the victim possessed subtle evidence that war was imminent" (Kam, p. 2).

The dissertation's author then asks the question if history has proven to be a poor teacher of surprise attacks then is the same true of hostile takeovers. One possible reason why a priori analyses have not worked is that historical data have failed to be understood from a psychological perspective. That is in fact the perspective from which Scott Helfstein writes. Helfstein assumes certain psychological factors inhibit the researcher so that s/he misses key analytical elements, and therefore fails to connect the proverbial dots. This dissertation does not ignore the psychological, but rather it incorporates it into its overall framework. That is to say that the dissertation's goal is the integration of numerous disciplines into first understanding the surprise attack, then in understanding how this military tactic is relevant to the business world and finally how this knowledge helps us understand a posteriori the business wars and hostilities that dominated the professional life of Doña Gracia. In chapter 7 of this dissertation the

author provides the reader with a general set of principles that provide a-temporal insights into the world of finance. The dissertation then follows the following pattern:



**Figure 1:** Dissertation pattern.

Following the basic hermeneutical approach as outlined in the theory section, the dissertation's overall pattern is that it flows from the general to the specific and then back again to the general. The dissertation seeks to unite the world of finance with the world of military science and seeks to understand if and what businesses can learn from the art of war. Throughout this dissertation runs the subtext that competition is nothing more than war with rules, and those human beings both as individuals and as groups seek to dominate others for reasons of power and economic gain.

### **The Dissertation's Biographical Theoretical Case Study**

As noted, this dissertation uses the biography of one of Portugal's leading businesswomen as a theoretical case study. The author chose this case study method due to the method's high degree of flexibility and the fact that it allows the researcher to retain the holistic characteristics of real-life events while investigating empirical events. By using a case study the author was able to study a real situation that had real life

consequences. This method allows allow for data boundaries and as such mimics real life.

The author also chose this historical case as his case study due to the fact that it represents many of the principles that link a military surprise attack to that of a hostile takeover attack. The author's goal then is to add to the profundity of our knowledge of business by examining the historical record.

One of the unique characteristics of this dissertation is that it relies heavily on a wide variety of academic disciplines. Throughout the study, the reader will find citations from the world of philosophy, literature and literary analysis. This interdisciplinary approach opens up new visions in both a priori analysis concerning who might be ripe for a hostile takeover and a posteriori analysis of the takeover proceedings. The assumption behind this cross disciplinary analysis comes from the idea that people work not only from the perspective of what they perceive is best for their business interests but also from non-rational models in which other parts of the human psyche impact business decisions. That is to say that people may not necessarily make rational choices based solely on stochastic probability models. By applying a host of non-mathematical methods the researcher is able to develop new insights that might not be revealed by a purely quantitative approach. For example, Martin Buber reminds us of the role of interpersonal relationships in the decision making process. Talcott Parsons's work teaches us that any change in the social system may impact every other part of the system. Emile Durkheim distinguishes between mathematical facts and social facts, and Karl Marx adds a political dimension to this work. The goal then of this dissertation is to go beyond the classical quantitative approach, not for the purposes of replacing such an approach but rather to add another instrument to the researcher's toolbox.



## **Dissertation's format**

This dissertation follows the following format:

Chapter 1: Introduction of the topic. This chapter presents the dissertation's *raison d'être*, its objectives, and its challenges. This chapter sets the stage for the other chapters and permits the reader to have an overview of the entire dissertation.

Chapter 2: A Review of the literature. This chapter provides the reader with a summary of the pertinent articles and works necessary for an understanding of this dissertation. These articles and literary works come from a variety of academic military science articles, from academic articles dealing with finance, social science and literary criticism.

Chapter 3: The theory chapter. This chapter not only explains the classical theories pertinent to this dissertation plus offers the development of a new specific theoretical perspective to be used in the case study. The chapter deals with a wide range of psychological and sociological theories, from relationship theory to symbolic interaction, from classical Marxist theory to classical capitalist economic theory. The dissertation's author then develops a meta-mezzo theory to add to our understanding of hostile and internal hostile takeovers.

Chapter 4: The methodology chapter. This chapter provides the reader with a full analysis of this dissertation's methodology along with the hermeneutic tools necessary to interpret the case study from a qualitative perspective. The chapter addresses many of the methodological issues found within the study of business takeovers along with the advantages and disadvantages of case study

research, quantitative and qualitative literature. The chapter presents the reader with the dissertation's hypotheses and with a number of psychographic models.

Chapter 5: The historical and bibliographic background. In this chapter the reader learns about the stage setting and historical background concerning the business life and times of Doña Gracia. It examines who were the major players in these battles and what the historical record can teach us about the theory of business conflict in general and business takeovers in particular. This chapter also provides the historic context needed in order to do the case study analysis. As such this chapter seeks to understand not only her personal context but also the ideological (religious) milieu in which she was forced to live.

Chapter 6: The Analysis of historical record. This chapter offers a qualitative interpretation and analysis of the business dealings of Doña Gracia. The chapter looks at this case study from a variety of perspective including that of social theory, psychology, philosophy and literary analysis. It is in this chapter that the hypotheses presented in chapter 4 are addressed.

Chapter 7: Conclusions. This chapter offers the reader a series of conclusions as found in the dissertation's hypotheses and the potential for takeover prediction. The chapter notes not only the positive findings within the research but also the negative findings and works under the assumption that a negative finding is also a conclusion. Lessons learned. This chapter provides us with a listing of the important lessons learned from this case study and how these lessons are applicable to understanding other takeovers. Future Research. As in any good piece of research, this dissertation also produces new questions and the need

for new hypotheses. Finally this chapter lists some of the future research questions that were generated by this dissertation and the reasons that these questions are important.

# **Review of Literature**

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**An academic contribution toward qualitative evaluations of surprise business  
takeover attack: an historical perspective**

## **Review of Literature**

Because this dissertation melds together concepts from the world of biography, history, historical reconstruction, social theory, military science, finance, and business, the author has divided this chapter in several sub-sections.

Within each sub-section there is a vast literature that is pertinent to the issue of business hostilities, hostile takeovers, and an understanding on the complexity of evaluations methods. This chapter concentrates on the literature that either forms or adds to this dissertation.

This chapter does not review these varied literatures, but rather provides an *résumé* of those articles that add to the dissertation's academic basis. The author understands that there is a paucity of literature dealing with the issue of Internal Hostile Takeovers, women in XVI century business, and medieval Portuguese businesswomen in particular. Ironically, what does exist has been written in languages other than Portuguese.

Furthermore, what makes this dissertation unique is that the literature is of a quantitative nature with multiple lacunae within that qualitative literature. This dichotomy means that the author had to combine the quantitative oriented articles dealing with business battles and hostile takeovers in particular with those of a qualitative nature. Margret Egan capsulizes the difficulty in relating qualitative and quantitative academic research when she writes: "The distinction between "quantitative" and "qualitative" is always a dubious one. A change, or a difference, which at first appears to be qualitative frequently turns out under closer analysis to be merely a change in the quantitative proportions of ingredients or a different configuration of familiar elements, while on the other hand a

marked quantitative change may bring in its train consequences which have a decidedly qualitative character. It might be said, for instance, that the invention of printing brought only a quantitative change, for the reproduction of books and records was an old familiar practice although the number of copies was limited by older techniques. Yet who would deny that this chaise in quantity of copies did bring about, or at least facilitate, remarkable changes in what might be called the "quality" of life, both for the individual and for society? (Egan, p.147).

Although there is also a considerable literature that deals with the issue of surprise attack, there is almost nothing that connects the idea of a surprise attack to that of a business takeover. As thus, the author has divided this literature review into four subsections, these are:

- An analysis of the pertinent academic military science literature.
- An analysis of the pertinent academic finance literature.
- The historical literature dealing with qualitative analysis.
- The historical literature dealing with medieval (16<sup>th</sup> century) European businesswomen.
- The historical data dealing with Doña Gracia and her family.
- Other relevant literature to this dissertation.

It should be stressed that the military science literature and the biographical literature were viewed from the perspective of the discipline of Finance. The author has excluded anything that dealt with purely military science, women's history or pure biography. Instead he sought only information that was relevant to this dissertation. Where the author found no information or relevant articles, this point was also noted. Lastly data searches were conducted to include both the linking words "and" and "or".

This literature review comes from the following sources:

- A full search of relevant databases: The principle database searched was “Business Source Complete”. It should be emphasized that the computerized database search insisted on key words being no further than at a five-word distance one from the other.
- A search of the pertinent articles from key bibliographies.
- A search of academic military science and finance articles found within the Business Library of Texas A&M University.

It should be noted that the author differentiates the terms “hostile takeover” and “internal hostile takeover”. Each term’s specific definition can be found in the methodology section.

## **Historical Reconstruction and Memory**

Whether the researcher is studying a current issue or one from the past, s/he must face the issue of collective and individual memory. As Durkheim has noted, social facts are determined by what we choose these facts to be. As such we must distinguish between historical reconstruction, social history (what a people chooses to remember) and social memory, where the distribution of power on the local level are legitimized. Judith Naomi Freidenberg has noted: “Understanding the process of social and political constructions at the local level enhances the understanding of both the past and present...” (Freidenberg, p.3). This dissertation employs historical reconstruction so as better to understand the memory of business battles, the who won and who lost, the social context in which they battles took place and their relationship to military theory.

## **The Historical Literature**

Although this study does not pertain to the Inquisition, there is simply no way that any honest study of business relations and battles in sixteenth century Portugal can avoid the one of the nation's major institutions. As such the Inquisitional literature must be mentioned. Portugal, as differentiated from Spain, has not done a good job of examining its Inquisitional past. In fact, despite the Inquisition's major role in the setting of business policy, the Portuguese Inquisition has mainly been ignored. This paucity of sources does not make the study of the XVI century Portuguese Inquisition simple. The existing sources are poorly organized. Many secondary sources lack indexes and may have incorrect pagination. Linguistic problems are also ubiquitous. Most Jewish scholars do not read Portuguese and few Portuguese scholars have a working knowledge of Hebrew. Not only is there then a major linguistic barrier but there is also the reality that all history is written from a particular perspective. When dealing with Portuguese Jews then we must be ever mindful that the Inquisition hangs over all post Inquisition writers. Often then Portuguese historians write this history from the perspective of apologists, and on the other hand, Jewish writers have tended to write this history from the perspective of victimization or from the perspective of depreciating current Portuguese historians. Neither perspective is fair yet both must be taken into account.

A sample of Portuguese history textbooks will prove this point. Nevertheless, there is no way that we can begin to understand Sixteenth century Portuguese business without examining the Inquisition's ever-present influence. In a like manner, the role of Portugal's Jewish community is essential in understanding the nation's economic policy. For example, in her doctoral dissertation entitled: "As Redes Mercantis no final



do Século XVI e a figura do Mercador João Nunes Correia” Sílvia Carvalho Ricardo writes: “Os inquisidores lusos sabiam que havia muitos cripto-judeus entre os grupos mercantis e frequentemente eram considerados pessoa de grande fortuna. A Inquisição não perseguiu mercadores mais vulneráveis, mas os mais importantes, os de grande fortuna. O Objetivo do Santo Ofício era sufocar todo o trato realizado por eles, aniquilando a influência criptojudia e seu poderio económico. A limpeza de sangue visava extirpar os judeus da sociedade e sufocar o trato como forma de enfraquecê-los, tirando-os da cena” (p. 113) (English translation: The Portuguese Inquisitors knew that there were many crypto-Jews within the merchant class and they were often considered people of great wealth. The Inquisition did not go after the weak, but rather the most important, those who had great wealth. The goal of the Portuguese Holy Office was to wipe out everything that had accomplished, annihilating their influence and economic power. The goal of concept of “clean blood” was to eradicate Jews from society and to stop any dealings with them as a way to weaken them and to remove them from the stage of history)

As David Augusto Canelo writes: “Once the Inquisition was introduced into Portugal it became an institution of extensive powers that reached all sectors, from the religious and cultural through the political, economic, and social” (Canelo, p.27).

Stanley Payne (1973) emphasizes this point when he writes about the Portuguese Inquisition and its relationship to those people called “Novos Cristãos”. Pain notes” Some three decades passed before the crown developed the determination to press the issue of minority heterodoxy (mid 16<sup>th</sup> century). The reasons for the founding of the Inquisition in Portugal are less clear and apparently even more complicated than in the case of Castile. At least four factors were involved. 1) There was a climate of religious compulsion, paranoia, and ethnocentrism brought on by the struggles of the Protestant

Reformation and the example of Castile, as well as by the expanded warfare with renascent Muslim forces in Morocco and elsewhere. 2) The nominal cristão-novo minority was large, proportionately larger than in Castile. Many accepted Catholicism sincerely, but others remained Jews. 3) The cristãos-novos comprised the bulk of the Portuguese middle classes and remained the principal financiers, entrepreneurs, and craftsmen in the kingdom. They were virtually the only social and economic competition to the dominant elite, the military landed aristocracy, whose pre-eminence was otherwise uncontested. Hence it has been argued that the Portuguese Inquisition, more directly than that of Castile, was founded to eliminate the wealth and socioeconomic influence of the only non-aristocratic elite in the kingdom. 4) The Portuguese Inquisition was meant to give the crown greater control over the hierarchy and clergy of the church, establishing a degree of supervision over the church seigneuries and providing an instrument to attempt the reform of the clergy, some of whom in Portugal remained dissolute and corrupt (Payne, <http://libro.uca.edu/payne1/payne12.htm>, August 13, 2010).

Meyer Kayserling in his now classic study entitled *Geschichte Der Juden in Portugal* notes the tremendous influence of the fear of persecution on the Portuguese Conquistadores, many of whom sought success abroad, due to fears of remaining in their homeland, (Kayserling, pp-134-142). Kayserling hypothesizes that were Portugal to have been a more tolerant land, these conquests and the economic benefits that Portugal reaped from them may never have occurred.

Henry Charles Lea, in his *History of the Inquisition of the Middle Ages* notes: “As no man could be certain of the orthodoxy of another, it will be evident how much distrust must have been thrown upon every bargain and every sale in the commonest transactions of life. The blighting influence of this upon the development of commerce

and industry can readily be perceived, coming as it did at a time when the commercial and industrial movement of Europe was beginning to usher in the dawn of modern culture” (Lea, Vol. 1 p.524).

Further background can be found in such sources as Antonio Baião’s *Episódios Dramáticos da Inquisição Portuguesa*. Although Baião does not directly address the business ambiance of sixteenth century Portugal, his work in the poetry and drama of the period provides the stage setting for the fears that entrepreneurs had regarding their personal safety and the precautions that they needed to take. The same sense of fearing what one’s business opponents would do, and the need to trust no one becomes clear in work, *Shalshet Ha’Kabbalah* by Gedalya Yachya (Venice, 1587). Yachya’s comments on the fears generated among those in the business community have the advantage that he wrote them outside of Portugal. Other original sources include *The Shevet Yehuda* (written in Hebrew) by the Portuguese Jewish historian Solomon Ibn Verga. Verga is best known for his accounts concerning the Lisbon Massacres of 1506 which while not directly impacting the life of Doña Gracia set the stage for Portugal’s policy on members of the new guard, such as Doña Gracia, who were from a Jewish background.

## **Historical Sources and Doña Gracia**

Only recently have historians rediscovered the life of Beatrice de Luna (Doña Gracia Nasi). The author has contextualized her life, through two major biographical works, Andrée Aelion’ Brooks work: *The Woman who Defied Kings* and Cecile Roth’s work on Doña Gracia of The House of Nasi, *A Jewish Renaissance Woman*. The author has also examined a number of documents from the Rare Reading Room of the New York Public Library.

While this is a finance dissertation, a great deal of biography has been used. Because Doña Gracia was a woman working in a man's world, the dissertation's author has relied on both modern biographical data and also some data about Feminist Theory. As such, he has been sensitive to the ideas expressed in such works as Alpern *et al* (1992) *The Challenge of Feminist Biography*. Feminist literature provides a new and additional set of challenges in which to understand the business dealings of Doña Gracia. With an ever-increasing number of women in the work force, Doña Gracia's life also provides relevance to the role of the modern businesswoman.

Peter Lillback, Ph.D., President and Professor of Historical Theology; Westminster Theological Seminary notes the impact that the political situation would have had on business. In writing about the Inquisition's proclivity to seize entrepreneur's property (such as that belonging to Doña Gracia) he writes:

The confiscation of a condemned (by the Inquisitional authorities) man's property was the lesser of the penalties administered by the Inquisition. For confiscation of property was coupled with life in prison or execution. Nevertheless, the confiscation of the condemned's property was one of the stronger motives for the political as well as the spiritual powers to support the Inquisition... The practice of confiscation began in Roman law, and later princes discovered that it advanced their own wealth. The papacy too was able to secure a share of the profits from confiscated property. Given the vast profits that accrued from this practice there is little doubt that the quest for additional wealth often spurred princes to support the Inquisition.

But the confiscation of goods also had negative effects on commerce. Scholars have noted that there was a constant source of uncertainty in business transactions due to the Inquisition's practice of confiscation. For example, a contract could be nullified if it was discovered that it had been created with a heretic. Thus the suspicion of heresy made contracts uncertain of enforcement since a contract with a heretic was nullified. Inheritances too were uncertain, since posthumous heresy trials could cancel the force of a last will and testament. In some cases heresy disqualified the heretic's descendants from holding office. (<http://www.truthaboutangelsanddemons.com/illuminati-ambigrams/articles/the-inquisition-and-the-illuminati.html>, August 13, 2010).

Because many of the original documents dealing with the Inquisition's role in Portuguese business have either been lost or are still not accessible, much of the interrelationship between Portuguese economic policy and the Inquisition must be of a theoretical nature. For example, Martin Cohen (1992) poses the following set of questions:

1. Why were people converted after 1391 (in Spain) was the principle of "limpieza de sangre" only selectively applied to the nobility and on occasion even formally nullified through royal certification of Old Christian status, some of the most dramatic nullifications coming from King Manuel of Portugal in the wake of the conversions of Jews (in Portugal) to Christianity in 1497?

2. Why did the authorities not seriously prosecute the industry of false genealogies that further muddled the lines between Old Christians and New Christians?
3. Why instead of punishing the New Christians for engaging in religious practices that were hermitically induce, did the authorities not follow the often-preferred advice to expel all New Christians from their domains instead of favoring their retention and even at times prohibiting their emigration?

Cohen surmises that the reasons for these historical anomalies, many of which occurred in the life of Doña Gracia, is due to the fact that Inquisition's main purpose was the destruction of the Portuguese entrepreneurial class (Cohen, 1992).

### **The Military Science Literature:**

As noted above a full database search was conducted of relevant military science articles. The author sought information that would be helpful in the understanding of how to apply Kam's theories to the dissertation's main themes.

There is surprising little research comparing military surprise attacks and business takeovers. Databases were searched for the articles that looked at the relationships between military systems and business and no results were found. The author also searched for word combinations that contained: military intelligence and business or corporate or takeover. In order to avoid word confusion, these terms had to have no more than 5 degrees of separation. After a full data base literature search once again no articles were found with this combination. The author employed the same method for

the word combination “military intelligence” with 5 degrees (w5) of separation between these words and the words “business” or “corporate or takeover”. Once again these words had to be in proximity of no more than five degrees of separation.

When we eliminated the business literature and instead searched for such terms as military intelligence and surprise attack (w5 being the degrees of separation) the situation changed radically. When the author searched the database combination “military intelligence” with “failure” or “surprise attack” yielded 52 results. None of these articles, however, were found to be relevant for this dissertation.

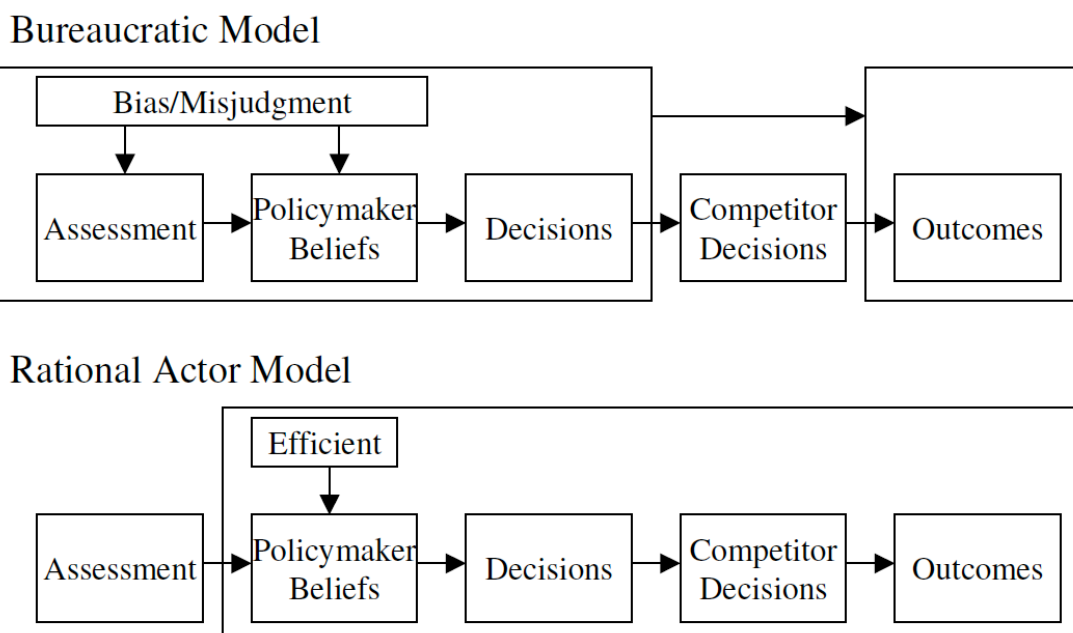
The word combination takeover with war, (using three degrees of separation) however, produced several results. For example Peter Hartz’s book *Corporations at War* provides the reader with a case study of the Bendix-Martin Marrietta takeover war. The study goes into depth as to illegal battles that were fought between these two companies. While the details of the takeover battle are irrelevant to this dissertation, the fact that Hartz saw these legal battles as a form of war is relevant.

Building on the work of Ephraim Kam is the doctoral dissertation of Scott Helfstein (University of Michigan, 2008). Helfstein entitled his work *Predispositions and Foreign Policy Surprises: Assessing the Impact of Rational and Biased Beliefs on Strategic Decision-Making*. Helfstein, building on the work of Kam, wrote from a psycho-organizational approach. His work is relevant to this dissertation because of his emphasis on misjudgements. Helfstein adds to Leite’s Q analysis and to Leite’s multi-layered approach to text analysis. Helfstein employs the internal mechanics of information usage and decision-processes, both of which are essential to understanding an Internal hostile takeover. Although he does not use classical sociological analysis, he does look at many of the issues of socio-psychological behavior that permeate within

Leite's theory chapter. Helfstein stresses different aspects of the decision-making process that can be seen in Leite's analysis of the Doña Gracia's business history.

Helfstein's incorporation of the possibility of misjudgement into a formal model of surprise attack is relevant in our understanding of internal hostile takeovers. His deductive analysis suggests that just as in military theory psychological biases may be over-used as an explanatory factor in retrospective studies of failure, and that over-suspicion can have a stabilizing impact on a hostile interaction, the same may also be true in business takeovers.

Helfstein looks at two models, one the rational theory and the other he calls the Bureaucratic model. Both reflect Q theory in that one emphasizes the psychological and the other the rational. The below model from page 5 of his work shows the differences between his bureaucratic and rational actor models.



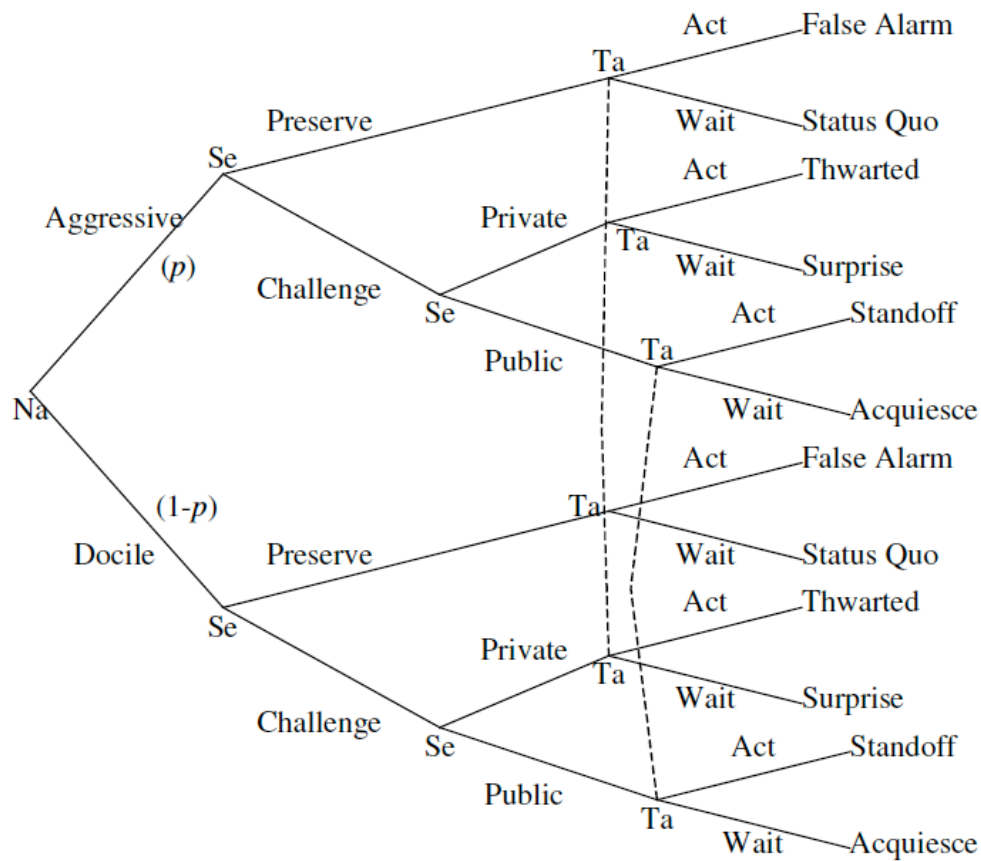
**Figure 2:** Differences between Helfstein's bureaucratic and rational actor models.



Helfstein focuses on process-models such as the bureaucratic which parallel the centrifugal forces noted in Q theory. His rational actor models focus on the competitive processes and often assume that assessment and learning is perfectly rational, if this were so, however there would not be surprise attacks. In this sense, the dissertation author's model works toward explaining both the emotional and the rational side of a surprise attack and its business parallel, the takeover.

The following time chart traces the process from the birth to the completion of a surprise attack. Underneath this model we have added the comparative elements of a business takeover as an example of the similarities between a military surprise attack and a business takeover. The chart below maps seven possible standoffs. These are:

- False alarm
- Status quo
- Attack thwarted
- Surprise attack
- Stand off
- Acquiescence



**Figure 3:** Map of similarities between a military surprise attack and a business takeover

These same seven outcomes are also typical of potential outcomes in a hostile takeover, be that takeover internal or from an outside source.

The work of Ephraim Kam is central this dissertation. Kam divides his work into three major parts, the components of a surprise attack, judgmental biases and intelligence analysis, and the analytical environment. This same analytical triangle also exists within the context of a business takeover. Thus, Kam's work functions as not only the theoretical basis for this dissertation but also as an organizing principle around which other literature can be studied. Kam based his study of surprise attacks on eleven major attacks since the start of World War II (Kam p. 3). Kam notes: "My basic assumption is

that anticipating the coming war is more complicated than any other problem of strategic estimation. It involves many interdependent analytical difficulties and judgmental biases, organizational obstacles, and political as well as military constraints” (p.2). With the exception of the military aspects Kam’s analysis parallels that of a surprise internal hostile takeovers. Kam notes that “one of the main conclusions of this study is that the failure of to prevent a surprise attack does not evolve overnight” (p.213). Thus, he concludes that the “study of instances of strategic surprise (attacks) since 1939 reveals a long chain of errors and difficulties accounting for the failure to predict the imminence of war. In each case an accumulation of many complex problems was involved” (p.213). Kam’s statements become the overriding hypothesis of this dissertation. Do internal hostile takeover come about due to a long chain of errors? Do internal hostile takeover occur because of a series of errors that no one saw coming at the time due to the complexity demanded by the analysis?

## **The Takeover literature**

In relationship to this dissertation the takeover literature is more extensive. Once again a major database search was undertaken and articles were selected that reflected the relationship between takeovers and surprise attacks. It should also be emphasized that often the takeover literature is of a more how-to-do nature than of a theoretical nature. Despite that fact, there is much to be garnered from this literature. For example, Jean Tirole in *The Theory of Corporate Finance (2002)* states the following issues about information and decision-making. Thus he speaks of “asymmetric information between insiders and outsiders at the financing stage. Investors are naturally concerned by the prospect of buying into a firm with poor prospects, that is, a “lemon.” Such adverse

selection in general makes it more difficult for insiders to raise funds. The chapter relates two standard themes from the contract-theoretic literature on adverse selection, market breakdown, and cross-subsidization of bad borrowers by good ones, to two equally familiar themes from corporate finance: the negative stock price reaction associated with equity offerings and the “pecking-order hypothesis,” according to which issuers have a preference ordering for funding their investments, from retained earnings to debt to hybrid securities and finally to equity” (Tirole, p.3).

In the work of Yakov Amihud, Marcel Kahan, and Rangarajan K. Sundaram, “The Foundations of Freezeout Laws in Takeovers,” the authors note the importance of equilibrium and state that: “We show that our freezeout rule induces a unique equilibrium in this model whose outcomes coincide in all respects with those resulting under the optimal dilution mechanism of Grossman and Hart. In particular, takeovers succeed when, and only when, they are value-enhancing; and the same ex ante firm value results as under the optimal dilution mechanism” (p. 2). This freezeout theory parallels much of the equilibrium theory found in the dissertation’s theory section.

Paul Povel and Rajdeep Singh in their article “Takeover Contests With Asymmetric Bidders” (2004, University of Minnesota) also emphasize the value of correct information in the preparation for a takeover. They state: “An important factor is that not all bidders are equally well informed. Management bids are the clearest example: in many cases the target’s management team (or a subset of senior managers) declares an interest in purchasing the target, and their privately known value estimate must be more reliable than any other potential buyers. Similarly, a competitor should find it much easier to evaluate a firm’s prospects than a bidder with no experience in the target’s line of business. Either way, a less well informed bidder must be particularly worried about the winner’s curse, i.e. overpaying after beating a much better informed rival in a

takeover contest, because of a grossly over-optimistic value estimate” (p.1).

Ronan Powell and Alfred Yawson’s article: *Are Corporate Restructuring Events Driven by Common Factors? Implications for Takeover Prediction* addresses the issue of lack of error prediction in binominal takeover models and failure to predict takeovers. The authors note that multinomial frameworks are better takeover predictors and as predicted by this dissertation’s theory section, neither model eliminates all errors. As such the article’s authors indirectly support the dissertation author’s assertion that errors come from misinterpretation of data, data confusion, or lack of proper data.

Photis Lysandrou and Denitsa Stoyanova’s article: “The Anachronism of the Voice-Exit Paradigm: institutional investors and corporate governance in the UK” note the difficulty of paradigm change within the financial world. They write: “The conceptual apparatus in question is the “voice-exit” paradigm. It is universally taken as axiomatic that institutional investors seeking to constrain corporate managers can only do so in one of two contrasting ways: They can either continue to hold their shares and actively participate in boardroom decision making, or they can sell their shares and hope that sufficient numbers of shareholders follow suit as can make real the threat of takeover and a change of management or of management strategy” (p.1007). What is important here is not the specific paradigm structure but rather the fact that they authors recognize the apparent and hidden paradigms within the system. This need to reflect both the hidden and the apparent parallels the work of Nilton Bonder (see section “other sources” below).

Nils Ringe speaks of a “dynamic relationship between structure, agent, and decision-making process, it ties the question of policy choice to the dimensionality of the normative and cognitive political space and the strategic actions of parliamentary

agenda setters. The model proposes that structural factors, such as ideology, shape policy preferences to the extent that legislative actors successfully link them to specific policy proposals through the strategic provision of focal points.” Ringe uses both qualitative and quantitative research methods to examine takeover bids within the European Union (Ringe, p. 731). While it should be stressed that Ringe is concerned with public policy rather than finance, he does recognize the need to develop both a quantitative and qualitative approach.

Chester Spatt adds an addition to our literature review when he introduces the issue of reputation in takeover analysis. He writes: “A potentially important approach that has not yet been explored in the takeover literature is the role of the reputation of the economic players. To what extent does concern about the future reputation affect the tactics and strategies of both management and raiders as well as the valuation of firms?” (Spatt. P. 115).

From the combined works of Ronan G. Powell “Takeover predictions models and portfolio strategies” (p. 33) and Sian Owen, Alfred Yawson “Post-IPO corporate life cycle and takeover” (pp. 6-9) we have adopted the following theoretical table regarding takeovers.

**Table 2:** Takeover theories and variables

Takeover theories	Variable
Inefficient management	Operating profit/capital employed
Firm under evaluation	Market-to-book ratio
Free Cash Flow	Operating cash flow/total assets
Firm size	Log of total assets
Real Property	Tangible fixed assets/total assets
Growth-Resource imbalance	Average change in total sales
• Growth	Cash and marketable securities/total assets
• Liquidity	Total debt/total share capital and reserves
• Leverage	

Powell's article is especially important in that it sets the stage for why Type II errors occur when there is a merely a mathematical formula used in takeover prediction. Powell writes: We propose that one explanation for the large type II errors reported in prior takeover prediction studies is that they consider takeovers in isolation of other events. In developing takeover prediction models, researchers usually estimate a binomial model constructed using an estimation sample comprising only of takeover targets and a control sample of firms not taken over. Furthermore, variables selected for inclusion in the estimated models typically represent theories relating to inefficient management, undervaluation, capital structure and growth-resource imbalances; factors that are also likely to be significant in explaining not only takeovers, but other restructuring choices (Powell, 1170).

The work of K.J. MARTIJN CREMERS, VINAY B. NAIR, and URS PEYER called "TAKEOVER DEFENSES AND COMPETITION" (2006 and 2007) notes the importance of ideology as part of the defensive posture of a corporation in case of a takeover attack. The authors write: "First, we find that firms in more competitive environments (as measured by the industry-median net profit margin and the Herfindahl index) have more takeover defenses. Second, the documented link between takeover defenses and competition exists only when we consider domestic competition. Since foreign competition is not likely to provide a takeover threat (Rossi and Volpin, 2004), we view this finding as further evidence of the importance of the takeover channel rather than of the agency framework of e.g., Hart (1983). Third, we document that the link between takeover defenses and industry concentration is stronger in relationship or durable goods industries. Finally, we find takeover defenses to be associated with poor profitability and lower valuation, but only for firms in concentrated industries" (p. 27).

Grossman and Hart in their 1981 article "The Allocational Role of Takeover Bids in

Situations of Asymmetric Information: Other Helpful Literature” look at the role of information within the takeover process. The authors emphasize that the information is not equally distributed and that as in the case of a military surprise attack, inside information (spies) allows one side an asymmetrical advantage over the other. Thus, the authors write: “This paper assumes that management acts in the shareholders' interest but does not necessarily have the best information about the status quo value of the firm or about the improvements in the firm which could be made by a change in production decisions” (p. 254). Thus, Grossman and Hart indirectly note the similarities between Kam’s work and that of the takeover as a form of business war.

Takeovers and surprise attacks foment crises. Crises are not easy to define. Businesses, like people, go through periods of crisis. For example a business may enter into a developmental crisis. These are the transitions between the stages of the business life cycle. They may be periods of growth or of great stress. Situational crises: or "accidental crises” come about when the business is attacked or the business plan must go through major modification Crises may also be complex. This means that several crises may occur at the same time, forcing the business management to fight a multi-front war for survival



**Figure 4:** Internal Hostile Takeover Process: From the Hostile Buyer’s Perspective

The above model shows the position of the aggressor. If we view the attacked company from the perspective of the defender then we have a completely different set of circumstances. The dissertation’s author has developed a multi-stage model for the



takeover's defenders based on the work of Jack Welch (<http://strategyinsight.net/2008/10/02/the-five-stages-of-crisis-management-according-to-jack-welch/>, July 20, 2010).

These crisis stages are:

*Denial:* The business being attacked simply does not believe that there is a potential for a hostile takeover. There is the sense that this event cannot be happening. During this stage there is a sense of doom and mounting tension.

*Lessening:* This is the stage when people believe that the problem exists but it is less than what it may appear to be.

*Disorganization:* Once the realization has come to fruition there is often a sense of panic and disorganization. People may try to irrationally solve the problem, or there is a sense of stereotyped responses such as "we are hitting our heads against a brick wall."

*Attempted at mobilization of resources:* If the business being attacked can regroup or reorganize then it may seek to pull together, find creative solutions and counter-attack.

*Adaption or maladaptation to the problem:* If the business is able to adapt to the new attack situation it may succeed in its fight for survival, if not it will maladapted to the situation and fail.

*Shaming:* If mobilization of resources fails then the realization that a takeover is about to happen now becomes clear and the company's leadership becomes self-defensive and assigns the blame to everyone else.

*Sacrifice:* Once it appears that the "takeover war" is now in progress one of the leaders is blamed and may be fired or demoted.

*Conclusion:* The takeover attempt is either successful or fails, and the problem is resolved one way or the other.

## Synthesis of the military and business takeover literature

The table below helps to explain many of the similarities between a military surprise attack and a business takeover.

**Table 3:** similarities between a military surprise attack and a business takeover

	<b>Military</b>	<b>Business</b>
Information gathering	Spies, media reports, theory	Media reports, theory
Assessment	Annalists	Business leadership
Current paradigm	May be politically motivated	Business model or politically motivated
Data analysis	May have too much or too little	May have too much or too little
Denial syndrome	Disbelief that the attack will occur	Disbelief that there will be a hostile takeover
Panic syndrome	Often during first stages of attack	Often when the realization has occurred that the takeover process has begun
Bias/Misjudgments	Denial, Doctrinal control	Denial, doctrinal control
Internal organizational conflicts	Fear of telling superiors, competition between departments	Fear of losing job, position or prestige, desire to lower other employees rank within the company
Policy development (decision)	Made from political, psychological, economic and/or military reasons	Made from political, psychological, economic and/or business reasons
Decisions made by opposition	Unknown	Unknown
Outcome	War	Takeover
Impact on leadership	Scapegoat sought	Scapegoat sought
Consequences of misevaluation	Change of government, loss of independence, death	Death of current business, change of leadership, loss of assets

It should be noted then that there are a great many similarities between these a military operation and a business takeover

Other sources:

This dissertation uses various literary and sociological methodologies to interpret the case study. Nilton Bonder's *Yiddishe Kop: Creative Problem Solving* provided the dissertation's author with a comprehensive methodology of examining the text. Bonder divides textual analysis into four key categories. These are: the apparent realm of what is apparent, the hidden realm of what is behind the apparent, the apparent realm of what is hidden, and the hidden realm of what is apparent (pp. ix-x). Bonder's central point is that creative problem solving such as that of a interpreting a potential surprise attack, be it in the military or the business realm requires: the accumulation of a critical "critical mass" of problems needed to trigger a conscious, existential process of questioning the notion of impossible...It is that unique capacity to turn the tables and checkmate your opponent..." (Bonder, p. 1).

As noted in the theory section this dissertation relies heavily on sociological theory in order to interpret its case study. A key element is the work of Thomas Kuhn. Kuhn's most famous book is the *Structure of Scientific Revolutions*. While the book is centered on the world of physics, it has a major impact on this dissertation in that it addresses the difficulty of any paradigm shift. Kuhn writes of paradigms: "the term 'paradigm' is used in two different senses. On the one hand it stands for the entire constellation of beliefs, values, techniques, and so on shared by the members of a given community. On the other, it denotes one sort of element in that constellation, the concrete puzzle-solution which, employed as models or examples, can replace explicit rules as a basis for the solution of the remaining puzzles of normal science." (Kuhn, p.174) Based

around the concept of accumulated anomalies Kuhn presents us with the academic the difficulty of changing the academic mind-set from one paradigm to another. In the case of this dissertation, the author suggests a paradigm shift especially in the latter sense of the word.

Paul Feyerabend's *Against Method* builds on Kuhn's ideas. Thus, Feyerabend writes: '...one can show the following: given any rule, however, 'fundamental' or 'necessary' for science, there are always circumstances when it is advisable not only to ignore the rule, but to adopt its opposite" (Feyerabend, p. 23). Thus, Feyerabend provides this dissertation with the necessary academic grounding to allow it to bend, ignore, or change existing paradigms. Paul Snyder also re-enforces this idea in his book called *Toward One Science*. Snyder, however, examines the issue of paradigm change through convergence of western academic models with classical Asian models. Thus writing a meta-method of method, Snyder states: There is no end in sight (to paradigm shifts), no matter how strongly we may feel at any given time that there are just "a few more details to work out." What this means for natural scientist today is essentially what it meant for the Franklin, Du Fay, Newton, Descartes, Aristotle, Pythagoras. It is the same for theoreticians in any field including the field which (sic) gave rise to the theory in this book. The best we can hope for, in the long run of history, is that we will prove to have been wrong in interesting ways" (Snyder: 201).

Nassim Nicholas Taleb's work including *The Black Swan* emphasizes *the idea of the impact of the highly improbable*. To a great extent his work supports both that of Kam and Kuhn in that a surprise attack may well be a form of hostile takeover or internal hostile takeover. From Taleb's perspective, surprise attacks sit in the realm of the statistical outlier. Taleb notes that: "...it is the outlier ...that lies outside of the realm of regular expectations, because nothing in the past can convincingly point to its

possibilities. Second, it carries an extreme impact. Third, in spite of its outlier status human nature makes us concoct explanations for its occurrence *after* the fact, making it explainable and predictable” (pp. xvii-xviii). He then goes on to state: “The inability to predict outliers implies the inability to predict the course of history” (p.xx). Taleb’s work supports Kam theory in that Kam asserts that a surprise attack is always the unexpected outlier. Were it not so, it would not have been a surprise attack!

Moving from the meta-theoretical to the applied, this work has been influenced by the work of Janet Saltzman Chafetz. Her book *A Primer on the Construction and Testing of Theories in Sociology* along with such classical works as Durkheim’s *The Rules of the Sociological Method* greatly influence this dissertation’s methodology. *Decision Making* by Mary Zey is an anthology of alternatives to the rational choice models about which Helfstein wrote. The key point in Zey’s work is that there is no one rational model on how decisions are made. Thus, the quantitative predictive model does not provide a full picture to a company’s decision makers and allows them to be vulnerable to surprise attack.

Peter Worsley’s work on Marx and Marxism provides additional insights into the development of the Marxian thought on the decision making process.

Raymond Aron’s two part series on *Main Currents in Sociological thought* provide great insight into the totality of Max Weber’s work on symbolic interaction and ideas and the meaning of events are determined by the symbolism that we assign to these events plays an important role in both the theoretical section as well as the interpretation of the business life of Doña Gracia. In a like manner Mielziner’s studies into the hermeneutic method permitted a scientific “explication de text” of the biographies of Doña Gracia and the House of Mendes.

The theory chapter also deals with a number of social-philosophical thinkers. For example, Martin Buber speaks to the necessity of understanding relationships. He forces us to ask the question if business takeovers are always about money or if there is a social component to the hostile takeover.

Biography:

It is never easy to assess the success or failure of another person, especially when that person is an historical figure and personal interviews are not possible. There is a literature available on the role of biography. Ken Trent for example has noted that in analyzing a biographic sketch we need to consider such things as:

- What kind of effect did he or she have on the world? Other people?
- What events shaped or changed this person's life?
- Did he or she overcome obstacles? Take risks? Get lucky?
- How is the world better (worse) for this person having lived?

(<http://hubpages.com/hub/how-to-write-a-biography1>, August 13, 2010).

## **Summary**

This chapter demonstrates several basic principles. The first of these is that there is a paucity of specific literature dealing with the qualitative relationship between a surprise attack as defined in the military science literature and business takeovers. Secondly, that there is a wide range of articles that indirectly support this dissertation's theoretical design. Thirdly the understanding of a takeover must go beyond mere mathematics or a desire to earn money. There are a host of other issues that are intertwined within the

takeover process or that of the surprise attack.

Placed together, the existent literature and the theoretical section provide the necessary tools for the analysis of Doña Gracia's business dealings.

# Theory

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**An academic contribution toward a qualitative evaluations of surprise business  
takeover attack: an historical perspective**



## **Theory**

In 1988 Ephraim Kam published his seminal work on military intelligence failures. Kam's work revolves around the question of why military intelligence fails. He sought to understand the reasons that a military organization does not connect the "proverbial dots" and thus why it fails to take the necessary action(s) to meet an attack.

In his book, *Surprise Attack*, Kam hypothesized that militaries suffer surprise attacks due to what he called informational breakdowns or what can be called "analytical evaluation failures." (Kam, Chapter 4) Kam also hypothesized that surprise military attacks are the result of bureaucratic analysis failure(s), caused by either internal or external organizational errors. (Kam Chapter 7) Kam's work examined military battle strategies. He noted that in the case of potential hostile action a misevaluation by one side produces a statistical probability that a surprise attack may occur and that there is an inverse correlation between an attack's success and the quality of the evaluation. (Kam, Chapter 5) That is to say that as an evaluation's precision decreases the potential for a successful military attack increases. Kam recognizes that an attack's success is not only based on a military intelligence failure by the other side. Multiple other factors must be taken into account, such as the relative strength of each opposing side, the ability to react quickly to an event evaluation failure, the quality of the personnel on both sides, and the ability to mobilize resources once the attack has occurred. As such, Kam does not seek to understand why one side will predominate, but rather what factors led to the surprise attack.

For example in 1942 the United States suffered a major surprise attack at Pearl Harbor. Despite the failure of the military to predict this attack and the losses that occurred due to the successful Japanese attack, the US' relative military strength was such that it was able to recover from the surprise attack and eventually defeat Japan. On the other hand, in 1967, Israel's air force was able to surprise several Arab air forces, and this surprise attack laid the ground work for Israel's successful military operations during the Six-Day War. These two examples serve not only to illustrate the power of a surprise attack but also the necessity to evaluate this attack within the larger military context. In the first case, the Japanese underestimated both American resolve and its ability to recover. In the second case, the Israelis successfully analyzed the Arab's world context and inability to develop innovative counter strategies (Kam, pp.67-68).

Kam's hypothesizes that militaries open themselves up to a surprise attack due to five major factors. According to Kam, these five factors are intertwined and provide us with insights into why militaries are caught off-guard.

From chapters 5-7 we can determine Kam's five basic principles include:

1. *The complexity of the data and their evaluation.* Kam recognizes that militaries are consistently receiving information and that this overabundance of information (information overload) makes the evaluation process so complex that military analysts simply cannot distinguish relevant data from non-relevant data. This data-overload simply overwhelms the analyst to the point that errors are made due to misdiagnosis of data. Kam notes that military evaluations often are impressive in their mathematical presentation, but fail due to the fact that the qualitative data analysis suffers from context analysis or other forms of parsimonious thought. Kam's hypothesizes that any military evaluation that is either too simplistic (analyses too

few variables) or too complex (analyses too many irrelevant variables) is doomed to failure. Kam, then, challenges many of the assumptions found within pure quantitative analysis. A careful reading of Kam would suggest that any analysis that seeks to explain the world only through mathematical terms and ignores the qualitative may be flawed in its portrayal of the real world, and thus fail to provide useful data analysis.

2. *The refusal of annalists to respond to paradigmatic errors.* Like Thomas Kuhn (1962), Kam argues that all humans have a proclivity to deny or ignore data that contradict established paradigms. As such, Kam builds on the work of the world famous physicist, Thomas Kuhn. In 1962 when Kuhn first published his now famous work on the conservative nature of science Kuhn provoked a major controversy when he argued that academics and scientists instead of purely seeking the truth tended to be highly protective of their own work and thus conservative in nature. Although Kuhn wrote about physicists, his work is applicable to any branch of academia. Kuhn argued that his fellow physicists had built their careers around a particular paradigm, and thus professionally had to reject any major paradigm change. From Kuhn's perspective successful academics were often prisoners to their own work. For example, if we look back into history, we note that despite the fact that Galileo clearly had proved the Church incorrect in the Churches' assumption that the Earth revolved around the Sun. The Church, however, could not for political reasons admit a potential paradigm shift and had to force Galileo to recant. Kuhn argues that was true then is still true today. Thus, scientists tend to dismiss any anomaly regarding long held paradigmatic beliefs as career threats. Kuhn writes about this conservative nature of academia when he states: "Paradigms may be prior to, more binding, and more complete than any set of rules for research that could be unequivocally

abstracted from them” (Kuhn, p. 46). Kuhn’s analysis of the conservative or defensive nature of academia set off a major debate in academic circles and became an important part of complex organizational research. Social scientists soon came to understand that researchers often rejected paradigmatic anomalies until these anomalies forced established paradigms to give way to the birth of a new paradigm. Kuhn writes: “the more precise and far-reaching that paradigm is, the more sensitive an indicator it provides of anomaly and hence of an occasion for paradigm change” (Kuhn, p.65). Kam expands on Kuhn’s ideas by noting that military annalists often become so attached to a set of assumptions that they enter into what we may call data-denial resulting in a potential surprise attack or even a military defeat. Kam then argues that annalists often see only what they want to see, and tend to ignore those inconvenient facts that may contradict an established theory or perspective (paradigm).

3. Kam’s third principle is: *that in a military situation even one wrong assumption or hypothesis can destroy a military’s evaluation’s overall accuracy*. As Chafetz (1978) notes all theories are composed of independent hypotheses that interact to form a theory. Chafetz goes on to state: “No matter what the source of inspiration, all theories develop ultimately through the interrelated use of two processes: inductive logic and deductive logic. Inductive logic may be defined as reasoning from the concrete or specific to the general (i.e., from less to more abstractness). Deductive logic is the opposite: Reasoning from the general or abstract to the specific or concrete” (Chafetz: p.7). It is from this theory that an organization’s decision-making process is born. Kam’s theoretical approach mirrors then much of the ideas of Talcott Parsons’ *Structure of Sociology* (1937). These independent hypotheses are interdependent and interconnected to the point where a failure in any one hypothesis

may produce a failure within the entire system. This holistic cybernetic approach to understanding an evaluation means that the strongest part of the theory is dependent on the weakest part of the analysis. Kam's hypothesis interaction dependency becomes especially relevant when we consider that evaluations are often not the product of a single individual but rather are composite pictures of a belief about reality. The evaluation then depends not only on the quality of the data and the hypotheses defining which facts are to be considered data but also on a complex set of individual needs and personalities. *Despite the fact that the annalists may suffer from information overload, the final decision makers almost never have adequate evaluation resources.* Decision makers are also dependent on others for information input. Thus, management theory notes that no analysis is ever complete and that most decisions are made with less than 25% of the available data (see Mary Zey: *Decision Making*). In the case of military evaluations, analyses are not only dependent on the amount of material that the decision maker has, but also on what the evaluator chooses to see as data and then pass onto the decision maker. Which data are valuable depends on our theoretical perspective and its ability to predict. Note that Helfstein has written: "Decision-makers rarely know all of the relevant history, or what might be called the true state of the world. The information constraints are certainly not limited to past events since the results of policies or decisions play out in complicated ways. Ambiguity is a central feature of international politics, it plays large role in decision-making, and opponents often try to manipulate information. Foreign policy decision-makers and intelligence analysts often have to interpret new information using their prior beliefs as a backdrop. When these actors irrationally overweight the importance or quality of their prior beliefs relative to new information, they are suffering from anchoring bias" (Helfstein, p11).

4. *Few if any evaluators know their analytical strengths and limitations.* Kam hypothesizes that, like most people, evaluators often fail to know their limitations, and either over-estimate the value of their analysis or under-estimate its usefulness. In either case, the error once compounded by the fact that decision makers may be receiving a composite evaluation means that few decision makers work with accurate information. Instead the informational misevaluations become compounded one onto the other.

Finally Kam notes: “The most severe error in making predictions-and the most relevant to the failure to anticipate surprise attack-is the common assumption that a trend will continue in a straight line. Abrupt changes in the development of processes occur time and again. A successful prediction should therefore be able to forecast potential sources of change, to determine the timing of the change, and to describe what will happen after the change take place” (Kam, p.116).

It is interesting to compare Kam’s basic ideas with those expressed by the psychologist Elisabeth Kübler-Ross. Kübler-Ross is not a military or business annalist. She is a psychologist whose work deals with: the patterns that take place during periods of dying and how we process the medical evaluations that death is to occur. Her work, nonetheless, has much to tell us about why there is so much resistance to paradigm changes. In *On Death and Dying* (1969) Kübler-Ross hypothesizes that human beings go through stages psychologically: denial, anger, bargaining (or magical thinking), depression, and finally acceptance. Kübler-Ross’ analysis parallels that of Kam in that annalists often pass through the same psychological processes although the timeframe is greatly reduced. Thus, in the case of a pending surprise attack the annalist may at first deny the possibility that the enemy is planning such an attack, then move onto anger

and magical thinking (if I do X then Y will not happen). What distinguishes the two situations is the fact that in the case of a military evaluation the timeframe may be much shorter and therefore, by the time that analytical acceptance has occurred, the attack may well be underway.

Kam wrote about military intelligence failures regarding two or more opposing armies. He noted that: “A typical intelligence production consists of all or part of three basic elements: description of the event...explanation of the causes of a development...prediction of future developments “ (Kam, p. 120).

Kam’s work forms part of the military science literature. This dissertation now seeks to determine if these same principles are also valid in the world of business. The author asks: if there are parallels between military aggression and business competition and seeks to understand their cross-disciplinary applicability. This dissertation also seeks to understand questions such as: Can a military model be used to better understand the world of business? Are businesses open to the same evaluation failures as are military organizations? Using Kam as a reference point the author seeks to understand the relationship between a surprise attack in military terms and business equivalents, such as that of the takeover.

To accomplish this goal, the author presents a meta-evaluation of takeover evaluations. To create this meta-evaluation the author investigated such questions as: Are quantitative analyses sufficient in evaluating takeovers? Can business leaders use military analyses along with sociological and philosophical data as an additional part of the takeover evaluation? Through the creation of this meta-evaluation is it possible to create an academic linkage between the consequences of a military’s misevaluation

leading it to suffer surprise attacks and the surprise attack of a takeover due to business administrators' miscalculations?

To develop this meta-analysis the author first assumes that there may be certain similarities between the military and the world of business. For example, Militaries live in a world of zero-sum games, that is that someone wins and someone loses. As such a military must be prepared for both a defensive and aggressive situations. In a like manner, the world of business also is a world based on a zero-sum game. Zero sum games in "mathematical game theory" are defined as: "A zero sum game is a term used in game theory to describe both real games, and situations of all kinds, usually between two players or participants, where the gain of one player is offset by the loss of another player, equaling the sum of zero. For instance, if you play a single game of chess with someone, one person will lose and one person will win. The win (+1) added to the loss (-1) equals zero. (<http://www.wisegeek.com/what-is-a-zero-sum-game.htm>. June 19, 2010).

To accomplish this analysis a number of new assumptions must be stated. Among these are the following:

- Per both Hobbesian and Marxist theory we can predict that all businesses being groups are subject to conflict.
- No business can survive without a system of internal and external checks.
- No evaluation is ever perfect due to some of the following reasons:
  - Most organizations are paradigm dependent and therefore change is never easy.
  - Most people resist change as they see change as causing a loss rather than a gain.



- Decision-makers rarely have all of the necessary information with which to develop a final determination.

In order to construct a social theory against which we can determine if Kam's theories in the world of business are: (1) valid and (2) useful for understanding evaluations failures in other disciplines we examine a number of classical sociological perspectives.

To accomplish this goal, it is first necessary to review the basis of theories. Theories are derived from both inductive and deductive logic. They present one perspective on reality. Scientists and scholars recognize that no theory is complete. In fact, starting with Einstein, physicists have worked for years to create what is now called "the theory of everything" in which one single theory would explain the totality of reality. So far the theory of everything has eluded scientists as such there are no grand theories but only those of the mezzo level. In reality, to attempt to do produce a grand theory would result in a tautological error in which the theory proves itself by itself.

As such we must work with theories of the mezzo or micro level. These mezzo level theories provide the analytical tools that are needed for a meta-analysis of Kam's thoughts and how they apply to the non-military world.

Sociological perspectives assume that the world is too complex to be viewed from all perspectives at once. Instead, each perspective provides a parallel view of the world and adds another piece to the analytical pie. If we assume that business is a social construct open to sociological currents across both time and space, then these perspectives should serve as important analytical tools in our meta-analysis of business analysis.

We begin our meta-analysis with one of the fathers of modern social theory, (David Emile Durkheim). Durkheim developed a concept of social facts (Durkheim, 1982) that

interface with the ideas expressed by Kam. Durkheim states that a social fact is “Anyway of acting, whether fixed or not, capable of exerting over the individual an external constraint, or which is general over the whole of a given society whilst having an existence of its own, independent of its individual manifestations” (Durkheim, 1982 p. 59).

In order to better understand the social context in which business must operate we have created a theory that we call Q. This theory permits historical reconstruction and allows the researcher to fill in missing lacunae. The theory argues that at times reconstruction may be more valuable than primary or even secondary data analysis as it permits the researcher to examine not only the data per se but also the way the data appear, and permits the researcher to analyze what data may have been omitted from the record.

In this dissertation we use the letter Q to represent any living organism (a real or social construct), or combination of organisms into a new social organism.

We then begin by assuming that all organisms, be they concrete or social constructs, have certain similar characteristics and that these assumptions exist on some level within all forms of social life.

These are:

- 1) *Q's desire to survive*. If a Q does not seek its own survival than some form of social suicide will occur. What is true of biological sociology is also true of business sociology. Thus, businesses must either grown or begin to decline. They must take in more than the put out if they are to survive. In the world of finance a business that does not perform the task of seeking its own survival chooses bankruptcy.

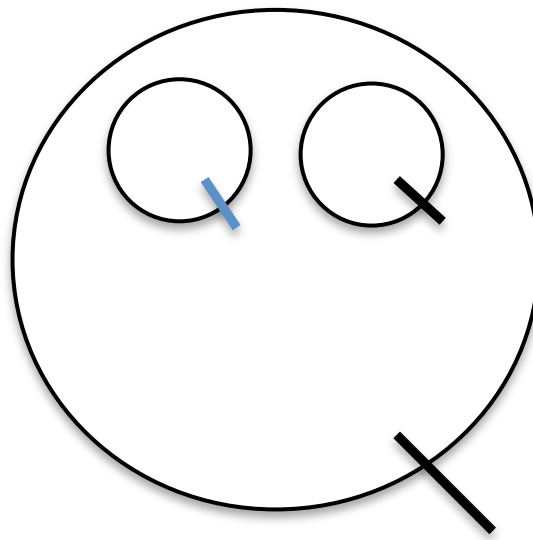
- 2) *Q's may unite to form new Q's.* The smallest Q is the individual, who may join with another Q to form a dyad. Q's can become parts of multiple Q's (as seen in the diagram below) and these Q's may be exclusive, contained in one another or share some commonality. In the world of business, these Q's may be employees and employers, new joint ventures, business relationships etc.
- 3) *A newly formed Q becomes independent of its mother Q.* That is to say that once a Q unites with another Q it enters into its own social reality. The older (mother Q) and the new Q's (daughter Q's) then live parallel existences. The formation of a new Q does necessarily not then mean the destruction of the older Q. This means that in business for example that employees may fight owners on one level while at the same time working to keep a company in existence against competition. It is this principle that allows unions to recommend pay-cuts during hard economic times, or demand pay increases during periods of prosperity.
- 4) *Q's consistently enter and exist relationships with other Q's, thus all Q's live in an unstable and always changing social environment.* Because Q's are dynamic social facts, they exist in a highly unstable world. This insight means that business is never stable, that not only are businesses going through consistent internal changes but also that there environment is also continuously in a state of change.
- 5) *Q's are both expandable and contractible.* This statement means that Q's live in a hostile environment in which some Q's will seek to "consume" other Q's. This constant lack of stability means that business can never rest. Like a shark they must be in continual motion, neither resting nor sleeping.
- 6) *Conflict is ubiquitous within and between each Q.* Not only are Q's unstable and exist in an unstable environment, but they are in constant competition for resources

with each other. This competition may be conscious or unconscious, quiescent or active, but like static electricity it always has the potential to be activated.

- 7) *The more complex the Q the greater the need for a clear division of labor (Durkheim, 1893, De La Division Du Travail Social translated into English as: On the Division of Labor in Society) within the Q.* This means that large Q's not only need a way to distribute tasks but also require moral and economic regulation to hold a Q together.
- 8) *To maintain stability between Q's each sub-Q must receive, or believe it is receiving, more than it is giving.* Thus Q's live within the realm of social balance. When social balance ceases to exist then the Q's sub-Q's will begin to spin apart one from the other. The social balance need not be the same on both sides of the scale, thus, Q's can be held together by psychological, financial or physical rewards.

Q's are not, however, one-dimensional. Instead, within each Q are different forms of energy that interact and create a dynamic that allows the Q to be held together. Just like the atom in which there are sub-atomic factors that are constantly in motion, so too are there sub-Q principles that never cease. In the world of atomic physics these sub-atomic particles are called, neutrons, protons and electrons. These particles are never still but rather they are in a state of constant interaction. In a like manner, Q's have their sub-Q's. We call these sub-Q energy particles: P's, E's and I's. These letters are merely social constructs used for the purpose of evaluation and analysis. As noted above these sub-Q dynamics produce evolving energies. Below is an analysis of these energies and how they interact within the Q.

Below is an example of a Q within a Q



**Figure 5:** Q within a Q

Social groups have multiple aspects that we will call for purposes of this dissertation PIE. PIE is composed of the follow assumptions and parts:

- 1) All social organisms, such as a business, have needs represented by the letter E (economics). No social organism can exist without needs and all social organisms must identify their needs. For example, social organisms have the need to “take in” more than they “put out.” That is to say, that any social organism either must grow or begin to die. For purposes of this dissertation we represent these needs by the letter “E” which stands for economics. Failure to identify these needs may lead to misevaluations, military defeat or business failure. At times Q’s are unaware of their needs and this lack of understanding may lead to false conflict or non-satisfactory resolutions of a problem.
- 2) All organizations must find a way to satisfy these needs. An organization may know its needs (P) but if it cannot satisfy these needs then organizational death occurs. We

have classified the act of satisfying an organization's need by the letter "P". In our social theory we understand P (politics), as the means through which an organization satisfies its wants and needs, be these means legal or illegal, moral or immoral. In the political world, a government is a means to satisfy a nation's needs but is in itself a sub-Q that has both needs and methods.

- 3) The E of one Q may be a separate Q unto itself. Thus, a business may be that E that permits a Q to earn money, but once established becomes its own Q with a full set of sub P's, E's and I's'.
- 4) Organizations must function in both a world beyond themselves and within themselves. Because organizations do not exist in isolation, they must justify their needs (P) and needs fulfillment methodologies (E) to others and to themselves. We call this justification process the "I" (ideology). Ideologies move people and permit organizations to justify their actions to their constituents and to themselves. We hypothesize that without the proper organization ideology, no group can survive. Furthermore, while few Q's are willing to sacrifice themselves for another Q's P, many Q's may share a common I and thus sacrifice itself/themselves on behalf a common I. Examples of I's range from emotions such as love or hate, to forms of human expressions such as marketing or propaganda.
- 5) In the world of inter-human relations, conflicts are often fought within the real of the "I". In most cases, conflicts arise due to a failure in the "I". Examples are the world of law or psychology in which battles are fought in the I. A question of constitutional law is an example of a war within the I. In a like manner, often the results of a bankruptcy are reflected in the commercial lawyer's ability to represent his/her client's I. The success of a business often depends on its ability to convince

customers that its product is better than that of its competitors, this too is a battle that occurs in the I.

It is essential to remember that each Q is a social organism unto itself and is at the same time part of multiple Qs, and that each sub-Q will have its own PIE. We may then state that:  $Q = P + E + I$  plus the sum of its sub Q's.

All evaluations reflect the E of a specific Q's P as represented by its I. If the evaluation does not encompass the proper I then no matter how correct the evaluation's mathematics may be, the evaluation will not be accepted by the defining Q.

As previously stated, Q's bond with other Q's to form new Q's. This bonding, however, does not mean that the first Q ceases to exist or that its own particular PIE ceases. Thus, we have not only Q's and sub-Q's but also PIE's and sub-PIE's. Furthermore, a Q may have multiple P's, E's and I's,

P's E's and I's however do not exist in a vacuum. Instead they must have human beings who turn these ideas into realities or social facts. We represent this humanization of the P, E and I by the letter H. This we can have a PH1, PH2 etc. That is to say the person(s) in charge of determining necessities or who create necessities. In a like manner, we can hypothesize the concept of a EH and an IH. In an organizational structure the PH may be the person(s) who set(s) the agenda, the EH may be the staff, and the IH may be the marketers or human resource management. It should be stated that H's can mutate, thus in one situation an H may be a PH and then in another situation transition into an EH or IH role.

However, each PH, EH, and IH is part of multiple dynamic Q's, and lives within an infinity of Q's. This multiplicity of Q's means that not only is the Q unstable but that competition is ever present. Thus, we can predict that within the PH, EH and IH exists a competitive ranking, that is to say PH1, PH2, PH3 and so on, along with an EH1, EH2, EH3, IH1, IH2, IH3 etc. It should be noted that the I provides the 'social glue' to hold the Q together and that with few exceptions, real power lays within the realm of the Q's I. That is to say that within an organization the IH will dominate even if it does not have authoritative power.

### **Other internal assumptions and ideals**

As stated above, we assume that a Q's leaders and leadership are never totally stable. This means that competition for power may exist within the Q just as the Q must fight for survival within a greater Q. Power is never one-dimensional. Instead, there are different forms of power. Two of these forms we will call "Authoritarian Power" (AP) and "Influential Power" (IP). By AP we refer to power enshrined into a position such as a president of a company, or a CEO. Authoritarian Power may also lie within the realm of the "I". For example, a religious leader or a judge may have authoritarian power by dint of his/her position within the Q. Authoritarian power may also cross the lines of a Q. Thus, the PH, PE and/or PI may be the same person as the person who has AP.

The person(s) who hold AP power holds specific rights and duties and it is assumed that these people will exercise their power for the good of the larger Q and for their personal Q's, should that be needed. The term IP refers to power not necessarily enshrined in a job description but rather by the informal use of influence. For example, a secretary may have a great deal of influence on his/her boss, or may be able to control a situation



by becoming a gatekeeper or a controller of information. As such the person of AP becomes dependent on the person with IP.

All organizations must deal within the confines of the social world. How an organization chooses to see that world is dependent on its theoretical perspective. For example, a Q's leadership may choose to see the nature of man as totally good (*Candide, our l'Optimisme*, Voltaire, 2011) or from a highly defensive nature. The assumption about the nature of man leads to the following working hypotheses:

- Openness to a surprise attack against one's business may be related to the negative or positive worldview that Q's leadership holds.
- Business CEOs and presidents may be either powerful or merely figureheads.
- Internal conflicts may so outweigh the need to protect a business that it becomes vulnerable to surprise attacks due to misvaluations.

Although not stated overtly numerous social thinkers throughout the ages have contributed to the ideas behind the Q.

For example, Max Weber (1930) developed the concept of "Symbolic Interaction". Symbolic Interaction assumes that the value of any action is determined by the way we choose to view (analyze) any particular action or set of actions. For example, a child may slap a father and we interpret this slap as nothing more than cute, a slap between angry lovers may not be liked but will be tolerated, while the same slap between two men who are not friends can be a call to battle. Weber argues that things are defined within a social context. What is acceptable in one context may not be acceptable in the next. Weber then worked in the realm of the Q's I.

Q's are consistently analyzing the symbolism of other Q's. Symbolic interaction argues that evaluations fail when one Q assigns a meaning to an action that is different from what the other Q meant. A failed analysis does not necessarily result in conflict. It opens Q1 to a surprise attack (misevaluation) by Q2. Although the P and E are essential, the real work of evaluation almost always occurs in the realm of the I.

The work of the early XX century philosopher Martin Buber provides us with further insights into the realm of the I.

Buber hypothesizes that all inter-Q relationships can be viewed on two planes. The first plane he calls: "I-Thou". Buber wrote: "To man the world is twofold in accordance with his twofold attitude. The attitude of man is twofold, in accordance with the twofold nature of the primary-words that he speaks. The primary-words are not isolated words, but combined words. The one primary word is the combination I-Thou. The other primary word is the combination I-It; wherein, without a change in the primary word, one of the words he and she can replace the it. Hence the I of man is also twofold. For the I of the primary I-Thou is a different I from that of the primary word I-It" (1958 Buber, 3). Buber expresses the idea that no Q exists in isolation, rather we judge a Q by its various primary-shared-relationships, so that a Q changes its nature not by what it is but rather with whom/what it interacts. In order to interact, a Q must judge the other Q's within its frame of reference. Thus, in business, a Q that poorly judges its interactive fellow Q's is liable to both a surprise attack and to destruction. In mathematical terms, Buber is referring to weighing factors within multivariate equations, in which each evaluator must determine the importance of each sub-Q relationship within the realm of a Q or of competitive Q's.

Durkheim, Weber and Buber then provide the following insights:

- Business must deal with social facts.
- Businesses are in a continual set of change.
- Businesses are open to misinterpretations by interpreting the symbolism of an event (social fact) incorrectly.
- Businesses may misdiagnose or chose not to diagnose an event and thus open themselves to a surprise attack.
- These surprise attacks may be due to internal conflicts or to external conflicts.

Buber's model then adds depth to that of Weber's. Weber looks at how a Q interprets another's actions, while Buber looks at how symbolism interacts within the dynamic of the Q's.

Karl Marx may be seen as an mélange of Hobbes and Hegel (Worsley, 1982). Thomas Hobbes viewed society as a world of internal conflict (*The Leviathan*, 1651). Hobbes accepted the idea that to live is to be in a state of battle and that each entity competes for resources. Hobbes extended this idea even to the world of botany. For example, Hobbes argued that trees compete for sunlight and that the roots of plants compete for water. Hobbes argued that all Q's are in a perpetual competitive state of war.

Hegel saw the world as a dynamic in which ideas created facts and that these ideas would be part of an eternal pattern of growth and rebirth. Georg Wilhelm Hegel (*The Encyclopaedia of the Philosophical Sentences in Outline*, 1817) called this process the interaction of the thesis (idea) with its counter idea, called the antithesis from which a new idea was borne, the synthesis, which in turn would become a new thesis. Worsley writes of Hegel: "In Hegel's thinking, the progress of humanity was seen in terms of the gradual refinement and realization of the uniquely human capacity to understand not

only the natural world of which human beings were a part, but also to understand the principles which underlay the development of both the natural world and of society.” (Worsley, p. 23) From Hegel’s perspective this growth and rebirth pattern would continue on into infinity. Hegel’s conceptualized Q’s are borne from ideas; the Q goes through a lifecycle and in the end another Q absorbs it. In the world of business examples of action such as these may be called a hostile takeover or a government takeover. Worsley goes on to state: “...Hegel argued that there was no separate real world out there, beyond and quite apart from our mental categories. The world rather can only be known through our mental activity, and the concepts we use to make sense of the world are constantly changing: historical, not fixed categories. Knowledge was relative, not absolute” (Worsley, pp. 23-24). Hegel’s analysis tells us a great deal about Q’s and their relationship position to each other. If we assume that Kam is writing about attacks between two Q’s and an analysis is nothing more than a snapshot of reality taken at a specific time, then Hegel’s analysis means that all business evaluations are merely transitory and never fully accurate.

Karl Marx synthesized these two philosophers into one. From Marx’ perspective, conflict is every present, but Marx places certain provisos on his ideas of conflict. Firstly, Marx turns Hegel on his head. Instead of ideas creating realities, Marx argued that ideas are the results of realities. Thus, realities adjust their ideas as a form of self-explanation. Furthermore, Marx took a messianic view of the world and of the nature of mankind. Like Buber, Marx argued that Q’s relationships are twofold. However, Buber defined the Q by relationship theory, while Marx defined the Q by theo-economic theory. That is to say, Marx argues that there are two groups of people that inhabit the world, the proletariat and the bourgeois. Marx argued that the bourgeois is by nature cruel and seeks to exploit the proletariat. The proletariat, on the other hand, is pure

goodness. As such, once a revolution is to occur, the nature of the Q changes and conflict ceases (See George Orwell's books such as: *Animal Farm* and *1984*.) From Marx' perspective, all conflict between Q's occurs due to the bourgeois' desire to dominate and to control the proletariat Q's. In business, this means that there can be no sense of morality or ethics, but instead a state of constant warfare until the system self-destructs.

In a contrary position to Marx lies the philosophy of the American economist Adam Smith (*The Wealth of Nations*, 2003). Smith argues that a Q succeeds by means of competition with other Q's. From Smith's perspective competition not only determines which Q's will dominate and which Q's will fail, but also Q's define themselves by their competitive nature. This precursor to Social Darwinism then argues that societies need competition and that the more a Q is allowed to compete with other Q's the greater its chance for success. Thus, a hostile takeover seen from a Marxian perspective is a step backwards. A Marxist would argue that hostile takeovers represent capitalist greed and the lack of morality within the bourgeois. From the perspective of Adam Smith, a hostile takeover represents the pinnacle of success. It is the ability of the strong to eliminate the weak and strengthen a society by vanquishing the less strong.

We now turn to the work of Talcott Parsons. In many ways the Parsonian perspective on theory is very close to that of Quantum Physics, in that Parsons believed that everything is connected to everything else in both the social world and that of finance. That is to say that even the slightest change in the social system can provide unexpected changes at a later date. The chaos theoretician, Physicist Edward Lorenz called this "butterfly effect". "... Chaos theory attempts to explain the fact that complex and unpredictable results can and will occur in systems that are sensitive to their initial conditions. A common example of this is known as the Butterfly Effect. It states that, in theory, the

flutter of a butterfly's wings in China could, in fact, actually affect weather patterns in New York City, thousands of miles away. In other words, it is possible that a very small occurrence (sic) can produce unpredictable and sometimes drastic results by triggering a series of increasingly significant events” (<http://library.thinkquest.org/3120/>, June 18, 2010). In a like manner, any change in the financial/social structure may produce unexpected consequences. From the Parsonian perspective the asking then of the question “why” is a methodological mistake, as the true answer to why may never be known. Instead, why provides us with only partial answers to partial questions.

Parsonian thought also connects nicely with another principle found in Kam, that is that: Evaluations often fail due to information overload, and this evaluation failure may lead in a like manner to a business failure. Kam argues that analytical groups often do suffer not from a lack of information but from too much information that leads to an analysis paralysis. Kam shows how military organizations often miss a threat due to the fact that they were not able to establish a protocol for prioritizing data. In the same way, this dissertation seeks to see what protocols businesses use to separate “needed information” from useless information.

This dissertation then seeks to look at some of the reasons behind business evaluation failures and their results: from bankruptcy to hostile takeovers. It understands that persons in a leadership position (AP power) never have all of the data, but rather methodologically it seeks to create hypotheses that will allow for both insights and further research. What is the relationship between the interactions of Q's? How does this create ‘group-think’ or sabotage that may result in a business failure?

These above statements mean that to apply Kamian thought against the background of business theory, we begin with an additional series of hypotheses. Among these are:

- 1) In the best of Hobbesian terms, conflict is ubiquitous. If social life has an ever-present conflict component, then the world of business is not socially stable. No business can ever rest on its laurels but rather must be constantly on-guard against some form of attack, be that attack foreseen or by surprise.
- 2) Organizations can range from dyads (two people) to highly complex organizations. In all cases, the same social phenomena occur. The only difference being that the bigger the organization the more complex it becomes and the less easy it is to see both internal and external threats.
- 3) Businesses are social groups with both internal and external conflicts. According to Hobbesian theory (Thomas Hobbes, 1588-1679) as reinterpreted by Marx, any social group has the potential for both internal and external conflict. In the world of business we call this conflict “competition”. Competition, however, is nothing more than organized conflict. Businesses must compete for resources, and opportunities.
- 4) Business can die or be defeated. If conflict exists, then both products and businesses have life cycles. Life cycles indicate that death (called failure, closure, bankruptcy, or takeover) can exist.
- 5) Businesses desire to dominate their competition. Marxian theory would predict that wherever there are two social groups that must occupy the same space; one will try to dominate or destroy the other. Domination may manifest itself in multiple ways, from outright destruction to marginalization.
- 6) Businesses must deal with both centrifugal forces and centripetal forces.

## **Concluding Hypotheses**

- No business can ever be 100% sure of its assessments.
- Falsification theory would argue that business analyses are never complete or fully accurate.
- The more secure a business the more likely it is to underestimate the level of competition and to err in its defense.
- Hostile takeover's come about due to a long chain of errors made by management and those analyzing the data.
- Hostile takeover occur because of a series of errors that no one saw coming at the time due to the complexity demanded by the analysis.

## **Dissertation's theoretical value**

This research will permit a conflict analysis that is necessary for any business model and will be applicable for both the public and private sector. The research will seek to determine if current evaluation models are adequate and if not where errors occur and what steps need to be taken in order to confront both hostile takeovers and internal conflict. As such using qualitative analysis the model seeks to predict if:

- 1) When a business' leadership already has a theory in practice it will tend believe in the correctness of this theory rather than examining challenges to its pre-existing paradigm.
- 2) When business leaders approach a set of evidence without a theory and then form a theory based on initial evidence, the theory will be resistant to subsequent evidence.



- 3) When business leaders formulate a theory based on some putatively probative evidence and later discover that the evidence is false, the theory often survives such total discrediting (Kam: 90).
- 4) Humans, just like other forms of life, come together in groups that range from the micro to the macro. Yet despite the Q's size similarities exist between all Qs.
- 5) The potential for conflict is ubiquitous.
- 6) Competition is natural and a part of conflict. The difference between conflict and competition is that competition is conflict realized according to rules.
- 7) A sense of personal caring (see the "I") may impact conflict, but it can never totally erase conflict. The I's ability to overcome conflict depends on the strength of the I between the sub-Q's.
- 8) All groups must live within the nature of their environment.
- 9) Given that conflict is ubiquitous groups must have both internal and external measurement systems.
- 10) No evaluation is ever 100% certain.

## **Conclusion**

This dissertation will look at two case studies that deal with business failure and business takeovers. It will build its theoretical perspective on a series of business battles and surprise attacks that starting in Portugal took place across Europe during the 16<sup>th</sup> century.

The dissertation then seeks to understand how Kam's thoughts can be used to evaluate take over both from the pre-take over strategy and from the post-takeover analysis. In writing about surprise attacks Helfstein concludes: "Once again, surprise is a probabilistic outcome of a perfectly rational interaction. When a target believes that an initiator is non-threatening, the model predicts status quo and successful surprise as possible outcomes. If the target initially believes that the initiator is threatening, they will mix between waiting and acting, while the initiator may use public challenges, attempted surprise or preserve the status quo. Once again, psychological bias or organizational impediments are neither necessary nor sufficient to explain surprise" (Helfstein, p. 260).

By analyzing these two cases in light of Q theory and from the perspective of the major European and American social philosophers noted in this chapter this dissertation is an attempt to see if Kam and Helfstein's suppositions function as much in the business world as in the realm of foreign policy and the military.

The dissertation offers an additional part of the academic puzzle and contributes to the theory or why takeover evaluations succeed and fail and what academics and practitioners need to take into account regarding these commercial surprise attacks.

# Methodology

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**An academic contribution toward a qualitative evaluations of surprise business  
takeover attack: an historical perspective**

## **Methodology**

This study primarily concerns the theory of surprise attacks as understood by military scientists and adapted to the world of business in the guise of the business battles such as “takeovers.” The dissertation offers further insights into interrelationships between ideology and business, social class and business and how these often seemingly unrelated variables interact in the world of business conflicts.

The dissertation’s primary unit of analysis is a combination of macro level theory coupled with a historical biographical detailed case study. Throughout this study, there is a balance between the micro level and the mezzo level. Data come from biographies of key historical figures, from primary source analysis, and documents obtained from the rare reading room of the New York public library.

The dissertation’s author also has the advantage that he works with the Portuguese court system (in Santa Maria da Feira). As such he has access to both court officials and to public records. His position within the court system provides him with rare insights into the legal bureaucracy. The author’s knowledge also allows him to create parallels between how a sixteenth century court may have functioned and those of modern day procedures. Furthermore, using critical literary analysis methods (cited in this chapter) along with the author’s familiarity with the legal material allowed him to analyze the data’s subtle nuances.

This study then seeks to determine if Kam’s theory of surprise attack is applicable to real business world situations. To accomplish this goal, the author developed the following strategy:

- An analysis of Kam's theory of Surprise Attack.
- The generation of hypotheses from an analysis of Kam's work.
- A review of the business takeover battles during the time of Doña Gracia and the pertinence of this case study to the dissertation's development of a new theoretical perspective.
- The further generation of new hypotheses from the analysis of the case study.
- The development and use of critical literary analysis in the form of what the French call an "explication de text". This literary critical analysis allowed the author to develop a multivariate analysis of court documents.
- The development of historical questions and analysis guides (check-lists).
- The use of tabular materials in which to show comparisons between the social world of military science and that of the social world of finance.
- A fully computerized literary search of major business and military science databases conducted at the at Texas A&M University's business library. The data were searched in English, Spanish, French, Portuguese, Dutch, German, and Hebrew. Data searches cross-analyzed key words within both the military science and business literature.
- The use of sociological tables of ascribed characteristics so as to provide cultural and business context.
- The development of a meta-evaluation of evaluations, called an "evaluation-analysis".
- The creation of a theoretical design to analyze the perspective of each of the "warring parties" within the case study.
- The use of biographical studies to permit greater insights into the historical data's relevance to the world of finance.

Each analysis guide touched upon the following:

- Listing of the role of each of the actors within the case study
- Definition of the actor's ascribed role and influential role
- Identification of the actor's role within the world of finance
- Discrepancies between what actors reported and what the text analysis reveals.
- The role of social prestige and its influence on business decisions
- The role of economic prestige and how it pertains to business conflicts.

The author recognizes that the employed research methodology often has much to do with the results obtained. The works of Saltzman–Chafetz (1983) and of Paul Feyerabend (1975) influenced the author's methodological perspective. As such, and whenever possible, this dissertation follows the following methodology:

- The listing of its basic assumptions
- Observations of past examples leading to a problem statement
- An analysis of former (past) assumptions
- An analysis of past assumptions in light of theory of falsification
- The formulating the current research problem
- The development of research design
- The generation of new theories (see theory chapter)
- The testing of the hypotheses against the data
- The changing of theories and revision of hypotheses in accordance with the new observations.

## **Basic Assumptions**

Although the literature does not connect the notion of a surprise attack to that of a business battles such as that of a hostile takeover, a literature review and a careful reading Ephraim Kam's work reveal that there are numerous similarities between the theory of the surprise attack and that of a takeover. The author uses the takeover as an example of a surprise attack in business. Nevertheless the author recognizes that there are other forms of surprise attacks in business battles and many of these are exemplified with the case study of the life of Doña Gracia. As predicted by Kam these "attacks" both by Doña Gracia and against her business interests often occurred due to evaluation failures.

To better understand this interaction the author has developed a theoretical meta-evaluation. That is to say, he has created an evaluation of the concept of evaluations; he calls this meta-evaluation an "evaluation-analysis". In reality, a meta-evaluation notes three separate evaluation-analyses. These are:

- Pre-attack evaluation by the attacker of the attacked
- Evaluations of one's defense mechanisms in case of a surprise attack
- Post-evaluation of the attack and what was learned from it.

In the military world, key commanders must evaluate another army's fighting capabilities, its will to fight, and the economic and political support that it can muster. In the business world, the CEO or businessman/woman must evaluate his/her opposition and the context in which the opposition operates. For example, in the case of a hostile takeover the entrepreneur must analyze and evaluate what is the value of the

takeover offer, and what resources both sides have and are willing to use either to thwart this takeover attack or see it to its conclusion. In the case of a government takeover, the entrepreneur must demonstrate a keen analysis of contextual political history so as to decide if s/he should do battle or stage a strategic retreat. As such, these analytical strategies are valid for any form of business, be it a takeover or simply the need to determine a competitor's strengths and weaknesses.

### **Issue of Memory and Historical Reconstruction**

One of the challenges within this dissertation is the creation and analysis of the memory of a person whom for all intensive purposes has been wiped out of the historic record. From a methodological perspective several considerations must be taken into account dealing with historical memory. In reviewing the literature the author had to consistently question:

- 1) Were the reported incidents based on wishful thinking or concrete historical fact?
- 2) What is the social reconstruction that leads to this particular historical memory?
- 3) Did individuals choose to highlight or ignore certain parts of the business history for political or sociological reasons?
- 4) Who and under what circumstances did specific individual have access to the writing of the history?



In writing about the methodological problems in reconstructing history, Freidenberg notes: “In fact, most informants tend to share idealized renditions of the past with the researcher or partial histories of what really happened...Truth is a controversial issue that touches on the ethics of research as well...(Freidenberg, pp.3-4). This point is emphasized by Jacob Climo and Maria Cattell when they write: “Collective or social memories are shaped by social, economic, and political circumstances; by beliefs and values, by opposition and resistance. They involve cultural norms and issues of authenticity, identity, and power. They are implicated as ideologies. Social memories are associated with or belong to particular categories or groups so that they can be, and often are, the focus of conflict and contestation” (Climo and Cattell, p.4). In the case of Doña Gracia, the author has had to sift through two opposing narratives, which reflect the business battles of another era but are no different methodologically from those of today.

### **The Challenges of Biography**

Biographies are always a challenge. The reader never knows what information was left out and what was included, how the data are presented and what other data analysis might have been performed. Recent work by feminist scholars throughout the world has added to our knowledge base. For example, in the *Challenge of Feminist Biography*, the authors note that modern biographers need to “use life-cycle analysis or to address topics most biographers seldom touch on, such as how women’s private and public lives intersect, the impact on mother – daughter relationships, or the “familial and female friendship support networks that sustained women’s public activities” (Alpern *et al*, p. 5).

The questions raised above are not mere academic exercises. Classically business surprise attacks such as takeover have been viewed purely from the rational perspective. That is to say, that it is assumed that logical business decisions and rational motives inspire the hostile takeover. With an ever-growing number of businesswomen present, this dissertation challenges this perspective. This is not to say that businesswomen do not make highly numbers-driven rational business choices. It does say, however, that if we are to understand the business relationship and especially business conflicts such as takeovers, it is important to understand the human side of the equation, the emotional as well as the rational.

### **Theoretical Biographical Case Study Analysis**

This work uses a unique technique of combining a historical personage from Portuguese business history with a theoretical model. The method has both advantages and disadvantages as listed below.

Some of the disadvantages of this method include:

- Dependency on what others has said.
- Inability to interview 16th historical personages.
- Language issues, do words used in one century carry the same meaning across centuries?
- Open to cultural misinterpretations.
- Some of the advantages of this method include:
  - Higher levels of theoretical validity.
  - Clarity of data interpretation.

- Historical hindsight.
- Ability to test hypotheses against other situations.
- Knowledge of data sources.
- Development of a less biased model.

This work uses the history of Doña Gracia as an example of a business battles such as the hostile takeover. Doña Gracia was one of the major businesswomen of XVI Portugal, at a time when Lisbon appeared to be destined to become Europe's financial capital. Andrée Aelion Brooks sums up her importance nicely when she writes: "Before there was a House of Rothschild there was a House of Mendes and its head was...a woman" (Brooks, Pre-introduction). While classical finance dissertations have used a form of quantitative analysis this dissertation seeks to understand the modern world of finance from a historical-biographic perspective leading to development of a new set of theories. Some of the reasons why the dissertation's author chose not to use a quantitative analysis are:

Among these reasons are:

1. Quantitative methodologies permit the use of different mathematical formulas to measure the same problem.
2. Quantitative methodologies do not distinguishes between information sources.
3. Quantitative methodologies do not weigh which data are more relevant to the case.
4. Quantitative data do not contextualize the problem.
5. Quantitative data do not measure the validity of each of the variables.
6. Quantitative data do not measure motivation and other psychological qualities.

7. Quantitative data are only valid if the unit of measurement is clearly defined.
8. Quantitative methods may measure incorrect data, thus we have the problem called in computer science of “garbage-in/garbage out.”
9. In mixing data we may create an invalid interaction.

This dissertation seeks to see where the qualitative adds to the quantitative view of the world. However, in the words of Paul Snyder it also understands that “Descriptions are never neutral. There is no uniquely correct way of describing physical systems or events, and there is no uniquely correct way of explaining them either, since an explanation of why a thing has a given set of characteristics must depend upon what we take those characteristics to be” (Snyder, 13).

The author also sought to determine where the historical record demonstrated that theories were falsifiable and what new theoretical perspectives could be generated. This dissertation also offers a multivariate approach to business in that the House of Mendes needed:

1. To compete against other businesses and guard itself against surprise attacks.
2. It had to protect itself from an ever more needy government, which sought often immediate economic solutions rather than long range planning.
3. Internal family conflicts that often produced internal surprise attacks.

## **Methodological Analysis**

The author builds his methodological analysis on a series of propositions that connect the academic field of military science to that of finance. Among these are:

- 1) Conflict is ubiquitous. Therefore evaluations of one's opponents are necessary.
- 2) Businesses desire to dominate their competition.
- 3) No one form of evaluations permits the decision-maker to view the problem's entire scope.
- 4) Business can die or be defeated. Thus, an evaluation failure can lead to an organization's death (called failure, closure, bankruptcy, or takeover).
- 5) No business can ever be 100% sure of its assessments.
- 6) The more secure a business the more likely it is to underestimate the level of competition and to err in its defense.

## **Historical Analysis and Context Analysis**

The review of literature reveals that one of the problems within the literature dealing with business battles such as takeovers is that often there has been a lack of pre-battle context analysis. Business battles such as hostile takeovers do not occur in vacuums. The historical context then is as important today as it was in 16<sup>th</sup> century Portugal. In the case of this dissertation, the context is provided in two parts:

1. The author reviews in chapter 5 the historical context in which Doña Gracia had to work. This context includes not only the economic environment but also the ideological, political and social environment.
2. The interrelationship between Doña Gracia's public (business) life and her personal life.

For this reason a discussion on the role of the Portuguese Inquisition is provided in chapter 5 along with the historical context of what has come to be called "cristãos-novos" or "marranos". That is people who were forced to convert to Catholicism

against their will and how this religious “stain” impacted their lives and the lives of their offspring.

## **Research hypotheses**

Snyder commenting on the work of Karl Popper notes that: “A hypothesis is proposed as a way to account for available data and in the light of the prevailing theory in other areas. Further data suggested by the hypothesis is tested, and where a possible “crucial” experiment is designed which will give clear reasons for preferring either it or the existing theory.” (Snyder, p. 119) As such, business battle analysis such as that of hostile takeovers traditionally has been classically dependent on quantitative methods. The author hypothesizes that the sole use of quantitative methodologies limits the researcher/annalist to only a portion of reality. Quantitative analysis rarely sees context, human determination or other “softer” variables, but these variables may be as important as what has classically been considered “hard” data. This dissertation inserts the qualitative methodologies within the evaluation process, not as a replacement of the quantitative but as an addition to classical procedures. In order to add to the classical methods of takeover analysis we have developed the following paradigm changes. As noted in the theory section paradigmatic changes are never easy and often produce negative reactions.

## **Employed Methodologies**

This dissertation will use a variety of methodologies to answer the basic questions found above. Among the methods to be used are:

### ***1. L'Explication de Text/Content Text Analysis.***

Textual analysis allows a reader to see a document from multiple perspectives. We will begin with what the 12<sup>th</sup> century French scholar Shimon ben Yitzach called the “method of simplification” (MoS). This method argues that a text must be stripped down to its simplest format. It seeks to get to heart of the matter and brushes aside all superfluous information. The MoS then forces us to see what the real issues are rather than looking at the secondary issues that may be used as distractions. Often this is the hardest level of analysis as the real issues are often hidden behind a sea of faux issues.

The second level of analysis that will be used we call the “Method of Hinting” (MoHT). At the MoHT level the annalist wishes to determine at which points the text is hinting. As such we look at similarities and differences both within and between texts or parts of texts. For example, in the case of Doña Gracia there are various evaluations and also comments with the historical narrative. It becomes the job of the researcher to determine what are the areas of similarities and differences within the text and between the various texts. This system is used to find irregularities and to discover inconsistencies that often the participants would prefer either not come to light or simply have overlooked.

The third level of analysis is “Method of the Unsaid” (MoU). This is an attempt to read between the lines. Can we infer X from Y? What else was occurring in the text (or in a legal case that was not stated)? The MoHT differs from the MoU in that in the former case the data are present but not placed in a clear format, while in the latter case the material is left out of the text. This classical method argues that there is always a text behind a text, always an untold story behind the story. In this level we will integrate various European thinkers such as Max Weber, Martin Buber, Emile Durkheim, and

Karl Marx. Each of these social thinkers represents a different perspective and each adds an additional piece to the puzzle's solution. For example, Buber bases his analyses on the relationships between the parties. His work forces us to ask such questions as: how do these parties use each other, what is the benefit for each party, and is there a relationship between the parties and the conflict? Marx, on the other hand, sees all struggles from the perspective of class struggle. Using a softer approach forces the researcher to ask such questions as:

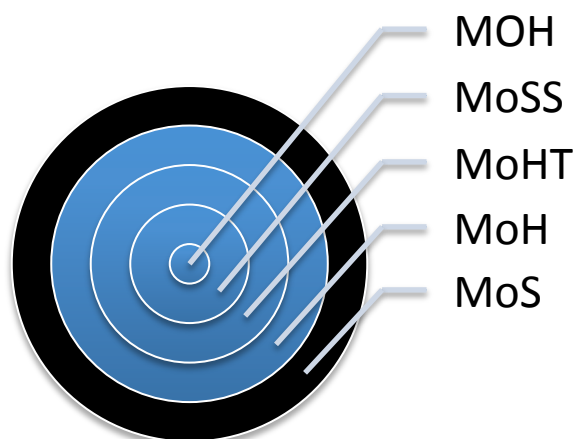
1. What role did class play in the business dealings of Doña Gracia?
2. Is this form of analysis valid when the struggle is between two members of the bourgeois?
3. What was the role of group conflict in her life and how did she use social solidarity to further her goals?

The fourth method we use is that of Symbolism (MoSS). What does a word, action, or symbol tell us about the text? It should be noted that symbols do not need to be graphics. Words can have both literal and figure meanings. At this level we seek to understand what are the associations between the text's words.

The fifth level to be analyzed is the "Method of the Hidden" (MoH). The MoH is the story that is deliberately not told. This level of analysis is the most difficult, because we are attempting to analyze not what is said, but what the authors wish to hide from the reader. As such, we try to determine what was not told and what the writers did not wish us to know. In the case of Doña Gracia much has been eliminated from the historical record. Thus determining what we do not know is more difficult than determining what we do know.

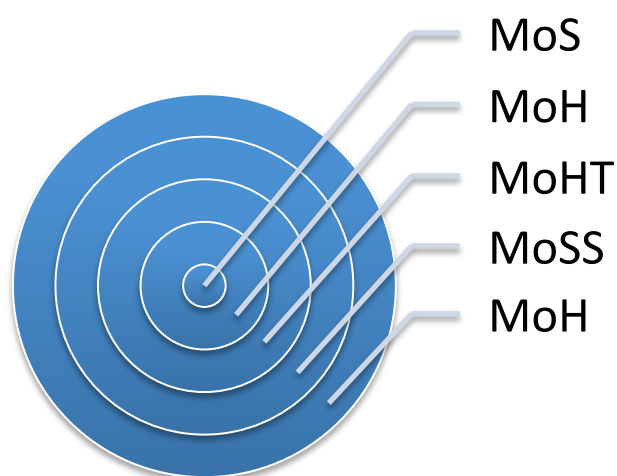


The following chart shows how we use each of the above levels of qualitative analysis to come to an ever –deeper understanding of our case study concerning Doña Gracia’s business dealings.



**Figure 6:** Adopted from classical Kabbalistic methodologies of analysis. See *The Invisible Chariot* (Kerdman, D; L.Kusher, 1986).

It may also be helpful to view this chart in reverse. That is to say that we read the text from the inside out. In this manner the analysis appears to be the following:



**Figure 7:** Reading the text of figure 6 from the inside out

The reason behind this reverse reading of the text is that often what may appear to be the basic MoS are misread. Thus, a reverse analysis of the text provides a second check on the analysis' accuracy

As part of the textual analysis the author examined the text from four types of classical arguments and used the following hermeneutics. These are:

1. The argument from common sense.
2. The argument from authority.
3. The argument from implication.
4. The argument from analogy.
5. The argument *a fortiori* (for a greater reason, a still stronger reason)  
(Mielziner, p. 248).

Below are some of the hermeneutics used in the analysis of these texts.

1. *Inferences from a minor to a major*. This means that we analyze the impact of the less important on the more important and vice versa. Thus, Mielziner (1903) notes: "Thus if a certain rigorous restriction of the law is found regarding a matter of minor importance, we may infer that the same restriction is the more applicable to that which is of major importance...On the other hand, if a certain allowance is made by the law a thing of major importance, we may properly conclude that the same allowance is applicable to that which is of comparatively minor importance (Mielziner, p. 180-181).
2. *Analogy of Expressions*. This method is used to determine something that is ambiguous or to determine something that has not been expounded previously. Laws of the same nature are considered to be "real." If on the other hand the

resemblance consists of some external point, similarity of language, then it is called “formal.” Just as there can be analogies of words, so can there be analogies of sentences and of ideas.

3. *Generalizations of one special provision.* Here we note that one provision resembles another, or one sentence resembles another so that what is true of the first is considered to be applicable to the second.
4. *The generalization of two or more provisions.* Number four is similar to number three but in this case, two or more sentences resemble to or more other sentences in which we may conclude similar outcomes.
5. *The effect of the general on the particular.* The assumption that when a statement speaks in general terms it intends to refer to everything included in those terms. It is assumed that the particulars are not mere illustrations of the general, but an indication that the contents of the general are restricted only to the particular.
6. *An explanation derived from a context.* In this method, the explanation is derived not from the meaning of the word or sentence, but due to the context in which it is found. Thus, we may modify the meaning of one phrase by another phrase’s meaning.

### **Analytical Evaluation Chart A:**

The following questions are based on Q theory as expressed in chapter theory.

- Who were the key players in the various Doña Gracia conflicts?
- What are the needs of each of these parties?
- How did Doña Gracia handle conflicting P’s within her Q?

- What was each Q's social context?
- How did each of the warring Q's use ideology?
- With what other Q's did that of Doña Gracia and her enemies bond and who opposed each of them?
- Where was the internal competition within the Q of Doña Gracia?
- Who holds power within each of these warring parties and what type of power did they wield?
- From what perspective did each of the Q's evaluate their place in the world?
- Where were Doña Gracia's evaluation mistakes?
- Did internal organizational conflicts so outweigh the need to protect a business that the business misevaluated the potential of a surprise attack?

### **Key Analytical Questions:**

- How do we determine which data and methodology are appropriate for purposes of evaluation?
- What are the business protocols that are needed to separate useful data from not useful data?
- Is a quantitative methodology sufficient for business evaluations?
- Does a qualitative methodology complement that of a quantitative work?
- Is there any way to merge qualitative and quantitative results?
- What are the presumptions or paradigms that lie behind the evaluations?
- How can a mistaken presumption influence an evaluation?
- What are the needed resources to perform an evaluation: i.e., money, time, human resources, available information etc.?

- What are the evaluation information sources and how do we choose them?
- What are the criteria used to determine which is the correct information for an evaluation?
- How do we know the value of an evaluation?
- Do we need to evaluate our evaluations?
- Can an independent meta-evaluation be created that does not suffer from paradigmatic bias?
- What are the criteria that we use to choose the evaluators?
- How does symbolism impact the evaluators? (Personal bias)
- What other things impact the way that evaluators choose to evaluate? (bias evaluation theory)
- Who performs the evaluation and is the evaluation dependent on the performer's biases?
- Who chooses not to provide information?
- Are historical events replicable in the other time periods?
- Hypotheses.
- When a business' leadership already has a theory in practice it will tend believe in the correctness of this theory rather than examining challenges to its pre-existing paradigm.
- When business leaders approach a set of evidence without a theory and then form a theory based on initial evidence, the theory will be resistant to subsequent evidence.
- When business leaders formulate a theory based on some putatively probative evidence and later discover that the evidence is false, the theory often survives such total discrediting (Kam: 90).

- Humans, just like other forms of life, come together in groups that range from the micro to the macro. Yet despite the Q's size similarities exist between all Qs.
- The potential for conflict is ubiquitous.
- Competition is natural and a part of conflict. The difference between conflict and competition is that competition is conflict realized according to rules.
- A sense of personal caring (see the "I") may impact conflict, but it can never totally erase conflict. The I's ability to overcome conflict depends on the strength of the I between the sub-Q's.
- All groups must live within the nature of their environment.
- Given that conflict is ubiquitous groups must have both internal and external measurement systems.
- No evaluation is ever 100% certain.
- No business can ever be 100% sure of its assessments.
- Falsification theory would argue that business analyses are never complete or fully accurate.
- The more secure a business the more likely it is to underestimate the level of competition and to err in its defence.
- Business conflicts such as hostile takeovers occur due to a long chain of errors made by management and those analyzing the data.
- Surprise business attacks occur because of a series of errors that no one saw coming at the time due to the complexity demanded by the analysis.

## Table Analysis

One of the methodological tools that the author employs in the analytical sections is that of a topographical table models. These models are meant to provide an overall analysis of one part of a Q be that its ideology or context. These models recognize that they present broad generalities on the macro level and that there may be variations especially on the micro level. These tables serve to contextualize the text and provide needed social background.

The following tables serve to provide classifications for the following social variables. Within the analytical chapters these tables will add the social context of both the business battles and personal motivations. The following are examples of table analysis as used in Chapter VI.

**Table 4:** View of Private Business From the Religious Perspective

Christian (Catholic)	Negative
Christian (Protestant)	Positive
Jewish	Positive

**Table 5:** View of Private Business From the Economic Perspective

Capitalism	Pro- Private business
Socialism	Anti –private business

Based on the work of Max Weber (1930) *The Protestant Ethic and the Spirit of Capitalism*, the table above indicates how different social groups reacted ideologically to the concept of business and wealth. It should be noted that Catholic countries tend to have the least positive view of business/money and therefore it can be assumed an atmosphere less positive toward business adventures than other European groups.

**Table 6:** Access to Power by Religious community in XVI Century Portugal

Christian (Catholic)	High
Christian (Protestant)	Low
Jewish/Crypto	Low

**Table 7:** Access to Power by Religious Community in XVI century Turkey

Christian (Catholic)	Low
Christian (Protestant)	Low
Jewish/Crypto	Medium
Muslim	Very High

**Table 8:** Business opportunities by government type

Communal (socialists)	Low, especially for entrepreneurs
Totalitarian (right wing)	High for rich and middle class.
Totalitarian (left wing)	High for lower classes regarding professions and government work, anti entrepreneurial environment
Pluralist	High for all classes
Unitarian	Low to High

**Table 9:** Openness to Entrepreneurial Spirit

Communal	Low
Totalitarian (right wing)	Low to high
Totalitarian (left wing)	Low
Pluralist	High
Unitarian	Low

## Historical Biographical Guide

The author used the following historical biographical guide in conducting contextualized interviews with historical figures. Methodologically this means that he “interviewed” subjects that were no longer living by use of data analysis.

1. The name and position of each player within the business life of Doña Gracia?



2. The period of time?
3. Emotional relationship to Doña Gracia?
4. What each Q's three main necessities in this case?
5. What were/are the methods and methodologies that each Q used?
6. How did Doña Gracia prepare when an attack seemed eminent?
7. How did she decide which data were (are) relevant?
8. What were her main arguments in front of kings, popes etc.?
9. How did she defend herself against the opposition's arguments?
10. Where was there discord within her team?
11. Were there internal conflicts?
12. If so, about what were these conflicts?
13. When there were conflicts, how did she resolve these conflicts?
14. Who had the final say?
15. What mistakes did her side make?
16. What mistakes did the other side make?

# **Doña Gracia and Other Key Players**

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**An academic contribution toward qualitative evaluations of surprise business  
takeover attack: an historical perspective**

## **Doña Gracia and Other Key Players**

The life and work of Doña Gracia forms an essential part of this dissertation. Chapter V provides the needed biographical and historical context so as to understand the life of Doña Gracia and the times in which she worked. It also serves as an introduction to Chapter VI in which her business relationships are analyzed in light of Kam's theory. The chapter also provides information regarding a potential hypothesis, that the Portuguese Inquisition used the ideology of "Sangue Puro" as a means to destroy Portugal's entrepreneurial class, to which Doña Gracia belonged.

Because this dissertation is of a cross-disciplinary nature, and the author assumes that personal relationships and personal situations often influence business relationships, business battles, and/or surprise attacks this background information is essential. Without a proper understanding of Doña Gracia's place within her macro and micro historical contexts it becomes impossible to understand both her theoretical needs and properly analyze her business dealings.

Writing in the academic journal *Vitae Stolicae* Edward A Janak states: "It may be useful to remember life writer James Garraty's three-tiered typology of biographical subjects, sorted by the writer's "over-all view of the importance of individual intelligence and character in determining the course of events." First are (were) subjects who are "significant only because of times in which they lived make them so", second, subjects who are "forceful individuals" that have change (d) the trend of events"; and third, subjects who are not controlled by themselves or their times, but rather an outside force such as luck, chance or destiny" (Janak, p.6). On the micro

level, Garraty's challenge then is to determine if Doña Gracia is nothing more than a "daughter of her times" if she changed the course of (business) history or if she was merely lucky or unlucky in her business dealings. Garraty may have over-simplified Doña Gracia's life-paradigm in that in reviewing her life we note that she both influenced her environment and was a product of that environment.

On a macro level it is important to understand Doña Gracia's life as an ideological symbol and how the ideological control through the Portuguese Inquisition became an important tool in setting the tone of Portuguese financial history for centuries to come.

For these reasons this chapter deals with the following:

- Who was Beatrice de Luna, Doña Gracia?
- What were the main business challenges in her life?
- Who were her opponents?
- What was the role of government in the 16<sup>th</sup> century world of European finance?
- What was the purpose of the Inquisition in Portugal and were its religious aspects merely a cover for a major financial takeover?

## **The Spanish Expulsion and Portuguese "Cristãos-Novos"**

For the 1500 years prior to the Spanish expulsions of 1492 and the forced Portuguese conversions of 1497, Jews had lived relatively successful and happy lives on the Iberian Peninsula. These years can be divided into four major periods.

- The pre-Muslim period.
- The Muslim period (beginning in 708).
- The Period of the “Reconquista” (until 1391 pogroms).
- The decline of Spanish Jewry until its expulsion in 1492 and the legal end of Judaism on the Iberian Peninsula with the cultural genocide brought about by the forced conversions in Portugal in 1497.

These four stages provide the backdrop for our study of the historical context of Doña Gracia. Throughout this study one historical trend becomes clear, what happens to Spanish Jews will eventually influence and determine the lives of Portuguese Jews.

In comparison with the above historical division Portuguese Jewish history can be divided into the following groupings:

- The beginning of the Portuguese government until the Spanish pogroms of 1391, a period in which Portuguese Jews lived in relative harmony with their non-Jewish neighbors.
- The period between 1391 and 1492, which we may call a period of transition with Portugal consistently coming ever more under the negative influences of Spain.
- The period from 1492-1497 with the entrance into Portugal of tens of thousands of Jewish refugees.
- The post Cultural genocide period where Portugal forces its New Christians into a cultural abyss and the idea of pure blood is introduced.

In 1391 a series of government sponsored pogroms swept across Spain and thousands of people were forced to convert to Catholicism in order to save their lives. These riots began in Seville and spread northward and eastward until reaching Barcelona and then to the Balearic Islands. These riots, however, did not touch Portugal and Portuguese Jews remained unscathed. These forced conversions produced a new class of people, eventually provoking an inquisition (later to be called The Inquisition) and the expulsion of Spain's Jews in 1492. Many of these Jews sought refuge in nearby Portugal (Roth, p. 49). Henry Kamen has noted that "of the refugees who fled from Spain before and after 1492, a great number went to Portugal, perhaps as many as 120,000 in all swelling the Jewish community' in Portugal to about a fifth of the country's total population (Kamen, p.215). Portugal was willing to accept these Jewish refugees for a number of reasons. These included the fact that the pre-1492 Jewish community had served Portugal well. For example, Barry Steifel in his article: "The Jewish and Crypto-Jewish Participation in the Age of Discovery" notes that Portuguese overseas conquests were to a large part due to Jewish navigational systems and maritime exploration (Steifel, 2009).

The Portuguese king, João II, saw the entrance of these refugees as a positive factor for Portugal and in 1492 called a special council in Sintra to approve of their arrival. Those who opposed admitting Spanish Jews into Portugal spoke of the danger that a large number of people might have on the Catholicism and worried about the introduction of non-Christian elements into Portuguese society (Almeida, p.165). These people entered Portugal as paying customers. Each Jew who entered Portugal had to pay a head tax of eight "crusados" and given the right to stay in Portugal for no more than eight months. The tax had to be paid upon entering Portugal and the alternative to paying the tax was to become a prisoner of the state (Almeida, p. 165).

Jews entered Portugal at border crossings such as: Olivença, Arronches, Castel Rodrigo, Braganza, and Melgazo (Kayserling, p.98 in Portuguese translation). Unfortunately for these Jews their entrance into Portugal turned into a cul-de-sac. João II realized that he could not afford to lose their entrepreneurial skills that these Jews possessed and saw them as a counter balance to the Portuguese (old guard) nobility. Thus, the king had to pretend to allow them to leave but find a way to keep them in Portugal against their will. Samuel Usque describes what happened to the first group of Portuguese Jews who tried to leave Portugal in the following way: “The hapless Jews embarked, (from Portugal), thinking they were in the custody of trusted friends. But they were deceived. They were taken to the high seas, where their cries and shouts could move no one to pity, and they were tied hand and foot, and their women were dishonored before their eyes and they were despoiled even to the last garment” (Usque, pp. 201-202). Dom Manuel assumed that he would be able to threaten these Jews into conversion. By the Spring of 1497 it was apparent that Portuguese Jews would not convert, and thus many were assembled in Lisbon, on the pretext of giving them passage abroad, and then forcibly had them converted.

Usque describes the end of the official Jewish community of Portugal with these words: “The king realized that even this (starvation) was insufficient to change them, and if he starved them any longer they would perish. He therefore determined to use the violence he had employed with their children (sent to the island of São Tomé to be eaten by lizards). Dragging some by their legs and other by their hair and beards, punching and mauling them his men brought them to the churches where the waters of baptism were thrown upon them” (Usque, p. 204).

David Augusto Canelo in his book on Belmonte notes that: “in conclusion the forced conversion allowed D. Manuel to say to the Catholic Kings (Spanish Kings) that there were no more Jews in Portugal, and yet it allowed Portugal to continue to count on the ability and strength of the Jews. From that sprung the rather strange attitude of the Portuguese monarch... Towards the end of 1497 all synagogues in the country were closed and thus ceased to assure the entire community the maintaining of the Jewish people’s traditions (Canelo, pp.23-24).

Cecil Roth shows how there was a major difference between the mass conversions of Jews in Spain and in Portugal. Roth writes: There was a vast difference between the mass conversions in Spain and Portugal. In the former country it was only the weaker that had yielded – sometimes indeed only to save their lives, but frequently even when immediate danger was absent. In the latter case, matters were entirely dissimilar. Those who submitted to baptism with any show of willingness, however remote, were few in the extreme. In most instances, they were not even afforded the alternative of martyrdom Roth, pp. 60-61). The forced conversions, however, did not end the “*cristãos-novos*” problems. For example, due to a poor harvest in 1503, the Portuguese blamed the “Jews” (now legally Christians). One German eyewitness speaks of these anti New Christian riots in the following terms: “On Monday, I saw things that I would certainly not have believed had they been reported or written or unless I had witnessed them myself. Women with child were flung from the windows and caught on speakers by those standing underneath, their offspring being hurled away. The peasantry followed the example of the townspeople. Many women and girls were ravished in the fanatical pursuit. The number of New Christians slain is estimated at between 2,000 and 4,000 souls” (Roth, p.65).



The formal establishment of the Inquisition in Portugal meant that almost any one could be declared to be a Crypto-Jew. According to the Inquisitional authorities a partial list of the ways of being identified as a Crypto-Jew were (Révah, *Les Marranes Portugais et l'Inquisition au XVI Siècle*, p. 500):

1. The observance of Saturday with any possible conformity to Jewish Law.  
This included the wearing of clean underwear, the use of jewelry, having a clean house, preparation of food on Friday, and the allowing of candles to burn out on Friday night.
2. The slaughter of any animal or bird that might be in accordance with Jewish tradition.
3. The non-eating (abstaining from) of pork, rabbits, sick birds, cockroaches, vultures, and sick animals.
4. Observance of a (an important) fast in September.
5. The celebration of Passover or the listening to a ram's horn in September.
6. The circumcision of sons or giving them a Jewish first name.

It should be noted that this was a wide range of potential crimes and that they may have applied to non-Crypto Jews. Thus it is possible that old Christians (those of pure Christian blood) may have used clean underwear, and may not have eaten cockroaches or sick animals. This meant that the Inquisition's reach was so broad that anyone could fall into its traps. Canelo has noted that: "Once the Inquisition was introduced in Portugal it became an institution of extensive powers that reached all sectors, from the religious and cultural through the economic, political and social" (Canelo, p.26).

It is into this world of forced conversions without possibilities of leaving that Doña Gracia was born. Doña Gracia's life may be summed up both emotionally and by the words of the famous Iberian Peninsula Poet, Yehua Ha'Levi when he wrote "B'Maarav gufi/b'Mitzrach libbi" (My body is forced to be in the West, but my heart remains in the East" (<http://www.angelfire.com/ct/halevi/halevi-poem2.html>, August 23, 2010).

The following partial time line places Doña Gracia's life in the context of European.

**Table 10:** Doña Gracia's life in the context of European

Year	Event
1497	Forced Conversions of Portuguese Jews and the birth of the “Cristãos-Novos”
1506	Lisbon Massacres
1510	Gracia is born in Portugal. Her Portuguese name was Beatrice de Luna. In the family she is called Gracia (Hannah) Nasi. Her brother — Dr. Miguez — was the royal physician.
1512	Diogo Mendes opens Antwerp branch of House of Mendes. By 1525 the brothers control the largest share of the pepper and spice trade. The capital at his disposal was 300,000 — 400,000 florins He made loans to the Kings of Portugal and England.
1528	Gracia marries Francisco Mendes
1531	Diogo is arrested for Judaizing. Uses safe conduct letters from the (Holy Roman) Emperor and are released the same day.
1532	Diogo is arrested on the word of a child who, with his mother and 3 siblings, Diogo has previously helped escape to Salonika. Diogo is moved to Brussels. Antwerp puts up obstacles, demands the right to try him. The King of Portugal, who will lose 200,000 ducats if Diogo cannot complete business deals, instructs his representatives to intervene. Mary of Hungary and Henry VIII also support Diogo.
1532	September. Diogo is released under bail of 50,000 ducats and a large cash payment. Charges are dropped
1532	The Emperor prohibits New Christians from travelling through Antwerp on their way to Turkey. The House of Mendes is able to help most travellers anyway
1536	Francisco dies, Gracia is left with an infant daughter Reyna (publicly known as Brianda). The administration of Francisco's fortune is divided between Gracia, who is to act in the name of her daughter, and Diogo
1536	Formal establishment of the Inquisition in Portugal, on the Spanish model. New Christians cannot easily immigrate to non-Christian countries, but can go to Northern Europe. Gracia moves to Antwerp with her daughter Brianda, her unmarried sister Brianda (namesake of Gracia's daughter) and her nephews Joao Miguez (a.k.a. Joseph Nasi, later Duke of Naxos) and his younger brother. Brianda marries Diogo.
1536	Brianda marries Diogo
1539	Inquisition formally opens in Lisbon causing mass exodus of Portuguese entrepreneurs to Antwerp
1542-43	Death of Diogo. Gracia is named administrator of Diogo's half of the business on behalf of his widow and infant daughter. Gracia must fight charges of heresy against Diogo (else his property will be confiscated)> the charges are withdrawn when she lends the emperor 100,000 ducats interest free.
1544	Doña Gracia flees to Venice
1546-1549	Brianda accuses Doña Gracia of heresy and attempts to take control of House of Mendes.
1550	Move to Ferrara. Jews expelled from Venice.
1552	Publication in Portuguese of “Consolação às Tribulações de Israel” by Samuel Usque
1554	Joseph Nasi arrives in Istanbul, converts to Judaism and marries Doña Gracia's daughter.
1555	Pope institutes formalized ghettos for Jews
1556	Mass burnings of Jews in Italy
1558	Doña Gracia moves to Turkey
1562-1569	Rise of Power of Joseph haNasi
1569	Death of Doña Gracia

## **The Lisbon Massacres of 1506**

Despite King Manuel's "protection" of his forced converts a major massacre took place in Lisbon during the Spring (April 17) of 1506. The Lisbon Massacre is considered to be unique (until the Nazi exterminations) in that hypothetically the victims, having been converted to Catholicism were technically not Jewish. Thus, the idea of extermination of human being due to what may be called "religion-by-blood" rather than "religion-by-ideology" may have its roots in XVI century Portugal. The details of the massacre are not relevant to this dissertation. What is relevant is that the massacre came about due to the population's belief that a medical plague (the term "pandemic for that age) had come to Lisbon as retribution for the secret Judaizing of many New Christians. Plagues were common in early XVI Lisbon (Yerushalmi, p. 7). Due to the plague much of Lisbon's upper class had left the city. Lisbon, suffering from draught, hunger and plague was ripe for violence. When several new Christians were caught slaughtering a chicken according to Jewish rites (allowing the blood to drain out) the crowds were encouraged to murder as many New Christians as possible. The riot's epicenter being the Praça dos Santos Domingos in Lisbon. (Yerushlami, p11).

This massacre set the stage for Crypto-Jewish life in Portugal until 1988 when the Portuguese Prime Minister Mário Soares officially presented Portugal's formal apology for the anguish and suffering caused to so many of its citizens. Despite the fact that Dom Manuel punished the Dominicans for inciting the riots, from 1506 on upward mobile New Christians or entrepreneurs would feel comfortable in Portugal. It is not clear if this pogrom was due to religious fanaticism or the conflicts that took place

between the Nobles and King. Yerushalmi notes that although the King meted out sever punishments for the slaughter of innocent New Christians, “Nowhere is there implied any compensation to the survivors for loss of life or property. All the confiscations went directly to the royal treasury” (Yerushalmi, p.19). Yerushalmi then notes: In sum, not a pogrom, but a revolt was being punished” (Yerushalmi, p.19). In other words, Manuel understood the “massacre” to have symbolic significance as a direct threat to the Portuguese monarchy by the nobles of the Old Guard. It is into this world that Doña Gracia will be born.

### **Beatrice de Luna (Doña Gracia)**

A survey of the historical record shows that despite her great business acumen Beatrice de Luna is rarely mentioned. Just as Portuguese textbooks tend to gloss over the Inquisition, so too do Portuguese textbooks simply tend to ignore her existence, and a search of the business libraries and databases also confirms this “having fallen off the pages of history”. The reasons for this historical silence may be many and it is beyond the scope of this paper to enter into historical speculation. What we do know about her is: Beatrice de Luna (Doña Gracia) was born in 1510 in Lisbon to an upper class Spanish immigrant family. Her brother may have been Dr. Agostinho Miquez, the royal physician and professor of medicine at the University of Lisbon (Birnbaum, p. 2). Her parents, who may have immigrated to Portugal from Aragon, were Alvaro and Phillipina de Luna (see Solomon and Leoni’s 1998 article in *Jewish Quarterly Review*). For purposes of this dissertation many of her personal biographical details are not pertinent, the fact that she was born into an upper class family would coincide with the theoretical section of this dissertation. That is to say, that she would have had the

resources and prestige needed to enter into upper class Portuguese society, a society that was highly stratified by class and economic structure. Interestingly historians report that women were highly active in the business world of Medieval Europe. Thus, Andrée Aelion Brooks writes: Women, especially widows, were already prevalent in the business world. They enjoyed equal inheritance rights under law in most European countries and would often find themselves thrust into commerce following the early deaths of their husbands” (Brooks, p. 25). Among the famous and successful businesswomen and political leaders of the age were: Queen Isabel of Spain and Mary Tutor of England, Lucrezia Borgia and Caterina Sforza of Italy, Catherine de Medici (Italy) who became Queen of France, and Marie of the House of Habsburg, who would become Regent of the Netherlands. Once again, the historical context makes it clear that Doña Gracia would not have been an exception to the rule or fearful of entering business as a women. This entrance into business was already an established fact, and her sex may not have been a business impediment. It is known that as becoming a woman of the upper class within Lisbon society that she married well. Her husband, Francisco Mendes, who along with his brother Diogo ran a worldwide trading company and bank. Francisco Mendes must have been one of Lisbon’s richest men. In fact “at the time of the marriage (to Beatrice de Luna) Francisco Mendes had become so rich that King João III could comfortably describe him as a man who had ‘acquired enormous wealth here’ and a gentleman who numbered among the king’s ‘most important merchants’ connected with the Indies trade (Brooks, p. 52).

The House of Mendes had agents across Europe and throughout the Mediterranean world. In 1512 the House of Mendes obtained the monopoly on the Indian pepper trade a move that permitted it to open offices in Antwerp. The House of Mendes also had an agent in England and financed not only Henry the VIII, but also, John III of Portugal,

Francis I of France, Charles V, (un) Holy Roman Emperor, Emperor Maximilian (Charles' grandfather), Sultan Suleiman the Magnificent, and Ercole II, Duke of Ferrara. (<http://www.jewishmag.com/113mag/secretjews/secretjews.htm>, August 15, 2010). This extensive network meant that once Doña Gracia would take control (upon the death of her husband in 1538 and her brother-in-law in 1542) that she would not only become the head of the House of Mendes businesses but would have to become an international business executive and administrator par excellence. Miriam Bodian has written about her: "In 1528 Beatrice married Francisco Mendes Benveniste, a wealthy New Christian merchant in Lisbon, whose fortune derived from trade in the East Indies. With her husband's death in January 1535, Beatrice was left a young widow with an infant daughter Ana (c. 1534–1599). It is noteworthy that in his will Francisco divided responsibility for the administration of his fortune between his wife and his brother (and business partner) Diogo (d. 1543), a fifty-year-old merchant in Antwerp who, since 1525, had been a leading figure in the Portuguese pepper and spice trade. Francisco evidently recognized his young wife's intelligence and resourcefulness" (<http://jwa.org/encyclopedia/article/nasi-dona-gracia>, August 15, 2010).

The historical record appears to indicate that she was an excellent negotiator. Under her leadership the House of Mendes had business dealings with such luminaries as Henry II of France, Henry VIII of England, Charles V of Spain, Popes Paul III and IV and the Turkish Sultan. The following map outlines the historical path taken by Doña Gracia from her birth until her death.



**Figure 8:** Path taken by Doña Gracia from her birth until her death ([http://jhom.com/personalities/dona\\_gracia/index.htm](http://jhom.com/personalities/dona_gracia/index.htm), August 15, 2010).

The map shows that Doña Gracia consistently sought both new business opportunities and also that sought places in which the government would interfere in both her business and private life to the least extent.

Part of the business battles and takeover battles occurred beginning in 1539 when Doña Gracia's sister Brianda de Luna married Doña Gracia's brother-in-law Diogo. Diogo's death in 1543 meant that Brianda, along with her daughter Beatrice (named after Doña Gracia) now had legal rights to a great part of the House of Mendes' fortune. Diogo's will stipulated that: "half the family property remained in Beatrice Mendes' hands. But he, too, must have recognized Beatrice's merits, for he made her the administrator of his own half of the fortune, on behalf of his widow Brianda and their daughter. This decision was no doubt intended to provide the wisest administration of the estate, but it led to a personal rift between the two sisters (Beatrice Mendes and Brianda Reyna Mendes) that would produce great difficulties in the years to come." (<http://jwa.org/encyclopedia/article/nasi-dona-gracia>, August 15, 2010).



The difficulties would not only be intra-family difficulties, but would involve attempts at hostile takeovers, government intervention and the reality of the ever-present Inquisitional authorities.

## **Diogo Mendes**

Little has been written on Doña Gracia's brother-in-law, Diogo Mendes. We know that he established a branch of the Mendes financial house in Antwerp (then under Spanish rule). We also know little regarding the relationship between the two brothers. We do know that they cooperated together and that Doña Gracia would immigrate to her brother-in-law's Antwerp base. We may therefore assume that there was a great deal of trust between the brothers. We have no records of any business hostilities between them.

During the first half of the sixteenth century Antwerp was Europe's leading commercial center. Diogo Mendes was a major player in the Portuguese spice trade and headed a company that today would be called "too big to fail." Thus, Leone Lioni writes of him: "Diogo Mendes was the principle member of a consortium that annually purchased Portugal's entire pepper and spice import from the Portuguese crown. Since that year's sum had not been paid, liquidation of the Mendes' assets would have dealt a crippling blow to the Portuguese economy." (<http://www.jstor.org/pss/1454662>, August 15, 2010).

We also know that Diogo was active in international trade. Aron di Leone Leoni writes: "In 1541, when Bastião Pinto established a commercial company for the trading of sugar, in partnership with the Duke of Ferrara, Diogo Mendes offered a guarantee of

3,000 ducats in favor of Bastião, in the form of a bill of exchange made payable to the Duke. Furthermore, Diogo saw to it that the new company was provided with regular supplies of sugar, a rather rare product at the time” (Leone Lioni, p. 90). Diogo was also involved in the diamond trade. James C. Boyajian notes that his prominence in the Venice Diamond trade (Boyajian, p. 138).

It is unclear how much family tension and sexual jealousy may have played a role in the decision of Doña Gracia to leave Antwerp for Italy. Leone Lioni writes: “The decision (to leave Antwerp) was apparently motivated, at least in part, by delusion and jealousy, as Diogo Mendes had preferred to marry Brianda.” (Leone Lioni p. 92). On the other hand, Brooks notes that often marriages arrangements were concluded almost at birth. Thus she writes: “The fact that her younger sister, Brianda, would marry Francisco’s younger brother, Diogo, underscores the likelihood of an early marriage agreement, especially as Diogo never had the chance to become acquainted with Brianda beforehand/ He moved to Antwerp so early on she must have been a baby” (Brooks, p.52).

## **Brianda Mendes**

Doña Gracia’s younger sister may be the most complicated and important person in our understanding of Doña Gracia’s business life. The historical record seems to indicate that although, by law, Brianda had certain rights as the mother of Diogo’s daughter, Doña Gracia did not trust her business judgment. Thus the two sisters went through a period of intense internal business fighting. There appears to be two sides to her life. Some have portrayed her as a spendthrift who was both jealous of her sister and incapable of handling money or business administration. On the other hand documents

point to the fact that Samuel Usque worked for her. “From the 1549 notary deed we learn that after Diogo Mendes' death, Samuel worked for Brianda Mendes de Luna (Diogo's widow) for an undetermined period; then Samuel left Antwerp and undertook the *diffidi caminho* through the Alps, towards Italy, at least one year before Beatriz and Brianda de Luna made their famous escape to Venice” (Guerrini, p. 84). Samuel Usque was the major chronicler of Portuguese Jewry and should not have had problems receiving financial support. The fact that he chose to work for Brianda then may indicate that she was sharper than Doña Gracia's supporters make her out to be. That fact may also be born out by the information that her uncle Gonçalo Mendes, upon his death, he left 25% of his estate to Brianda. Despite the fact that Brianda denounced her sister Doña Gracia to the Venetian court on the charge of Judaize, “according to Gaspar Lopes, Brianda was even more zealous than Diogo in the observance of Jewish precepts” (Di Leone Lioni, p. 90).

The legal takeover maneuverings between the two sisters seem to have revolved around two basic issues (1) the potential move to Constantinople (Istanbul) and (2) once outside of the European theatre, the family's formal re-entry into Judaism. Brooke states: “the sisters' dispute ended up in the Court of Foreigners, a legal entity set up by the Venetians to handle disagreements among overseas merchants doing business in the city.

In the summer of 1547, some eighteen months after their arrival, Brianda challenged Doña Gracia's role as guardian and administrator of La Chica's (Brianda's daughter) inheritance” (Brooke, p. 230). It should be noted that such legal battles were not uncommon during the middle Ages. For example, Shulamith Shahar in her book *The Fourth Estate: A History of Women in the Middle Ages* notes: Many women

maintained their dower without interference, but others were forced to battle their dead husband's relatives in the courts for their rights. The registers of the King's Ripton manor record the case of a widow who sued thirteen persons and whose case was tried several times... The dower, which accounted for a considerable part of the property, deprived the heirs and widows sometimes entered into disputes with their offspring justifiably or without good cause (Shahar, p. 238).

Brianda demanded a full investigation into the financial affairs of Diogo's inheritance. It is noteworthy that Brianda also fought along ideological lines declaring that Doña Gracia intended to move to Turkey and re-enter Jewish life. Using an ideological position before the court: "Brianda portrayed herself as pious to the core, telling the court that she and her daughter wanted to remain in Venice where they could continue to live as good Christians" (Brooke p. 230). The recourse to the courts and the denunciation of Doña Gracia as being desirous of returning to Judaism has to be interpreted as a "surprise attack". This would be especially true if in a Portuguese language article by Leone Lioni on the meanings of the Hebrew term "nasi" Lioni states: Brianda Mendes, irmã de Doña Gracia, estabeleceu-se em Ferrara em 1556, onde regressou oficialmente ao Judaísmo, tendo morrido pouco tempo depois/ Brianda Mendes, Doña Gracia's sister set up residence in Ferrara in 1556 where she officially returned to Judaism" (Leone Lioni: Cuadernos de Estudios Sefardies, p. 78) Considering the hardening of mid XVI century Catholic religious attitudes, the general climate of anti-Jewish feeling, and the fact that Inquisition had come to Rome in 1542 (and to Venice in 1547 just six months prior to the opening of the trial) was a serious matter. The implication was that Doña Gracia was a heretic and therefore liable to the severest of penalties. Brooks notes that: "Ever since the Inquisition had been established in Spain in the previous century, converse families had used it as a

mechanism for fighting inheritance and internal property battles (Brooks, p. 231). These 'court cases' would be the equivalent in today's language of a hostile takeover.

## **Don Joseph and the Istanbul Experience**

Doña Gracia finished her life in Istanbul. Istanbul afforded her the religious and political freedom that Europe lacked. She was also unprepared for the daily give and take of an independent Jewish community. In Istanbul she discovered that there was not a single homogeneous Jewish community, but rather a series of leaders each of whom had their own ideas and political viewpoints. Turkey did not view Jews from the same prospective, as did Catholic Europe. Because Turkey was an amalgamation of minorities, it saw its Jewish population to which Doña Gracia now belonged as simply one more minority group, albeit one that had much to contribute to the national good. Molly Mcanailly Burke as part of Turkey's 500 year celebration of Jewish culture has written: "Thus In fact so hospitable were the Ottomans to Jewish refugees that, in the early 15th century Rabbi Yitzhak Sarfati of Edirne sent a letter to Jewish communities in Europe entreating them to leave behind the torments they had endured under Christianity "and seek safety and prosperity in Turkey" as part of their path back to the Holy Land.

The rabbi's words proved to be prophetic with the expulsion of Jews from Spain. Over 150,000 Jews were able to escape from Spain and come to Turkey. "They were officially welcomed into the Ottoman Empire and settled in Istanbul, Edirne, Bursa, and many other cities, receiving land, tax exemptions, encouragement and assistance from the government. "The Catholic monarch Ferdinand was wrongly considered as wise" Bayazid II reportedly said, "since he impoverished his country with the

expulsion of the Jews, and enriched ours" (Molly Meanailly Burke).

Certainly the Sultan was correct. Although as will be discussed in the next chapter, Doña Gracia would have a number of political and business battles ahead of her, Turkey prospered while Spain and Portugal sank into abysses of history.

Istanbul would provide new chapters in her life. Her daughter married Joseph Ha’Nasi. Joseph Ha’Nasi, after escaping Christian Europe, Joseph Ha’Nasi settled in Turkey and supported Selim’s successful bid to become the next sultan. Nasi was a successful banker who has moved from moved from Portugal to Turkey and thus as Jacob R. Marcus in his book *The Jews in the Medieval World: A source book, 315-1791* (Marcus p. 363) escaped from what a Portugal that he called “the iron Furnace.” The fact that Joseph Ha’Nasi’s influence counted toward the selection of the new sultan tells the modern reader something about his position within the Turkish body politic. This fortuitous decision permitted Joseph to enter into the highest ranks of Turkish government and use the trading connections developed by Doña Gracia and the House of Mendes to influence Turkish foreign policy. On the occasion of the 130<sup>th</sup> birth of the great 18<sup>th</sup> century Polish scholar Moses Schorr a series of tribute articles were published. One of these articles notes that Schorr in his book *Monatschrift fur die Wiessenschaft des Judentum* has written of Don Joseph the following: “In this work, the author analyses the relations of Joseph Nasi with Polish king Sigismund August in the light of the situation of Jews in Poland at that time. Joseph Nasi was the Portuguese (sic born marrano, the Antwerp banker, the duke of the Ottoman islands of Naxos and the Cyclades, Lord of Tiberias, one of the first “proto-Zionists” and an influential Ottoman statesman during the reign of Salim (1566 - 1574).” ([http://personal.ceu.hu/students/97/Roman\\_Zakharii/schorr.doc](http://personal.ceu.hu/students/97/Roman_Zakharii/schorr.doc), August 25, 2010). He

successfully negotiated a peace treaty with Poland, and had a monopoly on Turkey's beeswax trade with Poland. Culturally, Joseph Ha'Nasi maintained a Hebrew Publishing Company. His wife (and cousin) Doña Reyna (Doña Gracia's daughter) maintained the press well after his death. It should be noted that other sources claim that his wife established the Press only after Joseph's death. (<http://www.jewishvirtuallibrary.org/jsource/loc/Italy.html>, August 25, 2010).

The fact that there was a need for such a Hebrew (language) publishing center in Istanbul tells us a great deal about the cultural level in which Doña Gracia ended her days.

Joseph Nasi may be best known for his attempt to restore Jewish life to the city of Tiveria (Tiberias in English). This political and economic effort is what Svetlana Boym calls restorative nostalgia. The following table provides an understanding of Boym's divisions of political nostalgia:

**Table 11:** Boym's divisions of political nostalgia

Type of Nostalgia	Restorative	Reflexive
Stress	Action of going home	The longing
Push for homecoming	Quickens it	Delays it
Way it thinks of itself	Truth and tradition	Faces modernity
Dealing with absolutes	Protects the absolute truth	Questions absolute truth
Politics	National revivals	How do we inhabit two places at the same time
Emphasis on	Symbols	Details
Memory	National and linear	Social and varied
Plots	Restore national origins and conspiracy theories. A paranoid reconstruction of "home" based on rational delusions (p.41)	Past is dealt with, with irony and humor (p.49). Mourning mixed play pointing to the future.

The above table demonstrates how important restorative nostalgia was as a tool of ideological motivation both for Don Joseph and for Doña Gracia.

What makes this resettlement policy unique is the change in ideology. Instead of waiting for the Messiah to reunite Jews with their ancient homeland, Joseph Ha’Nasi decided to use practical means. Although due to European wars the plans did not succeed, the ideological changes permitted the growth of modern Zionism in the 19<sup>th</sup> century and full Jewish Independence in the 20<sup>th</sup> century.

Despite these battles, Doña Gracia, also known simply as La Señora, had come home, home to her people and closer than most to the land of Israel. Perhaps her biographer Andrée Aelion Brooks sums up her life best when she writes: “Certainly she showed every sign of being the Jewish woman of tomorrow, strong, proud, and independent-minded. Watching her, the thought comes to mind that she represents the Jewish people that Doña Gracia worked so hard-and ultimately succeeded- in saving” (Brooks 473). Perhaps her greatest business victory then was permitting a people to survive and a nation to grow again from the ashes of history into what she would have hoped for, an “or la’gaoyim/a light unto the nations”.



# Analysis

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**An academic contribution toward a qualitative evaluations of surprise business  
takeover attack: an historical perspective**

## Analysis

### Introduction

This chapter presents an analysis of hostile takeovers, making them similar in some aspects, according to the principles of Kam (1988), to a surprise military attack between nations.

Indeed, according to the literature reviewed, it is possible to identify similarities between interstate and inter-corporate hostilities, particularly those that are presented in the table below:

**Table 12:** Similarities between the interstate and inter-corporate hostilities.

	<b>Military</b>	<b>Business</b>
Information gathering	Spies, media reports, theory	Media reports, theory
Assessment	Analysts	Business leadership
Current paradigm	May be politically motivated	Business model or politically motivated
Data analysis	May have too much or too little	May have too much or too little
Denial syndrome	Disbelief that the attack will occur	Disbelief that there will be a hostile takeover
Panic syndrome	Often during first stages of attack	Often when the implementation has occurred and the takeover process has begun
Partiality/Misjudgments	Denial, Doctrinal control	Denial, doctrinal control
Internal organizational conflicts	Fear of speaking to superiors, competition between departments	Fear of losing the job, position or prestige and the desire to lower other employees rank within the company
Policy development (decision)	Made from political, psychological, economic and/or military reasons	Made from political, psychological, economic and/or business reasons
Decisions made by the opposition	Unknown	Unknown
Outcome	War	Takeover
Impact on leadership	Scapegoat sought	Scapegoat sought
Consequences of misevaluation	Change of government, loss of independence, death	Death of current business, change of leadership, loss of assets

Despite this fact, we were not able to find in any review of the business and/or military literature studies that connected hostile business takeovers to surprise attacks. Only one study identified referred to legal battles between two large companies as an act of war, however this was not directly related to hostile takeover (Hartz, 1985).

Furthermore, in the particular case of the literature related to takeovers, the qualitative methodological approaches are scarce and the existing ones merely identify and describe a number of assumptions, which aim to justify the methodological options made and the choice of variables, namely the interest rates, premiums risk, that are referred, for example, in the studies of Povel (2006) and Powell & Yawson (2007).

In general terms, hostile takeover studies are traditionally associated in the literature with quantitative theories, placed into a binomial model and centered on a business analysis of the targeted company for acquisition. These studies objectives are, generally to evaluate the targeted business from a mathematical and financial point of view, giving it a value that the person seeking the acquisition is willing to pay.

However, as it is demonstrated in the present study, in the business world, particularly in hostile takeovers it is not a purely mathematical or financial phenomenon. Throughout this study, we can see that business involves in practice a whole range of human emotions, going beyond numbers and entering into the social and psychological context of people and their relationships.

It is in this context that one justifies the association of hostile takeovers to military surprise attacks by Kam (1988) and his followers, like (Helfstein, 2008). Indeed, given the similarities between both fields of work, takeovers and surprise attacks, and the

lack of qualitative approaches in the study of takeovers, these authors theoretical and practical knowledge make an important contribution, both to finance researchers as to corporate executives.

Regarding Doña Gracia, as observed in Chapter 5, she developed her business activity in four countries: Portugal, Belgium, Italy and Turkey. In studying the financial history of Doña Gracia in these 4 countries, one states that the professional Doña Gracia cannot be separated from the individual Doña Gracia, because personal decisions often have professional implications and vice versa. For example, in Portugal, the House of Mendes did not cease to exist due to its lack of financial resources or economic difficulties, but rather because of the fact that the Portuguese government allowed the Inquisition to work. It was also the king's goal to marry Doña Gracia's daughter to a member of the old Christian class. Doña Gracia, however was ever mindful of the need to protect her family's financial resources.

Although a quantitative analysis does not capture personal data, these data should not be neglected or dissociated from each other. Nevertheless, there is no 100% sure way to predict a takeover. The fact is that the probability of error increases if we only know the quantitative reality. For example, in the case of Portugal, a less trained or casual observer, knowing the historical context, could easily conclude that Doña Gracia's decision of leaving Portugal was not made for financial reasons, but for personal ones. This observer would indeed be partially right. However, a closer examination shows that there was an internal "loop", and that, what appears to have been personal reasons was connected to financial issues, as a means of protecting and maintaining control of Mendes family finances. Hence, we discover the importance of getting to know both realities: the quantitative and qualitative. In practice, the study of hostile takeovers

should be approached from a holistic position, and connected to numbers and people. It is a mistake not to consider an assessment within a social network that joins multiple sub-organizations. In fact, according to Kam (1988) and his theories, we can conclude that companies are dynamic and constantly changing, authentic social constructions. According to Einstein, there is no one theory that can explain everything, so the Q theory should be analyzed in conjunction with other theories and answers should be sought, where there is a data lacuna.

Q theory also comes from the military theories of Kam, because it considers that a takeover can be defined as a military battle. So, this chapter seeks to prove whether Kam's theories are valid in the business world?

To examine the financial history of Doña Gracia, according to the Q theory, we attempted to ascertain the facts in Portugal, Belgium, Italy and Turkey. However, for presentation purposes within this study we have grouped the data in these four countries, into two analytical grouping, namely:

1. Portugal, Belgium and Italy.
2. Turkey.

The reason for this presentation relates to the overarching national ideology. In the former cases the cited nations were Catholic in nature while in the latter case it is Islam that forms the overarching I.

Thus, according to the Q theory, we will analyze in this chapter:

- The relations of Doña Gracia.
- We will do a literary analysis of the texts.
- We will seek to extract from the financial history of Doña Gracia, theoretical

principles that can be applied to modern finance.

### **A Summary of the Doña Gracia's Business Activities in the Christian Countries (Portugal, Belgium and Italy)**

We have been able to extrapolate from Doña Gracia's life story a great deal of financial data upon which we can develop a business analysis. Her life begins with a marriage (of convenience), with Francisco Mendes, one of the wealthiest and most influential men in Portugal. Along with his brother, Diogo, Francisco founded a commercial and financial empire, with offices in Lisbon and Antwerp. The "Casa Mendes", became one of the most powerful financial houses of Renaissance Europe. The House of Mendes gave huge loans to major figures such as Charles V, king of Portugal and Henry VIII of England.

Financial activity was the House of Mendes's principal objective. The House of Mendes also supported a significant amount of social projects through its aiding a variety of crypto-Jew causes. For instance, the brothers used their financial power to fight against the establishment of the Inquisition in Portugal and helped to keep the escape routes open for those who chose to live in more tolerant countries.

In 1535, Francisco died suddenly, leaving part of his wealth to Doña Gracia Mendes and their only daughter, Anna, known by her Jewish name, Reyna.

The entrance of the Inquisition in Portugal (1536) and the Portuguese King's desire to marry Doña Gracia's daughter to an old Christian in order to control the wealth, generated tension between Doña Gracia and the Portuguese authorities. Pressed, Doña Gracia left Portugal towards Antwerp accompanied by her sister Brianda, by her

daughter Reyna, Juan and Bernardo Micas (Christian names of Don Jose and Nasi Samuel Don). Her flight from Portugal was organized together with her brother-in-law, Diogo, who now had important business in Antwerp. Antwerp was under the reign of Charles V. At the time, it was an important trading center and Doña Gracia's arrival was seen as an economic benefit to the city, not only because of her personal wealth, but also for her business network and entrepreneurial skills.

Upon arriving in Antwerp, Doña Gracia got to know Ercole II, Duke of Ferrara. She worked to develop, for purposes of business, both social and commercial relationships with him.

In 1543, Diogo died. His will named Doña Gracia, as the administrator of his part of the Mendes fortune and his daughter's guardian, turning Doña Gracia into one of Europe's richest women. Diogo's last will and testament caused tension and jealousy between the sisters, and setting the stage future family conflicts.

Diogo's death also brought problems to Doña Gracia's relationship with the Emperor Charles V and Queen Mary who took advantage of a lonely woman and saw a good opportunity to attack one of the largest fortunes in Europe. First, they tried to confiscate the property and then attempted to make another marriage of convenience between the Doña Gracia's daughter and an old Christian.

As a consequence of these facts, the history of Portugal (Inquisition and the proposal of a marriage of convenience) was repeated in Belgium, forcing Doña Gracia to choose another destination. The next destination was Venice, where she moved in 1545 with her daughter, sister, niece and Don José, Don Samuel (loyal family team, skilled businessmen and diplomats).

Once in Italy, Doña Gracia lived a peculiar situation when compared to Portugal. That is, in Lisbon, despite being Christian, because of her Jewish ancestry, Christians saw her as Jewish. In Venice, because of her Christian appearance and Portuguese origin, the Jewish community saw her as not Jewish.

For the first time in her history, Doña Gracia equates a destination outside Western Europe, the Ottoman Empire. However, the rivalry between the sisters that had been triggered by the decision of her brother-in-law Diogo reappears and now becomes an open wound. Brianda wanted access to her husband's fortune and did not intend to leave Europe with her sister.

Meanwhile, Doña Gracia considered the Mendes fortune a holy family legacy committed to business continuity and social causes, and did not recognize sister as capable fulfilling this mission. Brianda then decided to denounce Doña Gracia to the Venetian Senate, accusing her of Judaizing. This attack carried out within the family, caused a rupture and family separation.

As a result of this incident, in 1548, Doña Gracia is forced to leave Ferrara, as a stopgap measure for a longer trip for Turkey. Again, Doña Gracia, negotiates and uses entrepreneurship, and her economic and financial power to persuade successfully the Sultan Suleiman, the Magnificent (1520-1566) to accept her in his domains.

Although there are still some doubts raised by Andrée A. Brooks, it is thought that it was in this country that Doña Gracia openly returned to Judaism. Simultaneously, Doña Gracia financed the editions of books. In this context, we highlight some published works; one of them was the famous translation of the Hebrew Bible, called the Bible of Ferrara and published in 1552. This Bible was a translation of the Hebrew text into Ladino (the Spanish and Portuguese of Jews in the sixteenth century). All



those Iberian refugees who could not read Hebrew would use it again in the sixteenth and seventeenth centuries. Another important work was published in 1553 by Samuel Usque, *Tribulations of Israel*, portraying the tragic events that occurred in Portugal during the late fifteenth and early sixteenth century.

After 1552, the activity of the Inquisition slightly intensified throughout Europe. Italy, till then relatively tolerant, hardened its positions. Doña Gracia left Italy with his daughter in 1552 and with the support of the Turkish diplomacy. This trip is marked by the family separation and the inability of Doña Gracia, to fulfill the promise to his brother-in-law's daughter. Moreover, the Venetian Senate forced her to hand over a significant part of the Mendes fortune to her sister Brianda.

Though absent, Doña Gracia also sought to support the Jewish causes in Europe, mostly in 1556, when she tried to stop the actions of Pope Paul IV using several strategies.

## **“Q” Theory**

According to Chapter 3, the letter “Q” represents any living social organization that contains at least two members. A “Q” s existence alone or in conjunction with other Q’s reveals social interaction on a number of planes. Just as in the world of physics, we hypothesize that Q’s have sub-particles. We call these sub-particles by the names of E, I and P. That is to say, all Q’s have needs which are represented by the letter E (economics), Q’s must have a way to satisfy these needs, represented by the letter P (politics) and a way to justify or explain their needs’ satisfaction instrumentation,

called I (ideology). Together these three sub-particles are known by the acronym “PIE.”

We use PIE theory throughout this text to understand the world of business and to shed additional light on a form of financial surprise attack that in the world of finance is called “the hostile take-over”.

Thus, using “Q” theory and the “PIE” matrix, we can analyze each stage of Doña Gracia’s career and cull from each stage universal principles. We now turn to the first stage of her career, her experience in the Catholic world.

Analysis of the financial life of the House of Mendes (Doña Gracia as head) according to the rules of Q theory.

**Table 13:** House of Mendes

E	P	I
Economic Success	Create relations with the government officials, international relations and networking	The house of Mendes’ success is good for the country in which it is located and that country’s economy
Win the public’s approval	Provide business capital	Business improves people’s lives
Grow business in stable climate	Use bribes and good networking	All Christians are equal in the eyes of God
Loyal staff	Use family of crypto-Jewish community	Family is central in the eyes of the Church
Have alternative locations should the need arise	Maintain business offices around Europe, have a way to move money quickly	International banking is good for the host country
Protect money from kings and church	Use of bribes and codes	What the bank made, belongs to the bank, primitive capitalism
Maintain a double appearance, on the outside Christian and on the inside Jewish	Use of Christian symbols and foods, refusal to be Jewish in public. Residence in Christian neighborhoods	One who is born a Christian is a Christian Transmigration of blood/ one is always a Jew

Doña Gracia and her leadership of the House of Mendes is the central character in this thesis. In the Portuguese phase of her life, she represents various transitions, both in her own life and in the life of her nation. During this period she had to learn what is meant to be a businesswoman. As such, she discovered that business leaders need loyal staff members, and a pro-business climate. While we cannot say for certain, it is highly likely that she understood that Portuguese old money would find the ideological justification to destroy the new Christian entrepreneurial spirit. Doña Gracia and her family were highly involved in international trade, a field that presented a great number of risks but also rewards. From the Mendes' Q we learn that business cannot exist outside of the national ideology and that business battles are won or lost in the ideological plane. In the modern world this plane is often called "marketing."

The Mendes family should be seen as an extension of the Q of the House of Mendes. As such its success impacted their social and economic standing. According to the above table business required personal interactions. Also no business can survive without loyal team players. From the data that we have, it appears that there was a mutual balance between Doña Gracia and her relatives. They provided her with the necessary support staff and she provided them with a sense of entrepreneurialism and social standing within the Q. In the case of XVI century Portugal, religion functioned as the overriding ideology. From the above table it would appear that there was a conflict between the family's entrepreneurial needs and Catholicism.

**Table 14:** Royal family and Nobles

<b>E</b>	<b>P</b>	<b>I</b>
Need money	Invites Jews into country	Portugal is tolerant
Centralize power	Create weak Church	King rather than Church represents King
Gain control over the economy	Increase the power of the state	King is the Lord over his country
Divert economic power	Increase agricultural expansion, take an anti-business approach	Food is the basis of an economy

By analyzing the Q of the first estate (king and nobles), we can conclude that the macro environment is crucial for business. For example, Spain expelled its Jews and Portugal accepted them as an economic development tool. In fact, during the XVI century, Lisbon was an economic powerhouse. The king understood that much of his success and power depended on his ability to use his human capital (in this case the Jews) to develop a strong economic base. The king also understood that money is often power and that this influx of Spanish Jews would highly add to Portugal's economic strength.

The above table indicates the need for a convergence between business interests and those of government and national strategy. For example, if Portugal's nobility pushed for a policy of agricultural ruralisation, then urban businessmen and women would find themselves in a very difficult position. The table indicates that business grow most successfully when they are planted in a pro-business ambiance and they prosper when they are in accordance with that society's "I".

**Table 15:** The Catholic Church

E	P	I
Control of masses	Required attendance at Mass	Good Catholics will receive eternal life
Increase the number of faithful	Forced conversions	Saving of souls
Gain economic power	Accept donations to the Church	Exchange wealth for eternal life
Control over individuals' actions	Institution of Cannon law	He, who lives by the laws, avoids damnation
Become the center for national ideology	Questioning is not permitted	Facts have no importance in the face of belief

Together with the king and nobility, the Catholic Church formed the third part of the governmental structure and its influence over Portugal's entrepreneurial life. Businesspeople need an open environment in which there is a free flow of ideas. To be an entrepreneur is to challenge established paradigms and be willing to take risks by exploring new markets. The Church acted as a break over these business ideas. The Church emphasized belief over reason and discipline over exploration. As such a clash of cultures was bound to arise. Doña Gracia along with other Crypto-Jewish businesspeople would come to represent a threat to this tri-party system. They could, however, be used as symbols of organizational control, that is to say, that their humiliations would serve as a reminder to other members of the community not to challenge the prevailing institutions.

### **Literary analysis of Doña Gracia and the Mendes Family**

We now turn to an analysis of the text using a series of literary devices. The author wishes to note that he is not using these devices for historical or literary purposes but rather as another means by which to enter into the world of finance. We have borrowed

the terminology of literary analysis from the Hebrew. Throughout this section we will employ several Hebrew technical terms with English explanations given immediately after the term is first introduced. A more detailed explanation can be found in the methodology section (see chapter 4).

We first examine the material from the perspective of the p'shat (p'shat = the plain meaning of the text; it indicates what we have written and not what we believe may be there but is not part of the data provided). From the p'shat perspective we note that Doña Gracia and the Mendes family were:

- Part of a wealthy Crypto-Jewish family.
- Marriage alliances were extremely important.
- Women were usually not part of the governmental/administrative elite.
- Business relationships often stayed within the family structure.
- In the case of Doña Gracia, she had to work as a double minority (gender plus religion).
- Due to Portuguese law, half of her husband's assets belonged to her daughter, exposing her to potential hostile take-overs.
- As head of the Mendes family, she was able to use her wealth to be known at court.

The second level of analysis we call the “drash” (the reading of what is not written but is implied by the text).

Doña Gracia and crypto-Jews formed a despised minority group and therefore at a disadvantage in doing business. Creating a despised class was helpful for those who were classified as old Christians. She was a woman in a man's world and therefore had to work harder to win respect. Her money may have provided her certain advantages or protection. Her money also made her a target, she could not fly under the radar.

In order to survive, the House of Mendes under her leadership had to develop networks and develop interactive boards. These boards provide leadership but also created new political difficulties. As in any multi-layered group, there were divergences of opinions and often the personal was confused with the business relationship.

The third level we call remez-sod. This level is when conclusions are drawn from both the p'shat and from the drash levels of analysis. From this level we are able to draw the following conclusions in our financial history of Doña Gracia and the House of Mendes:

- It is to the Q's advantage if its personnel come from a wealthy family (families) or from high social prestige families. Although there are those who may have broken the wealth barrier, starting out with money can make entrance into the world of finance much easier.
- Interfamily networking may have extremely positive or negative repercussions.
- Networking may be one key to financial success.
- World of finance need not be gender specific.
- Business in-group Qs often resist those from outside of the Q.
- In a tolerant society being a minority may be a favourable factor in business due to group hegemony, but in an intolerant society minority status may become a business liability.
- Entrepreneurial success or decisions may be a function of the legal system in which the Q lives.

- Successful businesses require persistence and a sense of commitment within the I of the Q.
- Money may buy power and/or entrée into the right Q's that form upper classes. However, money without the proper I is only a temporary entrance into power.
- Money is a major motivation.
- Money often determines policy.
- The more complicated the business Q the more technical business acumen is needed.
- Success or failure in a business Q may be determined by the business leaders' ability to evaluate others, both from within and from without.
- A business is a Q and all Q's may be in conflict with other Q's. Business is a strategic set of battles with given rules of war.
- The willingness to assume risk is essential for business.
- The more risk adverse a business is the less well it may grow in a capitalist I oriented Q.
- There is always tension within the world of business; to be in business is to be in a constant war.
- Business leadership qualities are essential in a business that has many sub-parts.
- Business battles are won or lost in the realm of the I.



## **Literary analysis of Ruling Powers**

We started our literary analysis of the government in Portugal to examine the texts from the perspective of the p'shat. What was true of Portugal was also true of the other nations. Thus, Portugal represents the Q of the Medieval Catholic worldview of business. As such we note that:

- Power was in the ascending order of: church, nobility and king.
- The king had executive power.
- Catholicism functioned as the state religion.
- The government defended the land and agricultural against the Q of entrepreneurial interests. Government policy supported farmers.
- The government sought to control the masses and to maintain everything under its control.
- The government was bankrupt.
- The Church used God as the official "I" to justify its attitudes.

## **Drash**

For the second level of analysis, that of "drash" we note of the ruling powers that:

- The Q's of nobility, royalty and the church at times worked together to control the masses, and at other times were divided among themselves.

- To be a ruling Q, the Q must have the power to condemn and pardon citizens.
- The Church, was the guardian of the I.
- The ruling authorities viewed the entrepreneurial classes as a threat to their power.
- The government used poverty as a means of social control.

## **Remez-Sod**

Using the third literary device, that of a combination of the Hebrew terms “remez and sod” we can conclude that:

- No business Q can survive in an adverse macro-economic environment or having the Q of power elites as opponents.
- Entrepreneurs need favorable laws to business.
- The relationship with power is unbalanced and depends on the unilateral decision of the government.
- Money may buy at least temporary entrance into the halls of power by an outside Q. Thus, personal and business finances help determine the social status, but do not give direct input in social circles.

## **Sociological analysis**

The third part of this sub-section deals with how some of the classical sociological thinkers presented in the theory chapter would interpret the five major players within the Portuguese theatre: these players being Doña Gracia, the Mendes family, the king, the Nobility and the Church. This section can be seen as the bridge between psychological analysis and sociological analysis and their relationship to finance.

The major classical thinkers whom we will use as filters are: Max Weber (symbolic interaction), Talcott Parson (Functionalism), Karl Marx (Marxism), and Martin Buber (Relationship theory). Finally, we analyze each of these authors against the background of the theories presented by Ephraim Kam.

### **From the Perspective of Doña Gracia and the House of Mendes**

We begin our sociological analysis by examining Doña Gracia from the perspective of the Weberian symbolic interaction. Doña Gracia's life can be seen as representing a Portugal in economic transition. Born after the forced conversions of 1497, she spent her life in a world in which she was neither a Jew nor a Christian. As such and from the perspective of macroeconomics, she was a major player in a nation that was in economic flux. Portugal was no longer an open and tolerant society, and soon would become a closed society in which capitalism could no longer flourish. From this perspective her life represents a symbol of the changing commercial and financial activities, a nation on the road from entrepreneurial discovery to a pastoral society that would look inward rather than outward and would soon cease to be a major player on

the world stage. Her final flight from Portugal may be seen as representing the end of Portugal's age of openness and the beginning of the nation's decline.

Talcott Parson introduced the theory of functionalism (see theory chapter) in which the supposition was presented that social systems are a connection of interactive Q's. Thus, a change in any one Q would impact not only the other Q's in the system but also the entire Q. Doña Gracia financial history indicated that XVI century Portuguese intolerance and other governmental decisions impacted the country by making it a place in which the entrepreneurial spirit was no longer welcome. Doña Gracia in our text then comes to represent the flight of business from XVI century Portugal.

Karl Max divided the world into two major groupings. From his perspective there is a dominant group, called the bourgeoisie, and a powerless group, called the proletariat. In classical Marxian terms, the bourgeois owned the means of production and took advantage of the proletariat. In the case of Doña Gracia, the proletariat is not relevant but what are relevant are power-relationships, with Doña Gracia being the under-class. As such, her flight from Portugal represents the desire of the bourgeois to consolidate its power and to dominate all weaker groups. The Church, despite its teachings, is seen from a Marxian perspective as a powerful oligarchy that not only can make the laws, but also through the secular arm of government can force its will on those less powerful.

Martin Buber's theory of the I-Thou/I-It represents perhaps a key idea found in this thesis, that business is based on more than pure numbers and that often a business evaluation must also include a number of qualitative variables such as loyalty, commitment to the business, and the relationship not only between individuals but also to the business itself as defined by Q theory. Buber thought he would hypothesize that

we often cost more to those who are higher on the I-It scale (approaching the level of I-Thou). From this perspective Doña Gracia symbolizes the fact that the business are more than the numbers. Instead the willingness to sacrifice for the sake of a business may be proportional to the level of business commitment. For example, in the case of Doña Gracia, due to her love for her daughter Reyna she may have made several irrational business choices based on the mother–daughter relationship. The Buberian model then acts in direct opposition to the belief that business executives make solely rational choices based on hard facts.

Like Buber, Kam occupies a central or perhaps the central role in this thesis. Kam considers a surprise attack to be one that is totally unexpected by the other party. In the case of Doña Gracia, the king through the “I” represented by the institution of the Catholic church, went after Doña Gracia’s assets producing a dangerously negative business impact. It is unknown how much information Doña Gracia had concerning the King’s intentions and if she was or was not taken by surprise. We do know that she was able to counter attack via her escape to Belgium. The surprise attack forced her to wrap up her Portuguese business affairs not due to financial problems but rather due to a potential misevaluation of the political/religious climate and its impact upon her family. The king was unable to stop her flight along with her family to Belgium and therefore her surprise counter-move meant that the King lost a major source of income.

### **From the Authorities’ Perspective**

We finish the Catholic nations analysis with a study of their three most powerful authoritarian players: the king, nobility and the church. Together they form each of these three nation’s governments.

Once again the major thinkers whom we will use for this analysis are: Max Weber (symbolic interaction), Talcott Parson (Functionalism), Karl Marx (Marxism), and Martin Buber (Relationship theory). Finally, we analyse each of these authors against the background of the theories presented by Ephraim Kam.

This sub-section deals with the three governmental institutional Q's. While the author realizes that these Q's were often at odds with each other, they shared enough in common to form a common front against the Crypto-Jewish community. Thus for reasons of expediency we have combined these three Q's into one.

According to Weber and from the government's perspective the XVI century in Portugal symbolizes power as centralized by the King. From a symbolic interaction perspective we know that the king's attack on Doña Gracia may have served a triple purpose, (1) a message to the nobility that it was he who ruled and a unification with the principle I institution, namely the Church, (2) the ability to indicate to the Crypto-Jewish community that they were clearly under his power, (3) an indication that the entrepreneur spirit within Portuguese society may have come to its conclusion. The King can destroy everyone, including Portugal's most powerful business-woman, thus indicating that the powerful can force the less powerful to bend to its needs. The king may have also been trying to indicate that small institutions dare not go too far astray from the desires of the large institution. If we interpret this from the perspective of modern business we may note that the strong will tolerate competition from the weak only to a certain point after which the strong may attack in the form of a surprise attack and decimate the weak.

If we combine Martin Buber's theory of relationship with that of Talcott Parson's ideas about functionalism, it may be concluded that the trilogy that made up the government

of Portugal in the sixteenth century (King, nobility and church), to protect itself, took decisions they seem irrational from the standpoint of economic development and the country's future, but with more depth we can conclude that they were rational. When it was discovered that entrepreneurs represented a change in Portugal's social fabric and that they could even threaten ruling powers then the government attacked these people as represented by Doña Gracia and subsumed their interests within the national interest. Thus, from an outsiders perspective the ruling class decision appears to be irrational, but within the context this decision becomes rational and following Parsonian theory produced social vibrations throughout the entire socio-political system.

From a Marxian perspective the government's actions can be seen as a means to restore bourgeois control over an ever more powerful opposition.

Evaluating finally the government action according to Kam's theories, it appears that there was a flaw in the ruling class evaluation of Doña Gracia. This class underestimated her entrepreneurship and business skills, after the death of her husband, Francisco Mendes, and at the same time, it underestimated her dominating position.

Doña Gracia acted according to her Q's needs and due to lack of good intelligence; she was able to escape to Belgium taking with her both her entrepreneurial skills and her wealth.

Moreover, Catholicism that acted as the "I" in the conflict between the government and Doña Gracia, was the government's guideline for the future, permitting no other religious options. Thus, if we view this situation from a Kamian perspective, we note that government's attack against Doña Gracia's assets failed because the government had not fully gained an understanding of her skills.

The government misjudged the situation, predicting incorrectly that in her weakened state, due to the death of her husband, she would accept the marriage of an Old Christian to her daughter and thus the crown would eventually gain control of the Mendes fortune.

The Portuguese Inquisition was imported from Spain. It reflected, however, a society in which religion mingled with the customs, in a world where popular culture was religious and political realms attuned with the papacy, the inquisitorial courts were a criminal arm, of trial and execution, of crimes against the interests of the Crown and the Church.

It used control and domination as its weapon, something that is characteristic of fundamentalist regimes. For example, censorship was widely used. Many books were destroyed and some circulated with reduced content and the inquisitors visited bookstores methodically for inspection. Very important Portuguese authors such as Gil Vicente and Camões, were persecuted and had some of their works censored. It was even forbidden to read the Bible in everyday language.

However, Doña Gracia was convinced that she could live a double life. For a long time she did not recognize the situation in which she lived and its changing paradigm. According to Thomas Kuhn, the refusal of people to respond to paradigmatic errors is a characteristic of all the human beings.

Indeed, when in 1962, Thomas Kuhn, published his first work “The Structure of Scientific Revolutions”, on the conservative nature of science, Kuhn caused a major controversy. Kuhn argued that his fellow physicists had built their careers around a particular paradigm, and therefore professionally had to reject any major paradigm shift.



He argued that academics and scientists, rather than seeking only the truth tend to be highly protective of their own work and therefore conservative in nature. Although Kuhn wrote about physicists, his work can be applied to any branch of academia.

From Kuhn's point of view, successful academics were usually prisoners of their own work. For example, if we look back in history, we see that despite the fact that Galileo had proved clearly, that the Church's assumption that the Earth revolved around the Sun was incorrect, the church, for political reasons not admit a paradigm shift and had to force Galileo to renounce his theory. Kuhn argues that what was true then is still true today. So scientists tend to dismiss any anomaly regarding paradigmatic long beliefs as threats to career. Kuhn writes about academia's conservative nature, when he says: "Paradigms can be rather more demanding and more complete than any other set of rules for research that could be unequivocally captured from them." From Kuhn's analysis of the conservative or defensive nature of the academy, a great debate was set off in the academy and became an important part of organizational complex research. Social scientists soon came and noted that researchers often reject paradigmatic anomalies until these anomalies force established paradigms to give rise to the birth of a new paradigm. Kuhn also writes and states in the 1962 work, "The Structure of Scientific Revolutions", as more accurate and far-reaching are the paradigms, more sensitive is an indicator that suggests an anomaly and therefore an occasion for a paradigm shift."

Thus, it may be concluded that Doña Gracia became so attached to her life and business in Portugal that eventually she entered into what we call denial data, ignoring the inconvenient facts for herself and her career that showed another path, resulting in more hostilities to the point when the final attack would occur.

In this context, it is also interesting to establish a parallel between the theories of Thomas Kuhn and ideas expressed by the psychologist Elisabeth Kübler-Ross. Kübler-Ross is not an economic or political analyst, she is a psychologist whose work addresses the behaviors and attitudes of patients toward death. Nevertheless, her work has much to teach us about why there is so much resistance to paradigm shifts. In 1969, Kübler-Ross published her famous book “On Death and Dying”, where she builds a hypothesis that humans go through five distinct psychological stages before death. These are: denial, anger, bargaining (or magical thinking), depression and, finally, acceptance.

Comparing Kübler-Ross with the hostile takeover process that was made against Doña Gracia, it seems she had the same attitude towards the potential of a Portuguese government attack. She refused to admit that her business would come to an end in Portugal.

Initially, the hostilities were denied and not tied to a larger and more complex problem, people thought it was just a religious issue that was disguised in public through her public and Christian appearance.

What is true is that her social position as a result of her wealth and financial power, allowed her a different status from other more humble New Christians. Later, it moved to a state of anger and magical thinking (if I do X (lend and bribe people with very good state positions), then Y (hostilities) will not happen). However, as we know from the Q theory and the study of the needs of the government, neither the public Christian practice, nor bribes or loans that Doña Gracia did, met all the needs of government. So, it was necessary to bargain, both with King John III, making preferential trade agreements and with important people in the Venetian Senate. She bribed supervisors

to delay the Inquisition's entry into Portugal. Trading options were sold out; one may conclude that Doña Gracia entered a phase of awareness of the dangers to their business in Portugal and finally acceptance that culminated with her running away from the country towards Belgium. Until she understood the need for a paradigmatic socioeconomic change, Doña Gracia put at risk not only the House of Mendes, but also her own life.

In the same line of reasoning of Kübler-Ross, but in different contexts, Jack Welch, former CEO and chairman of General Electric, wrote an opinion article in *The Wall Street Journal* in September 2005 entitled "The Five Stages of Management Crisis." The context for the article was the aftermath of Hurricane Katrina and the devastation left behind in New Orleans. In his opinion the management of this calamity occurred in five stages: denial, restraint, shame, "Blood on the Floor", and the problem remains. Although the context is not directly related to a hostile takeover in business, the truth is that Jack Welch's analysis also can help us to understand the phenomenon of hostile takeovers, and why companies offer much resistance to paradigm shifts. For a better understanding, we have expanded the 5 stages of Welch's of the Katrina disaster to 8 allowing us to better analyze hostile takeovers in Portugal. These are: Denial, reduction, disruption, resource pooling, adaptation or inadequacy, shame, sacrifice and conclusion. Analyzing then the takeover process where Doña Gracia was the target, according to these stages, we have:

Denial: it may have been related to the fact that the House of Mendes was that kind of company that we might call today "too-big-to-fail" or to be attacked. As the largest Portuguese financial company at the time and one of the largest in Europe, competition was almost non-existent, so there was no reason for alarm.

Decrease: is the phase in which the company begins to believe that there may be, in fact, a problem not directly related to business and competition between companies, but that the problem initially can be solved because it is smaller than it seems. The leaders may have assumed that they could handle this “minor” problem with nothing more than a loan or bribe to the ruling authorities. During this phase, the company’s management had to act in a discrete manner.

Disorganization: this is a phase in which the company is faced with the reality and complexity of the problem and begins to get a sense of power and purpose of its attacker. This fact became clearer after the death of Francisco Mendes when it was suggested that Doña Gracia should marry her daughter Reyna to someone from the Old Christian class.

Assembling resources: once she was aware of the problem, followed it follows that Doña Gracia would try to mobilize resources to find solutions. Claiming business in Brussels, Doña Gracia prepares, however, a response to King Dom João III’s attack. Her brother-in-law, chairman of the (northern) European subsidiary of the House of Mendes and based in Antwerp, proved to be her greatest ally.

Adaptation or In-adaptation: It can be concluded that the Doña Gracia was able gather the resources that allowed her to fight back, either against the King or the Inquisition, because the House of Mendes, despite ending in Portugal would continue in Belgium. Also, she managed to survive and avoid the marriage of her daughter with an old Christian. This fact had a double consequence: it meant that she would keep control of the business, and maintained the hope of marrying her daughter within the principles of Judaism.

Moreover, the Inquisition was also avoided, thereby avoiding the worst scenario for a New Christian that was her public conviction for heresy, or even usury.

Shame: this phase was not felt, not for the attack of the King, nor from the Inquisition.

Sacrifice: Finally, there was also no sacrifice for Doña Gracia as her succeeded in continuing her activities from her new base in Belgium. Doña Gracia was able to avoid the marriage for business of her daughter and therefore hold on to her control of the House of Mendes.

Conclusion: The government failed in its takeover efforts.

Thus, on the one hand, we conclude that the hostile takeover undertaken by the Portuguese government was due to the reluctance of Doña Gracia in responding to paradigmatic errors, and on the other hand, we may also infer that Doña Gracia made to another mistake that was supposing she could continue straight ahead she erred in believing that she could ignore the problem or solve it by conventional means.

In this part of the analysis, it is interesting to create a bridge with the work of Kam. Kam is not a business expert, his work is on military intelligence failures and tries to understand the reasons why a military organization suffers a surprise attack, but his ideas can help us understand why the hostile takeovers happen and therefore, how we can prepare to prevent their success.

In his best-known work, *Surprise Attack*, Kam hypothesizes that the armed forces suffer surprise attacks due to what he called lack of information or what can be called "failures of the analytical evaluation." Kam examined military battle strategies and noted that in the event of hostile action, potential failure in assessing produces a statistical probability that a surprise attack can occur and there is an inverse correlation

between the success of an attack and the quality of the assessment. That means an accurate assessment decreases the potential for success of a surprise military attack. Kam admits that the success of an attack is not only based on a failure of military intelligence on the other side. Several other factors must be taken into account such as the relative strength of each opposite side, the ability to quickly react to a failure of event assessment, the quality of the personnel on both sides, and the capacity to mobilize resources because the attack occurred. So, Kam seeks not to understand why one side will prevail, but rather the factors that led to the surprise attack. Kam says in his work that States are open to surprise attacks, due to five main factors: the data complexity and the evaluation itself, the refusal of analysts to answer paradigmatic errors, a wrong assumption can destroy the whole theory of evaluation; analysts do not know their strengths and limitations; analysts prefer to continue in a straight line.

Combining our analysis of Doña Gracia with the principles found in Kam's theories, her failure to predict the king's attack and that of the Portuguese Inquisition may have been based in her reluctance to admit that there was a change in paradigm and instead to conduct business as usual. However, once she realized that she was under attack she had the penury resources and mental agility to withstand the attack and to take decisive counter action, her departure for Belgium.

Re-examining these issues we can note the flaws in the Portuguese government's strategy or demanding that she marry her daughter to a member of the Old Christian class.

In fact, considering the concept developed by Max Weber of symbolic interaction, that is the value of any action is determined by how we see (analyze) a particular action among a set of actions, it may be concluded that the fact of being a woman, a widow

with the responsibility of a daughter, demonstrated the Portuguese government a certain fragility, not recognizing implicitly the Doña Gracia's ability to lead and take over the family business, especially the House of Mendes, the largest financial house in the country.

According to Weber, values are defined within a social context and what is acceptable in one context may not be acceptable in another. That is, if the socio-cultural Portuguese, Catholic Christians of the sixteenth century did not recognize her businesswoman status, wanting to marry her daughter to an old Christian. Already in the crypto Jewish context, in which Doña Gracia lived, as well as in the rest of Protestant Europe, that was not the case.

This fact is another one of Kam's key points, namely the government's assumption regarding Doña Gracia that she would not be able to lead the House of Mendes after the death of her husband Francisco Mendes, and that she would accept her daughter's marriage to an old Christian. This miscalculation led to the hostile takeover's failure.

By analyzing the Doña Gracia episode we can see how the government misjudged its ability to maintain the status quo, while centralizing its power and freely spending that led to the Portuguese government 1560 default with repercussions throughout the Empire.

Thus, in accordance with Kam's principles, the government underestimated both Doña Gracia's capabilities and her response capacity and thus, the attack failed. Either one or two failures would be sufficient to conclude on the results of the surprise attack, in that according to Kam it is just a wrong assumption to destroy the whole theory, as was the case with Doña Gracia.

From a Weberian viewpoint, we can interpret Doña Gracia's fleeing Portugal as a Portuguese government assessment failure. The failure resulted in not only Doña Gracia's flight but also that of businessmen and Jews who left Portugal due to its poor macro-economic conditions.

The Portuguese government became centralized in the crown resulting in an omnipresent state. This all-powerful state exhibited its power through the major public works such as churches, palaces and fortresses. These vast building projects necessitated excessive tax collection and a significant number of civil servants. These bureaucrats gradually centralized their power and thus inhibited the entrepreneurial community's ability to perform resulting in the entrepreneurial community's ceasing to create wealth. In other words, according to the principles of Max Weber and drash analysis, Doña Gracia's fleeing Portugal symbolized the transition from a capitalist economy, rooted in the empire and in business, to an economy dependent on a centralized socialist state.

### **A Summary of Doña Gracia's time in a non Christian Country (Turkey) Business Activities**

According to the commentators of the time, the entry of Doña Gracia in Istanbul in 1553, was majestic: "... forty horses and four carriages full of servants and Spanish ladies." Sultan Suleiman, the Magnificent, was exulted with her arrival; conscious of the economic and financial benefits that that entailed. Suleiman accepted several requirements of Doña Gracia, including dressing as desired and not as Muslim law imposed on Turkish citizens and immigrants. This concession was extended to all members of the group of people that came with Doña Gracia. Thus, Doña Gracia stood



out and marked all of her professional and social position. It is thought, then, that one of the first acts of Doña Gracia in Turkey was openly taking Judaism. She stopped using the name of Beatrice and used Gracia, her Jewish name. Interestingly she does not adopt the surname Benevistes but Nasi, whose meaning is secular and of a political leader. Doña Gracia settled in Galata, a neighborhood near Bosphorus, inhabited by Jews and Europeans. Although it is impossible to know what went through her mind, we may acknowledge that by reassuming her Judaism, she not only moved into real ideological power but the Muslim Authorities also indicated that she had broken her ties with the Christian world and was a loyal part of the Turkish Q.

At the time, Istanbul was already an important Jewish center. For the Turks, this people was a talented minority, and a minority who could help Turkish economy, and thousands of Iberian refugees, drawn by Turkish tolerance, had found refuge in the Ottoman Empire. Many have made their home in Istanbul. Before 1492, lived in the city only a thousand Jews, but in 1553, they were approximately 15 000.

The Ottoman Empire went out of its way to protect its new Jewish citizens. For example, Silberman et al (1992) reports that Suleiman, the Magnificent, after Christian persecutions, erupted again “sent a letter to the Pope stating that the people (Jews) were Ottoman citizens, they should be immediately released and in no way should be harmed. The Pope complied at once with that request that he could not refuse” (Silberman, p.8).

In early 1554, D. Joseph arrived in Istanbul, one of the right arms of Doña Gracia’s main advisors, who also openly adhered to Judaism, taking the name Joseph Nasi. The following year, Joseph Nasi marries Reyna. Doña Gracia saw one of her biggest dream come to fruition, the marriage of her daughter according to Jewish law.

As her business prospered and in Turkey, Gracia became a leader of the local business community. She may have used her deep knowledge of Europe, and the fact that her European agents could provide her with up-to-date information to become influential in the Turkish court. Soon, D. Joseph became a friend and adviser of the sultan, assuming an ever increasingly important role in Turkish affairs and in the lives of the local Jewish population.

Jewish sources of that time refer to Doña Gracia, during this period, as ha-Geveret ("The Lady" in Hebrew: Since her arrival Turkey, she gained among Ottoman Empire's Jews a leader with power and prestige especially for a convert, The population recognized her kindness and love for social causes, especially for Judaism. In her palace, she fed daily about 80 needy Jews and sustained, in Istanbul, a home for the poor and sick. She donated significant sums of money to pay for the rescue of Jews captured by the pirates, one of the greatest dangers faced by all who crossed the seas. She founded schools throughout the Ottoman Empire, encouraged Jewish education and subsidized the publication of books. She became a patron of the religious life of Istanbul and founded synagogues and Yeshivot (Talmudic schools) in major cities of the Empire. The only remaining synagogue that she founded is located in Izmir and called "La Sinyora".

## “Q” Theory

**Table 16:** Q of Muslim Authorities

<b>E</b>	<b>P</b>	<b>I</b>
Increase economic and political power	Accept Jewish refugees	Turkey is a land of tolerance and love
Become dominant in Europe	Use the inquisition against Europe	Europe is old-fashioned and intolerant
Bring in new ideas	Accept Jewish entrepreneurial skills	Where there is freedom there is economic success

**Table 17:** Q of Local Jewish Authorities

<b>E</b>	<b>P</b>	<b>I</b>
Need additional population and funds	Re-entrance of the Crypto-Jews into the Jewish community	Once Jewish always Jewish
Maintain power	Accept Crypto-Jewish refugees with reservations	Show too much Catholic influence
Show the Muslim authorities the value of Jewish refugees	Welcome the Crypto-Jews back with open arms	The time of suffering in the Christian world has come to an end

**Table 18:** Q of House of Mendes

<b>E</b>	<b>P</b>	<b>I</b>
Stable political and economic world in which to work	Come to Turkey	Catholic world is a world of intolerance
Maintain fortune under safe conditions	Reunification with Jewish world	Were forced to convert
Share power with older (established) Jewish community	Use money and influence to enter into the Jewish world, publish books	All Jews are equal in the eyes of God

## **Analysis**

The Turkish experience shows the power of understanding Q theory. In Turkey the House of Mendes was able to integrate its Q with the Q of Turkish authorities and the local Jewish community. However, even here there were forces that were pulling these various Qs apart. The Turkish experience also shows the importance of the I. In the modern world, the I is often called ideology and marketing. Today's lawyers and marketers are the modern equivalent of the Turkish rabbis. In all cases, the persons who control the ideology control the society. The Turkish experience teaches that money can bring one to the table of power, but the winner is the person who controls both the resources and the ideology. Doña Gracia's Turkish experience is perhaps intellectually less interesting precisely because it was more normal and represents the daily world of conflicts (competition) even in a place where the playing field has been leveled. For this reason we learn from this section that:

- Conflict is always present.
- Competition is a part of life.
- Business is to a great extent war with rules.
- The human condition is composed of both the logical and the emotional.
- In reality there is no such thing as normality.

If we re-examine the works of the various sociological giants named in this study and view the Turkish experience through the eyes of our literary devices, we note that history has a way of reproducing itself and what was true of business in the XVI

century is also true of modern Portugal. People and places may change, the language may be different, but human needs and desires stay the same.

# Conclusions

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**An academic contribution toward qualitative evaluations of surprise business takeover attack: an historical perspective**

## **Conclusions**

In this last chapter, we provide a summary of the first six chapters along with conclusions. The work is built around some basic principles of Kam of a military surprise attack, and how these principles can be related to the world of business and finance. As mentioned in the introduction, we assume that corporate takeovers work in practice as a battle with military rules. We conclude that, as in war, from the academic and practical standpoint, although important, relatively little is known just who won and how many people victimize wars. We also want to know the context, the reasons of the attacks, the forces and weaknesses of the warring parties, among other factors. When we know more details of the phenomenon, the chances of foreseeing a war or avoiding it if possible, or predicting its outcome are greater. In business, things are not much different. In fact, just knowing the numbers resulting from quantitative evaluations, we hardly get a holistic view of the business, which helps both the competition between companies and other "players" in the market, as in predicting the direction of the company and alleged attacks, and in the last instance, it determines the success or failure of the business.

Despite these evidences, a lack of qualitative studies was found in the literature. We present then various qualitative techniques whose aim is to help overcome this limitation. We observed the subject's point of view through Q theory, followed by a literary and sociological analysis. These three complementary analytical methods are applied against a background of physics and thermodynamics, and filtered through the life and work of Doña Gracia. However, this academic thesis is not intended to be biographical or historical, rather it uses financial history of Doña Gracia, to illustrate

another method of approaching business and better understanding the takeover process.

According to Q theory, a Q is a living organism composed of at least two individuals (dyad), that like other living beings, are born, live during a specified period of time, and die. Comparing Q theory with the principles of physics, a Q is really energy in constant motion and tension, which, like ions and protons, can take many forms, expand or contract. The life cycle of each Q is defined according to the principles of entropy, in other words, from the order to the chaos.

Knowing these principles and characteristics of Q and other better identified in the theory chapter, although the Q is not a linear analysis, it is possible to conclude, ultimately, the success or failure of a business, as well as provide business hostilities and attacks, takeovers.

When analyzing as an example of a Q a marriage, according the theory, we should be able to make various predictions concerning the Q even without knowing the persons involved in the marriage. We know that: the marriage is composed of two individuals who have a stated or unstated contractual agreement; that there is something that unites them is that “something” commercial or emotional. We also know that in the modern period in most Western nations often behind this union it exists fidelity, and love is the ideology of the couple. Should, for example, one of the partners engage in an extramarital relationship, it is possible to predict that, with few exceptions, there may be a breakdown within the Q and resulting in a potential Q disillusion. Note that as in the case of other Q's it is the I that functions as the Q's binding glue and it will be the I that determines if this glue will continue to hold fast. Thus it can be concluded about the importance of I in the success or failure of an action, compared to P and E.

Another illustrative example about predictions in Q theory is the father-son Q. First, as



we know the sociological theories, that the tension between these two elements occurs at the child's level of the struggle for freedom and independence from his father. Indeed, since they are born, children seek emancipation from parents, hence the similarity between brothers, to build their own life, originating into new Q's, such as couples, families, among others.

Based on these examples, by applying the concepts and principles of Q, think it is possible to predict a takeover attempt, the course of business, as well as the success or failure of the same. On the other hand Kam, in his studies of the military, one concludes that it is unlikely to provide a surprise attack.

In this paper we assume, then, a different position from previous works in the known literature, where, as already noted, no qualitative studies abound and those that exist are under military. What distinguishes this study from previous studies is that it uses a biographical-qualitative approach (through a case study of Doña Gracia) permitting in-depth analyses that are often lacking in quantitative academic works.

The life and work of Doña Gracia Nasi, shows us that a businesswoman who lived in a macroeconomic environment unfavorable to business would hardly have had a chance of survival. A major conclusion of this study is that people are motivated along ideological grounds and that the person who controls the thought process in the long run will have the upper hand over his/her opponents.

In fact, Doña Gracia Nasi shows us that, despite her power and financial capacity to finance kings, she was not strong enough and eventually had to abandon those countries with an unfavorable business ideology, what we would call today a "business climate".

Doña Gracia serves the student of finance as a role-type in providing us with a predictive model for hostile takeovers. Modern business leaders can use her as an example of how hostile takeovers occur within the ideological realm.

Q theory then serves to fill in the missing analytical lacunae even when much of the data is missing. The ability to analyze business organizations from a qualitative approach permits academic predictions based on a paucity of quantitative data.

For example, when studying Doña Gracia, even without knowing her personally, we know that there had to have been some form of agreements between her brother-in-law and her regarding issues of loyalty and working-relationship. As in the case of any Q's lifecycle the Doña Gracia/Diogo Q came to its conclusion with Diogo's death.

In this study we saw how with a minimal amount of information we can predict the outcome of Doña Gracia's journeys in the Catholic anti-business countries.

Indeed, knowing that as in quantum physics, protons and ions and their negative and positive poles attract or repel, depending on the type of energy they contact, using the theory of Q and PIE analysis, we can also predict the cycle life energy (Q), and its route and end, by Catholics and non-Catholics countries, some repelling and others attracting businesses.

The House of Mendes' Q (our prototype for a business), needed a favorable business environment, applying its resources in new business, but that need was on a collision course with the Church's and government's ideological needs. The government and Church desired social control through control of a tight monetary and ideological policy manifesting itself in forced loans without repayment guarantees.

The social facts indicate that the probability of Doña Gracia's ultimate business

success in the Catholic countries ranged from extremely low to nil.

The hostilities towards Doña Gracia resulted from a variety of factors, including the lack of social integration. This preponderance of society over the individual must allow his/her fulfillment, assuming you can integrate in this structure.

In Doña Gracia's case, both for religious reasons (ideological), and professional (economic) and personal (psychological), this integration was never achieved. The reasons for this lack of social integration can be summarized as follows:

- 1) Jewish ancestry in an anti-Semitic milieu.
- 2) Being a woman in a male dominated culture.
- 3) The need to do business in a rural economy.
- 4) A weak economy that was anti-business.

All these factors constituted a challenge to the "moral" authority force, which translated into the attacks, culminating in her departure from the Catholic nations and the subsequent end of her business there.

Thus, we also conclude that hostile takeovers were the target, not due to financial reasons, but social and political. The takeovers were partly successful, but did not have the desired practical results therefore we may conclude that they failed. The desired effect of these hostile takeovers was social control over individuals, but in many cases the results were a brain and monetary drain on national resources. In the case of Portugal, these policies may have creation for the nation sinking into an economic quagmire from which it is still struggling to extricate itself.

Moreover, Turkey's government hostilities on Doña Gracia decreased, again being one of the likely reasons for this break, society and moral conscience, which, as you know, is substantially different from the West and the East.

For this difference religion (ideology) contributes significantly, where it appeared that religion was one of the reasons why non-exclusive cultures of east and west have developed in different ways.

Thus, we can conclude that in a fight between the macro and the micro where the macro controls the I, the probability of a micro beating the macro are as close to zero as possible. The only hope for the micro is to extradiate itself from the hostile culture.

Although Doña Gracia was one of the greatest entrepreneurs of her time, the circumstances proved otherwise. The philosophy of history explains this phenomenon through the concepts of the "cunning of reason" and "mockery of history".

That is, the story leads men who believe they can conduct themselves per se, as individuals and as societies, punishing their claims, so that the story-world, despising them, and producing paradoxical results exactly opposite to those desired by their authors. After all, in the end, the story presents symbols and hidden realities of the world, but accessible to those who want to know.

The study of hostile takeovers, as social facts by addressing historical biography of Doña Gracia, reveals not only important aspects of this phenomenon, but also allows us to establish a historical trend of development compared to the present.

In summary, we may conclude, among other things, the following:

- There is great value of qualitative studies in analyzing corporate takeovers. These studies are not intended to replace or eliminate quantitative methods, but rather to complement them.
- Ideological control is essential to control political and business success.
- A Q has an economy, a policy and an ideology of its own that its ideology is responsible for the success or failure of a business.
- In countries or markets where there is an anti-business ideology, companies tend to leave those countries or markets.
- In the analysis of a business, both the abundance of information, as the information deficit is a problem for analysts and decision makers.
- Often Q's have difficulty knowing their forces and weaknesses, and entering battles or disadvantaged business.
- Qualitative theories are not intended to overlook the value of quantitative theories, but rather to be an additional evaluation tool in understanding a takeover or business.
- The true reasons of the attacks and the success and /or failure of the business are not known socially.
- Business fights are battles with war.
- There are many parallels between Europe's financial and sixteenth century Europe today.

Although Doña Gracia is just one example, given its economic and social importance in the European economy of the sixteenth century, it can be seen as a symbol of the difficulties that a business may have to survive in an adverse socio-economic context. We may thus use Doña Gracia as a prototype to identify and perhaps solve some of modern day Europe's problems.

**This thesis, like all theses, presents both conclusions and areas for future research. Questions left unanswered include:**

- Who currently fulfills the role of the Inquisition?
- Who currently fulfills the role of Doña Gracia?
- What is the current Policy in Europe?
- What is the current ideology in Europe?
- What is the current economy in Europe?

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