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SANTINI ICE CREAMS: CO-OWNING A TRADITION

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ABSTRACT

The case studies the potential partnership between a small family business, rich in tradition, that sells ice cream in the Lisbon area and a recognized Portuguese family who runs a multinational business. The aim of this study is to address students to analyze the evolution of the small company by using the Agency and Resource-Based Theories and to outline a potentially successful co-ownership structure if the agreement were to take place. The particularity of the case regards considering and identifying the main Family Business issues to keep in mind when dealing with these types of firms.

Key words: *Family Governance, Family Trust and Multi-family Ownership*

INTRODUCTION

It was a typical sunny winter day of March 2009 in Cascais¹, a nearby city of Lisbon and in the home of Eduardo Fuertes Martinez, who is Attilio Santini's son-in-law, founder of Santini ice creams, the atmosphere in the living room was very tense. They were at the point of selling half of the family owned company the next day, although the papers were not yet signed. All started from a random conversation between friends during the past month. The Santini and the de Botton families from then on discussed in-depth on how the partnership could work. They were trying to establish what could be the future roles of the members of the two families and to work out what would be the respective interests for the future of the company, to avoid any future unexpected occurrences.

It could be a turning point for the Santini ice cream family business, from the next day on many things could change. Furthermore, even Eduardo Sr. felt it was time to pass on the baton to his son, Eduardo Jr., who was expected to continue to run the production process of the little family firm passing on traditions and values to his new young business partner, Martim de Botton, the only third generation descendant of his family who would be fully involved in the ice cream business. Martim was going through a challenging period in his life as well, his newly established start-up, involved in the food and beverage industry was not going too well and little was known to the Santinis on what was going wrong. On the other hand Martim's siblings were working full-time with their father, who was running the family business.

Santini ice creams on the other hand was delivering great results as usual year after year, with a stable business in their two shops, run by the family and a handful of employees. The family was still worried about the structure of the deal, that involved selling 50% of ownership, to a family that had a similar history to theirs, but instead of running a small business, they were

¹ Cascais is a coastal town and municipality in Portugal, 30 kilometers west of Lisbon. It is a cosmopolitan suburb of the Portuguese capital and one of the richest municipalities in Portugal.

running a big multinational company called Logoplaste² involved in producing packaging for the food and beverage industry. “Funny how things turn out” said Eduardo Sr. to his son, “50 years ago your grandfather Attilio was doing business with Marcel de Botton, (the founder of Logoplaste) and now here we are again, on the point of becoming partners, I think!”

Until now they were running a stable business and working just six or seven months a year. They had more than enough time to recharge their batteries during the winter months and enjoy valuable family time. At this stage Eduardo Sr. was trying to let go and the whole family knew it would be difficult for him, since he has been working there for over 40 years. It was more than selling a business for him.

Eduardo Jr. was arguing that some old values might not hold anymore with the new ownership structure, given the managerial oriented mentality of a big and well-known business partner. “I am a little worried of working every day with Martim, he is young and skilled, but is he able to listen to our concerns?” Furthermore, co-leadership was new for them and they were wondering how to deal with things in a family meeting, with another family who is not related to them. Eduardo Jr. was not experienced in making decisions with someone outside the family circle and was apprehensive that they were not going to take seriously the everyday issues a shop has to deal with. “Are they going to form a family coalition that will make business and communication impossible between us?” Eduardo Jr. was asking his father.

The deal was appealing. No doubt about that. The stores would be gaining both capital and expertise at the same time. This could improve their quality of life by living with fewer worries. It would be a turning point in their life for sure. “If things go wrong we lose everything, not only wealth, but even all what we worked for all these years. I do not have a high education. I do not have any perspective for a future job! And what about my family?”

² Logoplaste is an industrial group, manufacturing rigid packaging for some of the most reputable companies in the world, in the food and beverage, personal care, household care and oil and lubricants sectors.

Are we really trusting these guys, is it worth it?” Questions were just flowing non-stop in Eduardo Jr.’s head, but he could not do anything about it, the meeting was settled and the next day these questions would have been meaningless. On the other side, Eduardo Sr. was trying to have a confident look on his face to lower anxiety among the family and especially his son, but everyone could tell the decision was hard for him to accept.

CONTINUITY OF TRADITIONS AND VALUES

Many questions were arising that needed to be resolved. Such as why not just hire outside help and continue to gain the rewards for themselves? The thoughts and feelings of Eduardo Jr. were often shifting towards Attilio, who was the founder, not only of the great ice creams loved by Lisboners and tourists, who would stop on purpose at their shop while on their drive to the Algarve³, but even to the attention to the values that have been transmitted in the last 60 years, which has made their ice cream taste even better, mostly because of the kindness of Attilio, who wanted his customers to always leave the shop with a smile on their face.

“He founded a great tradition, which now is ours, to keep and pass on in the family, but maybe not to be sold. Would Attilio appreciate what we are about to do? What if we lose the company? We could continue doing things like always, live a good life and work hard every season, and have five or six months to spend with family.” These were questions the Santinis were asking.

THE DE BOTTON FAMILY

The de Botton family was well-known in Portugal for their entrepreneurial skills, they were able to become a worldwide leader in the packaging industry. The Santinis knew their business was an almost insignificant participation for the Logoplaste portfolio and they were still discussing if this would be the first step in becoming a little subsidiary of a multinational.

“We could lose our image and the whole company if they decided to buy us out. We know

³ The Algarve is the most south-western region of mainland Portugal. Tourism and related activities are extensive and make up the bulk of the Algarve’s summer economy.

our clients love us, but without us, would they still love the ice cream?” Pondered Eduardo Jr.

The reason they wanted to enter ownership was clear to the Santinis; they knew the de Botton family was not interested in taking part of the modest but stable revenues they made each year. The big entrepreneurial family looked further ahead than “normal” people, they knew the potential the ice cream brand could hold and were sure it would grow successfully if investments were accurately made.

ATTILIO SANTINI, THE FOUNDER

Going back to how it all started, Attilio Santini, born in the Italian city of Udine, left his country at only 15 years old in search for work in the neighboring country of France. Like most Italians, his passion was soccer and he even played professionally for the French team of Nantes.

The art of making ice cream was an old tradition in his family. It dates back to his great-grandfather, Attilio who had in Austria an ice cream parlor licensed by Emperor Franz Joseph I. Years later in Italy, Attilio's father also received the “brevetto”⁴ to produce ice cream from king Victor Manuel III. Good relations with high society and royalty were a constant in the history of this Italian family. In fact when, at 15, Attilio was working in France, he met the Romanovs. After a short period working in Valencia, in a small cafeteria named Cafè Santpol, where he met his future wife Isabella Catalan Saez, he moved with her to Lisbon in 1947 where he started managing an ice cream store in Restauradores⁵.

In 1949, at the time when Attilio Santini finally opened his first ice cream store in Portugal, at Tamariz beachfront, in Estoril⁶, the family lived on the floor above the establishment.

The relationship between the Italian and the exiled kings along the Portuguese coast was so close that the royal families used Santini's house as a locker room to change into their bathing

⁴ License in Italian.

⁵ Restauradores square is a public square in the city center of Lisbon.

⁶ Estoril is a town and former civil parish in the municipality of Cascais.

suits. Attilio took advantage of the good personal relationship he was making with the higher social classes for his business. He provided ice cream for the wedding of Princess Maria Pia of Savoy at the Hotel Palace, for the silver anniversary of the counts of Barcelona and the wedding party of Infanta Pilar de Borbón. The Dukes of Bragança were also Santini patrons. In 2009, Dom Duarte Pio, Duke of Bragança, told DN⁷ newspapers that the best memory he has of his vacations spent in Cascais was Attilio's ice cream. 50 years ago, when the Dukes of Bragança left their Vila Nova de Gaia house to spend the summer day on the beach in Cascais, the kids had only one thing in mind: to fight the heat with walnut ice cream. Attilio's success with people and high-ranking society was mostly linked to his natural and captivating simple character, conquering therefore their friendship, especially with the younger Princes, some still children, as is the case of Juan Carlos, the former King of Spain.

SUCCESSION

In the early 1990s Attilio was getting old and decided it was time to stop working. It was in fact a natural process for him to let go. He was a hard worker and felt that it was time to pass on the baton to his daughter's husband Eduardo Sr., who was groomed on how to run the shop from Attilio; he in fact trusted him like a son.

The succession was natural and, there was no need for dividing shares among children since he had an only daughter and Eduardo Sr. seemed like a great fit to run the company. Even his family from Spain joined the company and worked together as employees. Then, when winter was approaching, they would all leave for Valencia to spend the winter.

Their compact family and their common values were key to make the succession process smooth and successful.

His grandson Eduardo Jr. will always remember him as a typical Italian entrepreneur for the way he managed the company by always being close to customers, creating a special rapport

⁷ Diário de Notícias is a Portuguese daily newspaper published in Lisbon.

with them and always acting friendly even when he had other things going on in his mind. His grandson described his exit style with these words and a proud expression on his face, which said everything about him: “it wasn’t easy for him, I could see he wanted to work but his body couldn’t take it any longer!” Attilio died in 1995, but will always be present in the company, with pictures on the walls of both shops to strengthen the brand and never forget who started the tradition because even clients passed on the love for Santini ice cream to their children. Many years have passed since the founding of the first store.

His passion in delivering the high quality ice creams and the attachment to his customers that created such a strong brand caught the attention of the de Botton family, who recognized the strength of the brand and the potential growth of the yet small but highly recognized Portuguese ice cream stores.

SECOND GENERATION: ISABELLA SANTINI & EDUARDO FUERTES MARTINEZ

Attilio used to go often to Valencia with his wife, to meet family. They used to spend almost all winter there and this is where their daughter Isabella Santini met her future husband Eduardo Fuertes Martinez. The shop did not need to stay open during the cold season, the income during the rest of the year was more than enough to spend a relaxing winter with the family in Spain. Eduardo Jr. described the co-living and the co-working as very intense in the family and used these words: “it is not easy, you have to put personal affairs behind the business and the professional dealings occupy all the time you have! Often arguments would arise for this reason, the relationship between my parents was confusing, they were not always able to separate work with family issues and the overlapping can be very stressful at times. It was very difficult for everyone in the family and employees could feel the negativity as well!” Even if Eduardo Sr. is not a Santini direct descendent, he was having some difficulties giving up his authority. Working for so many years had become tiring but at the

same time sentimental issues and the routine kept him close to the company. Physical issues were forcing the succession despite his bond to the store, but he had to just accept it and step down. He was very clear in stating he would not stop visiting the production facilities and clients. He still wanted to express his ideas on how things should get done; even if he did not admit it, he still wanted to be very respected, but at the same time not create a friction on the everyday workload. Eduardo Sr. felt the need to run the stores to keep the pride he has felt for all his life when coming back from work and knowing he was making something special every day. On the other side Isabella had a looser sentimental attachment to the stores and was the first to say she wanted to retire. She now has two grandsons and wanted to put family first again. She stated in fact that she never wanted to visit the business. This did not mean she did not care, rather that she was sure it was in good hands. Her idea was clear on her future and was proud of her son, who was committed to it, and was sure her presence would have been superfluous. It was time for her to think about family and quality of life again.

EDUARDO FUERTES SANTINI (EDUARDO JR.)

Eduardo Jr. had received great mentorship first from his grandfather, but most of his knowledge on how to run the business and how to make ice cream, came from his father. “It is not easy” was the sentence he used many times to describe working with his family. You could tell by his face that the partnership would be in some ways a release for him because family and business probably overlapped too many times in his life and he has been quite firm in affirming that he did not want the same life he had for his children. He passed difficult times when he was treated differently from other employees; not in the sense that he had the easier job tasks or was in a position of favoritism, rather the opposite, he was treated worse because: “when you want to say something to your employees, you just say it, to your family you say it more directly and unpleasantly, creating negative discussions that employees listen to, it is not easy you know!” Eduardo Jr. reiterated.

As a child, like all children he dreamed of becoming a Benfica soccer player and an astronaut, but as he grew up he realized he had to become realistic of what he was going to do.

The situation was precisely clear in the family, his brother Ricardo had no interest in the family business or on receiving any property shares. The reasons behind this were his studies in psychology and moving to Spain to start up his personal career.

Eduardo Jr. described his entry with a firm position and said: “it comes a point in life where you have to think what you are going to do. My parents never forced me, but there was some pressure because someone from the family had to stay with the company. You know the job, the customers and the admirers, so it’s something you have to do. It comes from the heart, but sometimes you want to do something else, but over the years it becomes everything. In fact I would make the same decision today!” recounted Eduardo Jr.

“I was 15 years when I started. At the beginning it was not easy. Your friends are all going to the Algarve, they go have fun in summer camps, music festivals, and you have to stay at work. For a 15 year old it’s not easy. But with time it becomes normality. After graduating high school I had many months free in the winter and it was not easy either. All my friends were studying or working and did not have the free time I had in the winter.”

“I decided therefore to work for eight winters selling watches at Boutiques dos Relógios at the Cascais shopping center. The shop’s owner is a family acquaintance.” Described Eduardo Jr.

His beloved wife worked in the city hall in Lisbon. Eduardo Jr. was very convinced in confirming, “I would never want to mix anything between my wife and business. It’s very bad for your personal relationship. You see family businesses are very demanding on your personal life. I don’t want to experience what my father and my mother went through by running a business together!”

When talking about his parents in fact these issues came out again: “it is not easy, we used to see each other 16, 17 hours a day, and it is not worth it. Everything is intertwined, both our

personal and professional relationship. It's not a very healthy thing to do!" Eduardo Jr. understood his parents gave up on a lot of quality of life and "now I always want my weekends to be free. I didn't have any for many years, so now I don't work on weekends. They are for my family, my children are 8 and 4 years old, it is very important even because I know how it is not to be around them. I lived without my family. Now it is time to have a "normal" life. It's not going to be easy to let go half of our company. It's our company, our future. We are going to put half of the company in the hands of others! We don't know if we both have the same values, it's too early to say that, but the most important thing is to sell to another family, because they know what it means to run a family business!"

BACK TO THE LIVINGROOM

Going back to that evening in the living room, the partnership appeared to be more of an opportunity than something planned only one month ago. A Business Consulting agency valued the company very quickly and Filipe de Botton, Martim's father, did not hesitate in accepting the price, in this way expressing his trust towards the Santinis without delay. The capital, in cash, was going to be transferred to both the family, to ensure financial stability for the future, and the company, necessary for the growth strategy they had in mind. Moreover, Eduardo Sr. deserved a "prize" and it was one of the best solutions for combining quality of life for his elderly years, and, professionalize and strengthen the business. The next day they had to meet in Logoplaste offices with Martim who organized the meeting with the lawyers. Eduardo Jr. said, "I want it to be fast and painless." After a few seconds he even exclaimed: "it must be a quick ceremony" with a laugh towards his father.

"We are about to enter a relationship that requires a lot of trust. Do these guys trust us as much as we do? The de Bottons have to trust us as well, not only the other way around. If they feel we see this as a great opportunity not to lose, they are going to exploit their negotiating power and try to fix an agreement that might favor them in the future. On the

other hand I'm optimistic because they are going to put money in a company that they don't know the core business of, so they must trust us on how we run the company as well. Although there is something that doesn't convince me, it seems everything is too easy! A co-ownership requires trust even because the business will be of two extremities. They are going to do management and sales and we take care of production. We are not going to often interfere, so both sides must do their best to remain competitive, so it might take too long before one side realizes the dissatisfaction of the other partner. I think we cannot secretly control each other in the future, it would hurt the whole trust involved. Father I think we can guarantee a great ice cream, but it's the de Bottons' task to sell it in the best way and deliver it in a unique way and no family member will deal with clients anymore, this worries me." Explained Eduardo Jr.

Eduardo Jr. was thinking how they would organize the company for the future since there was going to be a completely new governance structure. "And what about the meetings, is having both an executive commission and a board meeting going to make sense? Or is it going to be a waste of time? Filipe might not have the time and effort to put in the small Santini ice cream company." But Eduardo Sr. affirmed surely that: "if Filipe is going to be very involved, well, it is going to be very useful to us given his experience, his know-how on how to manage a business. We are going to avoid mistakes we would make without his help! You see, the most important thing is that he realizes that our potential to grow depends on the production, we have to make the ice cream in an artisanal way, this is not a factory! You can't just push a button and the ice cream comes out, I really hope they got this clear! It's a huge restraint to increment production! Together we are going to have to study the whole process to increase the output and at the same time keep the authenticity of the ice cream! Our business depends all on production, so we have to be very careful when evaluating the feasibility of opening new stores. The fruit and all the raw material are very tricky to deal with, you have to be very

careful selecting them!” Eduardo Sr. was looking more worried as time passed and continued stating, “you know Martim is going to be working with you, his father chose him for the job, I really hope you will be able to co-lead successfully and find a suitable fit for running the business even if you do not have to work closely to each other! Only a month has passed and we are already on the point of selling, crazy! I really hope we can trust them, we have seen it just like a great opportunity.” Eduardo Jr. answered: “father you always taught me everything you do in a small family business like ours is a risk, so when you run it you will always feel the pressure. Now we can make riskier decisions because we have more protection and aim to grow the company in a healthy way thanks even to the capital back-up of the de Bottons.” At this point Eduardo Sr. answered doubtfully, “maybe we should ask for some more time to think about it?”

TEACHING NOTE

OVERVIEW

The case is based on actual events that took place in 2009 in Cascais, Portugal, when the Santini family, who was running a small family business that produced ice creams and sold them through their two retail shops was about to sign a partnership with the de Botton family. The buyer family also runs a family business, but is involved in a different sector and operates worldwide. The agreement involves the sale of 50% ownership and at this point the Santinis are worried on how the co-ownership will work since the well-known entrepreneurial family has the objective to grow the relatively strong ice cream brand. It is an analytical case study where firstly the students will have to analyze what type of firm Santini is now and how it will evolve with the partnership. To implement this analysis the Agency and Resource-Based Theories will have to be put in practice. Secondly they will have to point out which key points must be considered in order to have a successful co-ownership structure. Both tasks will touch more times the three main strategic issues family businesses have to face: family issues,

which concern mainly socio-emotional attachment, family unity and nepotism; owner issues, which are related to succession and the high degree of trust involved in the deal since they are selling half of their shares and there will not be any majority shareholder; business issues, which touch the structure of future growth strategy, the de Botton's management role and the new governance body.

TARGET AUDIENCE

The primary audience for the case study are undergraduate and graduate students who are taking Family Business related courses at an intermediate level. It touches in fact many concepts related to family issues, such as succession, socio-emotional wealth and trust among the family structure. In addition the case can target SMEs related courses given that the main theoretical concepts focus on the Agency Theory, the Resource-Based Theory, the impact of ownership structure and the meaning of responsible ownership. Students should be familiar with Gibb Dyer Jr.'s diagram beforehand, which describes different typologies of family businesses.

LEARNING OBJECTIVES

After reading the case students should be able to analyze, diagnose and explain the company's current and future structure in terms of firm performance. To be able to pursue the assignment, they must recognize the growth strategy that will be implemented by the de Botton family and continuously recall to the three-circle model interactions to explain the type of business by interpreting the Agency and Resource-Based Theories.

In a second stage, students must outline which key factors have to be kept in mind to have a successful ownership shift, from a one to a two family controlling shareholder structure. Therefore clarifying and suggesting 1) the unique characteristics of the two families, underlining what legitimates their ownership, their expectations and their responsibilities; 2) their respective capabilities, focusing on co-leadership arrangements; 3) a proposed

governance structure, designing a possible board of directors and executive board and 4) how to plan and execute an appropriate ownership and control structure.

QUESTIONS

- 1) Given the company's current performance, what type of family firm is Santini now considering Gibb Dyer Jr.'s diagram? How is the partnership going to change their position? Why? Which important factors must they consider to evolve in a better quadrant?
- 2) Which key points should be outlined before the partnership to safeguard that the two families can become committed and responsible co-owners?

TEACHING PLAN

After having the students read the case and the recommended readings, the class should start with a brief description of the case directed by the instructor through addressed questions. The scope is to underline the company's history in terms of a future partnership and succession plan by using the genogram (Exhibit 1) as guideline, analyze values and visions of both families, focusing on the protagonist's (Eduardo Jr.) concerns and argument the student's position on whether to sell or not, keeping in mind the growth strategy they have in mind. **(15 Minutes)**

Secondly, after having clarified the relevant opportunity of the partnership, the instructor should address the class on the first question. To best have the students follow the reasoning behind the solution, the professor should draw Gibb Dyer Jr.'s diagram (Exhibit 2) to analyze the firm's path before and after the partnership. When drawing the path on the specific axes, the instructor's questions should be related to the key options a family business must considerate when shifting from a quadrant to the other. **(25 Minutes)**

Thirdly, the class must discuss around question two. To address it the instructor should draw four columns (Exhibit 3), each indicating the family business leader's task to develop

committed and responsible owners: 1) understand family business owners, 2) education and capabilities, 3) create governance and 4) manage control structure. Focusing on one column at the time, the students should be able to fill them in with the relative concerns each task needs to consider. **(25 Minutes)**

To wrap-up the class, if there is the possibility, it would be challenging to have the two owners and executive managers, Eduardo Fuertes Santini and Martim de Botton, discuss in class what actually happened and argument which solutions, related to the management issues discussed earlier, they found the most adequate to work out their successful growth strategy. **(25 Minutes)**

ANSWERS TO DISCUSSION QUESTIONS WITH RELATED THEORY

QUESTION 1

The first thing to consider is the firm's performance based on the Agency and Resource-Based Theories of the four quadrants of the scheme proposed by W. Gibb Dyer Jr.⁸ (Exhibit 2). The quadrants describe the current performance of Santini, taking into consideration an assortment of dynamics found in the family that own and manage the company.

The *Agency Theory* has the goal of assessing a business by taking into consideration its agency costs, which depend on the relationship between the firm's owners and their managers. "Principals" and "agents" often do not have aligned interests; therefore, agency costs arise, such as conflicting goals in the family and due to shirking and lack of competent employees that fail to monitor each other. According to Jensen and Meckling (1976, p. 308), total agency costs consist of: 1) monitoring costs – costs incurred by principals including measuring or observing the behavior of agents; and 2) bonding costs – cost incurred by agents to guarantee they will not take actions to harm the principal.

⁸ Dyer Jr., William Gibb. 2010. "Are You the Right Type of Family Business?" *Organizational Dynamics*, 39(3): 272.

In the case of Santini agency costs are considerably low for two main reasons. First of all given the firm's size, where only three family members are employed with a few other employees. The second is trust. In fact the interest of delivering the best service and product is part of the family culture, initiated by Attilio and carried on by the whole workforce.

In the small Santini family trust is never a subject of discussion. In fact, both parents are not worried about passing the baton to their son even if they already know he will be the only family member remaining. Eduardo Sr. and his son have been working together for over 20 years now and always got along even if they admit it has not always been easy to work side by side every day for many hours.

Often *nepotism* can lead to higher agency costs, but in this case, it does not hold since it was clear that Eduardo Jr. was treated differently, but in a constructive manner by his parents inside the business, in a way for him to become a better leader in the future by receiving more direct instructions. In conclusion the firm presents very low monitoring and bonding costs, therefore agency costs are not relevant.

The *Resource-Based Theory* suggests that firms with assets that are valuable, rare, inimitable and non-substituted may be able to create a sustainable competitive advantage. The three main types of assets are: human capital, social capital and financial capital. Santini's human capital is highly knowledgeable and skilled thanks to the training received from Attilio and passed on by Eduardo Sr. Family members have "grown up in the business", creating a connection that inspires loyalty, encouraging family members to work longer hours and be more flexible in order to make the firm prosper. In addition, the industry they operate in does not require high technology and demand is relatively stable, so special skilled personnel is not necessary.

Although the business found the necessity and opportunity to grow, no one in the family had managerial knowledge, forcing the business to operate in the same way it did for the last 50

years. This can be linked to a lack in *succession planning*, because an effective transition from one generation to the next must encourage the growth of the family's assets. For three generations this important task for successful succession has been missing, although they had the time and above all a strong local brand to do so. Their constant and large ice cream sales are to be credited to their social capital. The family was able to establish a solid and continuous relationship with a small base of customers, suppliers and employees thanks to the trust generated by the family name in the brand. From the financial capital point of view, Santini is not that strong. They are able to pursue a good life, but do not work for many months. If they were to launch new investments, the capital would have to rely only on family assets and the risk of something going wrong would be too high for the family to consider given their *socio-emotional attachment* to the firm. In fact given the high concentration of family wealth in the company, the family firm exhibits excessive risk aversion and has no interest in implementing profitable growth strategies (Fama and Jensen, 1983; Morck et al., 2000). In addition no family member ever intended to use funds from the business to enrich himself or put the business in difficulty because the family is very small, united and worked together for so many years.

Therefore, the current position of Santini stands between a Mom and Pop and a Clan firm because agency costs are low due to no conflicting goals and behavior is monitored through close family ties. However, family assets are not fully taken advantage of, because the family members are not trained or have the expertise needed to progress the business. Financial assets are low, but with the right expertise the strong brand could be exploited to grow. On the other hand, social capital has always been strong because the ice cream is loved by customers, who link it with the family name. As a matter of fact the tradition of making the clients feel at home is carried on from Attilio to Eduardo Jr. Even their relationship with suppliers is key to delivering a unique ice cream, which comes from high quality raw materials. As a matter of

fact, despite the high demand of peach ice cream during the summer, in August 2014 the peaches on the market did not pass the demanding selection process, therefore clients had to wait a year for this flavor⁹.

At this point in order to survive over time the Santinis must: 1) recognize the “type” of family business they are managing (Mom and Pop with certain liabilities) and 2) make the needed changes to evolve the firm into a more efficient enterprise, by making the liabilities become assets. There are rarely “pure types”, and often firms have characteristics that blur the lines between types.

To evolve in a better quadrant the partnership would have to take place because the de Botton family aims to expand the business, therefore shifting from their current position to a Clan/Professional position. Both family assets and agency cost would increase for this reason. The de Bottons would guarantee stronger human and financial capital favoring the expansion by opening new shops that would generate the need to have a strong governance and organizational structure, raising inevitably the agency costs.

Consequently, it is important for the family to consider these key factors in order to be successful: 1) create well-developed processes for handling differences and ensuring trust between the two families. Family meetings that would bring together both families would be the best solution to ensure long lasting trust between the two parties. These should be informal reunions where issues related to family and business can be discussed, although the meetings should be structured with routine occurrence so the members can prepare matters of discussion and insure its continuity; 2) continue to create a common vision and values for family and firm over time and across generations. This is particularly important because the de Bottons might destabilize the family equilibrium by establishing cost cutting rules and formalizing the work environment; 3) create management systems to recruit, select, train, and

⁹ Customer testimonial.

monitor the performance of family and nonfamily employees. A growth strategy would raise the workforce that would have to deal directly with customers, therefore they must be able to acquire the family's values; 4) create a board of directors, usually including company outsiders, to provide input and direction regarding the firm. For the Santinis it is important to receive Filipe de Botton's guidance to drive the growth strategy given his experience. Before signing they must make sure he is going to commit to take part of the board consistently; 5) set up information and accounting systems to regularly track performance that can be shared with the board as well as nonfamily employees. Mostly important for the future shops so the management team can review their performance; 6) formalize job descriptions and organize charts so employees can understand their job requirements and what they are expected to do; 7) avoid bureaucracy while creating stability. Flexibility should also be maintained during future transition to a more professional organization¹⁰.

QUESTION 2

The 4 key points are: 1) understand the unique characteristics of both parties, 2) acknowledge their capabilities, 3) create the adequate governance structure and 4) design and execute an appropriate ownership and control structure.

So the first step for the two families is to understand the unique characteristics of both parties, pointing out what makes them **legitimate owners**, their **expectations** and their **responsibilities**. The first topic is relatively simple, since if the partnership is going to take place, both families will own 50% of shares, consequently neither of them would have a majority, implying that there will be no minority owners and that both have equal voting power. This structure is relatively uncommon, since when decisions have to be made no family has a louder voice in expressing their will for the future of Santini. For this reason, it is of the utmost importance that all interests are revealed, so that a strategic fit and alignment

¹⁰ Dyer Jr., William Gibb. 2010. "Are You the Right Type of Family Business?" *Organizational Dynamics*, 39(3): 276-277.

between both families is found. Eduardo Sr., Eduardo Jr., Martim and Filipe have to ask themselves what kind of business they want 5 years from now. Once the families agree on a future scenario, the leaders can work toward achieving a good fit between the vision, the interests and skills of members of the next generation. This is a key step in *leadership transition*¹¹, which sees Eduardo Sr. and Filipe eventually stepping down and give full control to their respective sons. Under these circumstances, it is clear that the de Bottons have the intention to develop a valuable brand name and they must be sure to have Santini's support to change the business structure with the goal of growing locally at first. In contrast, the Santinis are conceding significant trust. As a matter of fact, the stores are their family's only assets, therefore poor future performance or even failure will be especially damaging.

Regarding **expectations** both parties will be involved in co-leading for the first time. If they want to be successful, it is very important that transparency in exchanging information is pursued. They will manage different business areas; the de Bottons will administrate sales and general management given their experience. The Santinis will be responsible for the inherited tradition of making the ice cream that has been passed on from Attilio to Eduardo Jr. It is fundamental for them to communicate the values and vision of how business transpires in their commercial operation. Trying to transmit to externals what Attilio conveyed to two generations over 50 years while growing the company, namely maintaining the social capital of the value of the Santini brand linked to the trust that customers have in the family name. Furthermore respect and accountability are key to the operations of the business given the low participation in each other's tasks.

Martim as a young owner is expected to be more emotionally attached to the future business outcome since he will be more involved than his father and is challenged to get things right after his previous not so successful start-up experience.

¹¹ **Lansberg, Ivan.** 1993. "Twelve Tasks in Succession." *Family Business Magazine*, May 30: 5.

Financial rewards are clearly of greater importance for the Santini family, who seeks for financial stability and perceive risk in a different way. Not only do they have an *emotional attachment*, they even value the importance of constant income from the shops to deliver stability to the family's lifestyle. Therefore a dividend policy should be outlined, in order to favor the Santinis since it is their only source of income. In fact the de Bottons could even renounce their part of dividends given their strong financial position. Nevertheless salaries should be fair for the whole workforce in order to motivate and reward a successful growth.

Regarding their **responsibilities**, the major task the partnership must deliver is to ensure that both families trust each other. Since the Santinis are a relatively closed family and never have searched for opportunities to grow among private investors or through debt, it is very probable that they will accept the partnership because the buyer is a family that runs their own business and had a friendly rapport with them that dates over 50 years with Attilio. For this reason they understand key family business issues, such as *social-emotional wealth*: the importance of continuity of the business, in a sense that taking riskier decisions could jeopardize the perpetuation of the business for future generations.

Higher risk might be more difficult for the Santinis to engage, given the fact that the business has been run in the same way for many years. Transformation in a sense of growth although can create competitive advantage within their market, but it also involves higher risk than what they have been used to.

Secondly the difficulties Eduardo Sr. has to face by "letting go" after so many years. Accordingly, it is the de Botton's responsibility to understand his attachment to the business and facilitate communication so that he does not feel excluded from the decision-making processes. Meanwhile make an effort in imposing disruptive thinking on how to improve future strategies to enlarge not only their market shares, but also the Portuguese market in general.

Considering the family's business history and background it is clear that the current owners, the Santinis, are more ownership oriented. In addition, more acutely concentrated on returns, risk mitigation and liquidity. Whereas the "new owners", having less *emotional attachment* are more management oriented and will be focused on sales, growth, compensation and Martim's career and self-recognition.

To have a well-balanced ownership structure the two families have to find the perfect equilibrium on their future goals and how to reach them. The Santinis will have to accept the performance driven management orientation, allowing the de Bottons to make the efficiency improvements to become more competitive, but at the same time maintain the values of the premium ice cream, in the sense that quality must remain of key importance. Moreover, if they want the company to grow, important decisions must be accepted by the Santinis before they become an obstacle. A growing business has many factors that must be considered, such as establishing the speed of growth, the location of the new stores and outline a marketing campaign, thus great teamwork is needed.

Managerial choices on how to pursue the best strategies given the market environment will be the de Botton's task. Transmitting values and the family's concerns about how the company must appear to externals is Santini's duty. Risk is a key factor to compensate. In the case merger fails, it would result in a minority loss for the de Botton family and a hard hit for the Santinis, who would find themselves jobless and with no strong capital back-up. Consequently, financial and strategic goals must be very clear beforehand in order to align interests.

The respective individual interest can be found in the history of the family members. Eduardo Jr. is looking for a more stable job and to dedicate more time to his family and not have all the responsibilities upon his father's retirement. Martim is seeking to put into practice what he has learned from his first entrepreneurial experience with a strong

financial back-up from his family. Meaning that he wants to fulfill his ability to become a successful entrepreneur.

The second important step is to acknowledge their capabilities. By recognizing what they are and are not adapt to do is fundamental to co-leadership. This way they can work with fewer controversies and lower anxiety when facing the day-to-day operations. Thus, they can delegate the right tasks to each other. The “old-school” thinking that co-leadership is unthinkable is in fact changing line of reasoning. If the right ramifications are considered it can work very well, but it is essential that the partners are willing to establish covenants with one other based on mutual trust. The specific guidelines to consider are: 1) values and philosophy of the de Bottons, which are family oriented like the Santinis; 2) they must like each other and have personalities that complement one other. This is especially true for Martim and Eduardo who will have to deal with each other on a daily base; 3) Eduardo Jr. must rather have a partner than run the company by himself; 4) they must be able to share goals and decision making. Both parties must understand their strengths and weaknesses in business operations; 5) they must be able to share responsibilities, without pressuring the counterpart to agree. Eduardo Jr. must believe in Martin’s managerial capabilities in spite of his age and little experience; 6) lastly they should ask themselves if they are going to take the time and effort to go through the appropriate guidelines, being able to overcome the tough times. In addition constant communication between Martim and Eduardo Jr. is essential. Their conversations may range from intense discussion about a major business decision to plans for the week-end; it is impossible to over-communicate¹².

Thirdly, the owners must create the adequate governance structure. The board of directors is going to take all future strategic decisions. Filipe de Bottom has his big company to run and might excessively delegate his duties to his son Martim. In order to have Filipe’s participation

¹² **Henning, Mike.** 2008. “Partners at the top.” *Family Business Magazine*, May 30, 2008: 40-41.

and involvement in the firm, which is very valuable given his experience, the meetings must be scheduled and rely on trusting his involvement. In fact Filipe will not work primarily for the compensation, but rather for the intrinsic and psychological rewards that come from working for a family with talented and interesting people, helping them face the biggest business challenge since their establishment: growth.

Comparable to equal share ownership the board of directors should have equal members of both families in order to represent the best concerns from both sides. At this stage, given their current limited operations, it is not deemed necessary to involve a third party for external advisory, it would be an excessive expense. The first benefit of inserting an independent director would be to formalize and professionalize the business discussions, other than improve the relationship between the two families because often complexity creates conflicts, rather than the underlying issues themselves. The board of directors has the task to implement the investments at the right time and guarantee the resources to ensure the best growing strategy solution. Eduardo Sr. might be reluctant to changing the business, therefore he might need more time to figure out how the business will develop. It is the de Botton's task in the board to communicate clearly and precisely what the realistic intentions are for the future of the company.

To run the day-to-day operations an executive committee should be formed, where Martim and Eduardo Jr. can discuss issues that involve solely sales and production. Leaving the strategic and investment decisions to the board.

Since both families have known each other for such a long time, family meetings should be informal and take place at least twice a year. The final purpose is to stimulate communication, in order to solve family issues and conflicts while taking decisions and establishing rules in a friendlier environment.

Lastly, they must design and execute an appropriate ownership and control structure. It is fundamental to have an ownership policy, which includes a buy and sell agreement between owners. Such an ownership policy would cover many aspects and one of them would be an exit solution in case the partnership does not work out. One good solution is to make a bidding offer, the family who bids the most gets the company. Another important clause of the policy, to closely bond the de Botton family to the business, is to have a tag-along clause¹³ in case they decide to sell. Therefore if the Santinis do not agree to buy their stake, they will still have the right to join the deal and sell their share at the same terms and conditions. These terms are important because new shareholders in the company would unbalance the new strategic choices of the company and risk to erode the whole business.

EPILOGUE

The partnership happened in 2009 and Eduardo Jr. says that “is has been a very quick decision, we did not take too long to think about it! It had to be done as my father wanted to retire. He was tired. It was difficult for me to take over production and sales at the same time. So the chance to join the de Botton family was seen as a great opportunity and we didn’t seek for other solutions. I was running a small shop, and when you want to professionalize the sales you have to get someone to do that part, therefore we decided all together to get Martim to do the management related work.”

Now they have six shops in the Lisbon area and opened on June 18th 2015 another shop in Porto, which is having good success as well. Their growth strategy has been very accomplishing and they are now seeking to grow internationally, looking for the right opportunity to open a shop in the neighboring country of Spain.

¹³ The tag-along right is a legal concept in corporate law used to protect a minority shareholder. In this case it has been adapted to owners that have an equal amount of shares.

EXHIBITS

Exhibit 1: Genogram

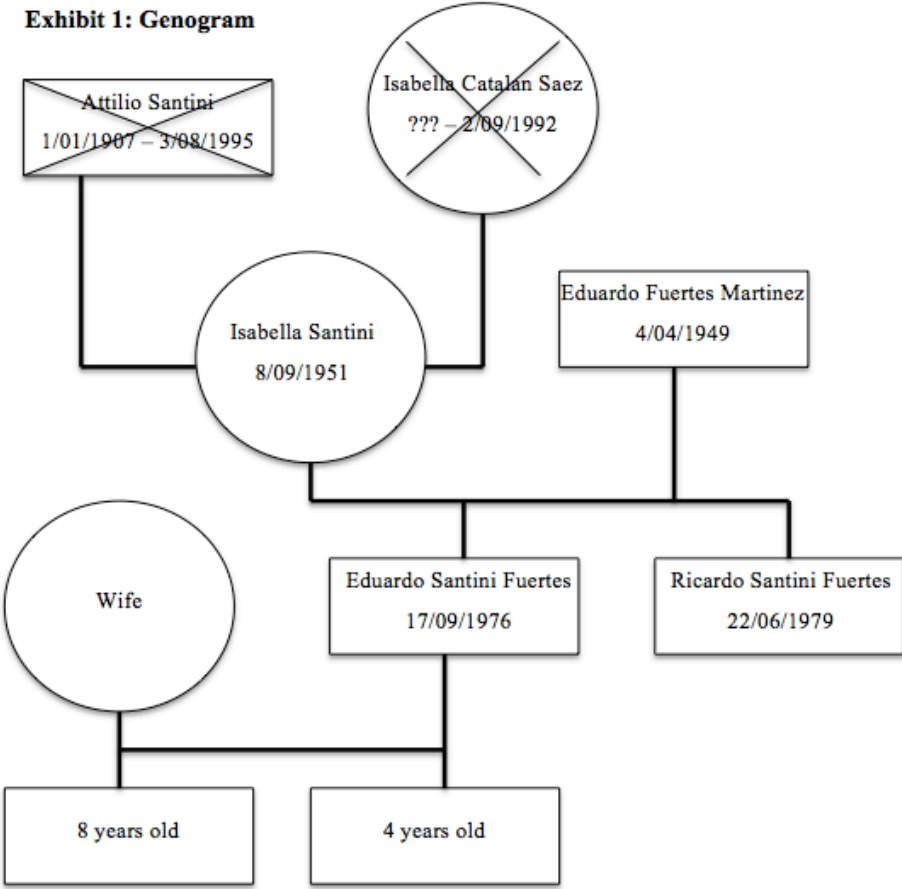


Exhibit 2: Typology of Family Firm, W. Gibb Dyer Jr.'s diagram

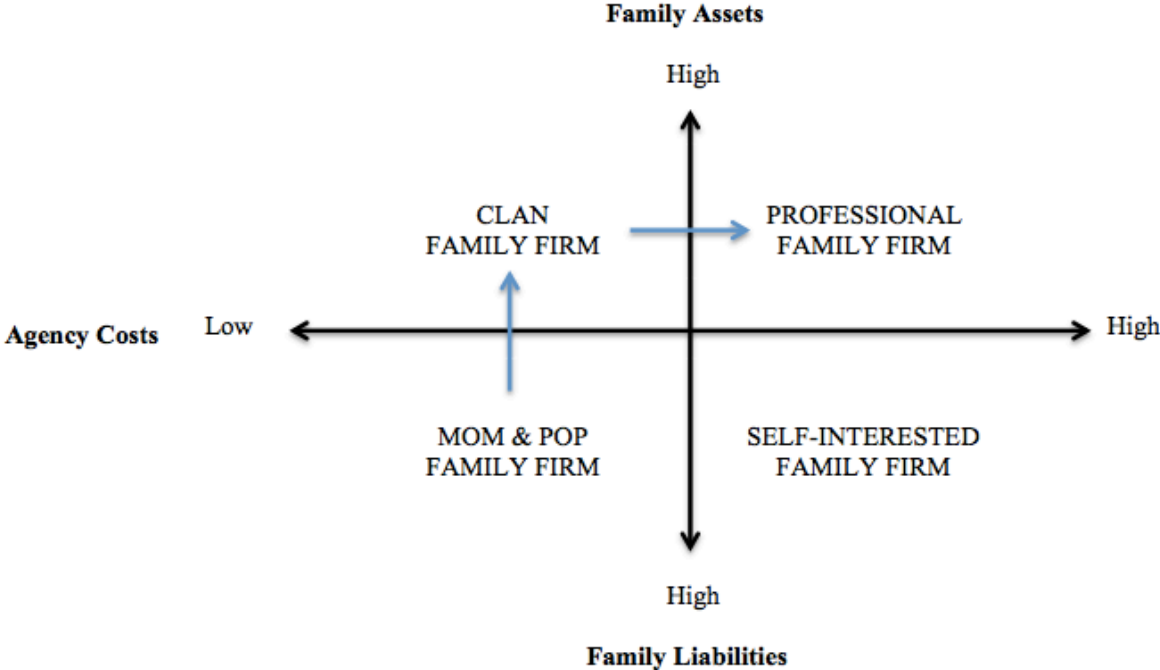


Exhibit 3: Tasks to develop committed and responsible owners

1) UNDERSTAND FAMILY BUSINESS OWNERS	2) EDUCATION AND CAPABILITIES	3) CREATE GOVERNANCE STRUCTURE	4) MANAGE CONTROL STRUCTURE
...

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