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**A FAREWELL TO THE BUSINESS:
CHAMPIONING EXIT AND CONTINUITY IN ENTREPRENEURIAL FAMILY FIRMS**

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ABSTRACT

What factors influence exit from the founder's business and subsequent entrepreneurial renewal in a generational family firm? Guided by this research question, we trace the development of the Italian Falck Group from its inception as a steel company in 1906 - ascension as the largest privately owned steel producer in Italy - losses in the 1970s and 1980s leading to business exit from steel industry in the 1990s - followed by successful entry in the renewable energy business. A combination of insights from literature and triangulation of data from multiple primary and secondary sources leads to the development of a model describing how inhibitors of exit from the founder's business can be transformed into facilitators of change. The critical role of far-sighted '*family champion of continuity*' is found central in redirecting the family from its anchoring in past activities to focus on future entrepreneurial endeavors. While commitment to the founder's business continues, the family champion aided by business savvy and astute non-family executives ably modifies its meaning of 'continuity of the founder's business' from 'steel production' to 'continuity of the entrepreneurial spirit of the family', hence preserving institutional identity. Insights from this study can help generational family firms which plan to exit from a failing course of action to regenerate so as to create trans-generational value.

KEYWORDS

Entrepreneurial exit; Entrepreneurial process; Entrepreneurial Family Firms; Business regeneration; Champions of change; Corporate Entrepreneurship; Leadership.

INTRODUCTION

Business exit is the divestment of a whole business unit, or part of it, resulting from the decision to withdraw from an existing business (cf. Duhaime and Schwenk, 1985). Shedding resource combinations that no longer add value-creating opportunities is a critical dynamic capability in Schumpeterian markets, and an important component of the entrepreneurial process (DeTienne, 2008; Eisenhardt and Martin, 2000; Mason and Harrison, 2006; Shane and Venkataraman, 2000). However, exit from a business is difficult for any firm as it runs contrary to our prevailing societal ideology of growth *is* success, while decline *is* failure (Whetten, 1980). Even more challenging is de-escalating and jettisoning a business that has been successfully established and run by ones ancestors due to the psychological and

practical deterrents (DeTienne, 2008; Simonson and Staw, 1992). The generational shadow casts an enduring effect as ancestors' pathways are considered sacred grounds. Organizational routines that lead to success in previous generations are inherited and formulate the heuristics underlying strategic decisions. Each generation begins to view itself as a steward of the past legacy in form of their family business, which must be nurtured for the support of future generations (Miller and Le-Breton Miller, 2005). Continuity of the family firm may hence become an obstacle to change in firms anchored to a founder's business.

But, what does continuity mean? Does it refer to the family business itself as in its name, the industry in which it competes, the product/s it manufactures or services provided, the markets served? Continuity is a multi-faced construct, the meaning of which is open to sense making and interpretation in multi-generational family firms (Drozdow, 1998; Gioia and Chittipeddi, 1991; Gioia, Schultz and Corley, 2000). Can the implicit meaning of continuity vary in the minds of different family members? Can this construct take a different meaning over time? If so, how might leaders of family firms articulate and transfer the meaning of continuity to avoid confusion and conflict while encouraging strategic change? Are there conditions under which continuity of past-anchored values and identities can trigger the emergence of future-focused change factors (Kaye, 1996; Mason and Harrison, 2006)? Systematic attention has not yet been directed to these issues (DeTienne, 2008; Sharma, 2004) – a task undertaken in this article.

The purpose of our research is twofold. First, we highlight the critical importance of the overlooked topic of business exit in trans-generational entrepreneurship (Habbershon and Pistrui, 2002; Salvato and Melin, 2008; Chirico and Nordqvist, 2008). Without an understanding of the factors influencing business exit, leaders of such firms may lack the heuristics and resources to engage in entrepreneurial opportunity recognition and exploitation

(Shane and Venkataraman, 2000; Sirmon and Hitt, 2003). Second, we develop a framework of factors that influence exit from the founder's business and subsequent entry into a growing industry, while retaining family control. Our focus is on the role of continuity as both a potential obstacle to change—when past-anchored tradition prevails, *or* as a trigger of strategic renewal—when tradition is leveraged to legitimize future-oriented values.

To frame and contextualize our investigation of business exit in family firms the literatures on champions of change, organizational decline and divestment were found useful. However, despite some notable exceptions (e.g., Sharma and Manikuttu, 2005; Sirmon and Hitt, 2003; Nordqvist and Melin, 2008), these literatures have largely focused on non-family firms (e.g., Duhaime and Grant, 1984; Ginsberg and Abrahamson, 1991; Kimberly and Miles, 1980; Simonson and Staw, 1992; Whetten, 1980). As we knew little about the antecedents, context and processes of business exit in family firms, we chose to pursue our investigation inductively by relying on a qualitative approach. This approach focuses on building an emergent theory from a perspective that gives voice to those living an experience (Corley and Gioia, 2004) - in this case business exit as experienced by the family and non-family members. To aid in understanding this process, we identified an organizational context – Falck Group - in which business exit has been successfully completed, making it possible for insiders to openly acknowledge and discuss experienced problems and solutions (Burgelman, 1994).

Established in 1906, Falck group became the largest privately held steel producer in Italy in the 1960s. In the first half of the 1990s, after nearly two decades of almost uninterrupted losses, it moved away from steel production and later entered the renewable energy business, which is currently the family's main entrepreneurial activity. We selected Falck for our investigation as a highly illustrative case. This entrepreneurial firm is a rare example in which the name of a family has been closely identified with an industry (steel) for over a century

making it particularly challenging to divest from the founder's business. However, Falck has been successful in reinventing the firm's entrepreneurial story in renewable energy industry. These distinctive features of this remarkable family firm provide a unique opportunity to understand the forces at play when negotiating business exit and renewal in generational family firms. Insights from this firm are likely to illuminate the factors underlying observed behaviors and experiences of other multi-generational family-controlled firms. Multiple interviews with family and non-family members who were directly involved in the exit and renewal process were conducted. This data was triangulated with multiple secondary sources that played a major role in our research, allowing a systematic reconstruction of changes in the external environment and firm's choices over two decades of Falck's history when it transitioned from one industry to the other.

The study makes several contributions. It reveals the critical role of exiting a business to pursue novel entrepreneurial opportunities that enable longevity and success of family firms (Mason and Harrison, 2006). As theorized by previous research, the contextual factors such as clear and unavoidable industry decline, chronological distance from the founder, and the presence of a limited number of active family members were helpful in this case (Hayward and Shimizu, 2006; Sharma and Manikutty, 2005). However, the most significant finding is the powerful role of highly regarded family anchors who champion the change process enabling the successful exit and entrepreneurial regeneration of the family firm, while preserving institutional identity (Burgelman, 1994; Gioia et al., 2000). With the help of carefully chosen and able non-family executives, finding pathways of support amongst various family, industry, community, and governmental stakeholders, the *Family Champion of Continuity* was able to nudge the family from its strong emotional anchoring in the founder's business, towards future-focused entrepreneurial opportunities. It is interesting to

note that along this process the definition of ‘continuity of a family firm’ undergoes significant modifications.

After a brief discussion of the literature that guided our data collection efforts, we share details of our methodology ending this section with an overview of the key events in the company’s history from 1833-2007. This is followed by our analysis which leads to an emerging framework of the influencers of business exit. Implications for research and practice are shared in the concluding section.

GUIDING THEORY

Exit from a course of strategic action is a difficult endeavor for organizations. There is considerable evidence that managers are reluctant to de-commit even to a losing course of action (e.g., Meyer and Zucker, 1989). In this study we focus on business exit, defined as the divestment of a whole business unit, or part of it, resulting from the decision to withdraw from an existing business (Duhaime and Schwenk, 1985). Hence, de-commitment involves drastic strategic change.

When dealing with strategic change, existing literature tends to place stability and change, or incremental and radical change as either/or options. According to this dichotomous view, when facing serious environmental threats firms *either* react in an adaptive way by changing present strategies to better match environmental shifts, *or* with an inertial attitude preserving current strategy and succumbing to the constraints to adaptation. The latter seems to be particularly evident in generational family firms as leaders are likely to feel personally responsible to continue the founders’ business.

Scholarly attention to understand business exit in entrepreneurial firms is only now beginning to emerge. In a recent article, DeTienne (in press) theorizes on influencing factors, strategy, and options for exit by founders, at various life stages of the firm. While emergence

of this stream of research is an exciting development, the focus is on exit *by* founder/s themselves *from* their own creation, rather than, on exit *from* a founder's firm *by* later generation family leaders. Our interest, in this article, is the latter. That is, what factors facilitate or inhibit business exit, generations after the founder has retired or passed away? How do multi-generational families negotiate the business exit and renewal process when the identity of a family is embedded in the business, practices are anchored in past heuristics, and inertial pressures against radical change are high? Understanding these factors is the principal aim of this study. In this section, we first turn to three factors that may inhibit change in family firms - past performance; commitment to continue the founder's business; and feeling of personal responsibility for the founder's business. Next, the role of key champions of change will be discussed, highlighting how such individuals lead family firms through business exit and firm renewal.

Inhibitors of Change in Family Controlled organizations.

Past performance: Organizations tend to formulate heuristics for dealing with recurrent problems. Success can de-sensitize an organization to environmental changes as dependence on proven mental programs to handle new ones increases. Past success can be confused with invulnerability, precipitating inaction, leading to failure (Duhaime and Schwenk, 1985). Under such conditions, managers have been found unwilling to acknowledge losses explaining them away as being short-lived. Even in the face of environmental factors necessitating change, successful firms tend to view past investments as sunk costs, often increasing investments in an attempt to reap the potential profits in a failing but previously chosen course of action (Hayward and Shimizu, 2006; Simonson and Staw, 1992).

Family firms present even higher barriers to exit. In the face of positive past performance, each generation begins to view itself as a steward of the founder's business, which must be nurtured for the support of future generations (Miller and Le-Breton Miller,

2005). With such aspirations, the psychological deterrents faced by family members at the helm of a generational family firm against business exit are high. Successors experiencing declining performance tend to feel personally responsible for causing the failure of their ancestors' business, and are ashamed to sell or exit. This suggests that leaders of family firms that have enjoyed high financial performance under previous generations are likely to be more reluctant to exit the business than those of lower performing firms.

Family firms have often been found to pursue financial and non-financial objectives such as family relationships (Tagiuri and Davis, 1992). Family harmony includes mutual respect, trust, understanding amongst family members, and the presence of open lines of communication (Malone, 1989). When multiple family members are involved in a family business through managerial, ownership, or governance roles, the livelihoods and identities of many family members are directly linked to the firm. Business may become an extension of family values generating traditions that may bring the family closer. Family firms have been found to persist during troubled economic times not because it is good for the business but because it is good for the family (Rosenblatt, 1991). Even when the need for drastic change is recognized, it is not implemented for fear of losing family harmony. Thus, families enjoying a harmonious relationship might have to overcome even higher barriers to successfully exit from a generational business than those experiencing conflicts.

Commitment to continue the founder's business: Commitment is a frame of mind or psychological state that compels an individual towards a course of action of relevance to one or more targets (Meyer and Herscovitch, 2001). Research conducted in non-family firms confirms that prevalence of strong emotional attachment to a business prevents timely divestments of poorly performing businesses (Duhaime and Grant, 1984; Zellweger and Astrachan, 2008). Meyer and Zucker (1989) label such firms as 'permanently failing

organizations' as their leaders find it easier to lower their aspired level of performance, rather than engaging in the emotionally and practically challenging task of divesting the failing unit.

Family firms are commitment-intensive organizations as family members are emotionally attached and identify with the founder's business (Sharma and Irving, 2005). Collective justifications such as 'troubled economic times are not going to last forever', supported by family legends of previously encountered hard times followed by turnarounds that reaped profits, wipe away thoughts of divesting founder's business. Such psychological barriers inhibit making radical changes even in the face of certain and unavoidable decline of industry. Kaye remarks that the business itself may 'become the drug of choice (illness), with the whole family addicted' to keep it alive and guarantee its progression regardless of environment conditions (1996: 350). The family is entrapped in the founder's business leading to an escalation of commitment to failing courses of action (Staw, 1981).

Feeling of personal responsibility for the founder's business: People are more committed to decisions for which they feel personally responsible (Staw, 1981). Individuals often feel compelled to demonstrate the rationality of their original decision. So they are inclined to justify and protect their initial idea and chosen courses of action, fearing loss of reputation if they acknowledge that their actions lead to poor performance or failure. Whether openly admitted or not, being or feeling responsible for negative results affects evaluation of available information and resource allocation decisions. There is a tendency to overestimate the likelihood of positive events, and an illusion of control which increases confidence that previous negative results will be turned around.

In light of these psychological factors, family members' status within the family makes them feel personally responsible for the founder's business, and unable to accept inevitable decline. This may lead to a gradual identification with the business itself. Exit from the business would negatively influence family power, visibility, status and reputation within and

outside the family (Malone, 1989; Kaye, 1996; Sirmon and Hitt, 2003). As a consequence, family members tend to postpone divestment decisions without searching for new entrepreneurial opportunities (Naldi et al., 2007). This often results in an illusion of control—perception of the ability to rescue the inherited business, whereby losses are viewed as a temporary accident.

The role of change agents in facilitating radical strategic shifts.

As vital strategic change initiatives are often opposed in large organizations, significant attention has been devoted to understand the role of key organizational agents or change champions in bringing about change despite inertial forces. Several typologies of change champions, focusing on either the individual or the context have been proposed in the literature (e.g., Maidique, 1980; Howell and Higgins, 1990; Mantere, 2005; Nordqvist and Melin, 2008). A close examination of these studies indicates that although different terms are often used to describe similar phenomena, causing some ambiguity, few common themes do emerge. To overcome the resistance that major foundational change often invokes, strategic change champions prepare both the organization and its members. They display confidence both in readiness of the organization to negotiate the change process, and their ability to successfully lead it through this transition (Howell and Higgins, 1990; Mantere, 2005; Nordqvist and Melin, 2008). To prepare the organizational ground for change, champions create pressures that shape managerial perspectives, facilitating strategic shifts counteracting inertia and cultural resistance to change (Ginsberg and Abrahamson, 1991). They remove cultural and procedural obstacles while building consensus for new strategic imperatives (Wreden, 2002).

Champions often possess the qualities of transformational leaders to inspire and convince others of the critical need to change and thwart the drift of the organization towards

rigidity (Maidique, 1980). In order to gain widespread commitment to change, not only must champions be inspirational themselves, they need to be well positioned in the organization to use their networks to convince others of the critical need for and benefits of change. Displaying a strong commitment towards organizational goals, and close personal identification with the change project have been found to help change champions to counter inertial forces (Chrusciel, 2008; Maidique, 1980; Ulrich, 1997). Champions must be willing to risk their own reputation to ensure the success of the proposed change/s. Central to these conceptualizations is the role champions have in influencing and persuading others to support radical change initiatives.

In synthesis, the view of champions emerging from this extant literature largely focused on non-family firms, is that key organizational agents who orchestrate radical change projects overcome resistance to change by leading with their drive, aggressiveness, and political astuteness (Chakrabarti, 1974; Markham, 1998; Mantere, 2005; Nordqvist and Melin, 2008).

Understanding change within family firms requires a more nuanced approach, allowing change and stability to exist side by side. Multi-generational family firms are characterized by a strong sense of history and identity with the organizations' past, often evoked to legitimize the present and future actions (Dyer, 1988; Drozdow, 1998; Gioia et al., 2000; Miller et al., 2003). Deep institutional identity with the firm's past invokes a strong sense of continuity in many generational family firms, impacting strategic choices and resistance to change (Brunninge, 2005: 300). Alterations in business strategies and governance structures often face relatively lower degrees of resistance, unless they directly challenge institutional integrity. This does not mean that firms with a self-understanding of and strong identification with their firm's past, present and future are not interested in maintaining a good match between their strategies and the environment (Gioia et al., 2000). Instead, maintaining institutional integrity is more attractive to these firms, than their fit with the environment.

This mind-set is succinctly captured as follows – “merely surviving as *an* organization at the expense of institutional integrity is not attractive [even though] willingness to survive as *the* organization may finally result in the failure to survive as *an* organization” (Brunninge, 2005, p.324; italics in the original). Therefore, it is likely that facilitating strategic change, such as business exit, in generational family firms will require somewhat different attitudes and approaches than those used by champions of change in non-family firms. Analysis of Falck’s exit from the founder’s business aims to develop these insights.

METHODS

Empirical setting: Studying exit in organizations and convincing key informants to talk about it, can be difficult, as exit strategies often result from failures and are a source of trauma and distress. As our interest was in understanding both exit and subsequent entrepreneurial regeneration of a multi-generational family firm, the Italian Falck Group is an excellent company to investigate. Established in 1906 as a steel company, it ascended to become the largest privately owned steel producer in Italy. The company suffered almost continuous losses in the 70s and 80s leading to a decision to exit from the steel industry in the 90s, followed by successful entry into the renewable energy business.

The Falck Group matches many defining features of a family firm. Its ownership and management have been concentrated within a family unit since 1906, and Falck family members have always strived to maintain intra-organizational family-based relatedness. This family firm has been consistently characterized by an entrepreneurial orientation (Naldi et al., 2007), the desire for growth and wealth creation, and a willingness to pursue unconventional means to achieve this – features required by the extended definitions of family firms (Chua, Chrisman and Sharma, 1999; Sirmon and Hitt, 2003), to which our developed model is likely

to apply. After briefly sharing the data collection and analysis methods used in this study, we discuss the various phases of the history of Falck Group.

Data Collection: To reconstruct the history of Falck family's association with the steel industry since 1833 and exit from it in 1996, multiple primary and secondary data sources were used (Miles and Huberman, 1994). Given our interest in business exit, we particularly focused on available secondary data in the nearly two decades leading to the company's exit from steel industry and reentry into renewable energy business. As the Falcks have been one of the prominent European entrepreneurial families, vast media coverage of the family and their businesses is available. In addition to the informative company website, we had access to over 15 years of financial reports, magazine and newspaper articles spread over 20 years, transcripts of board of director meetings, research reports and books on this family firm. A list of the main secondary data sources used for this study is provided in Exhibit 1.

Please add exhibit 1 here

Sixteen in-depth semi-structured interviews, each lasting 60 to 120 minutes were conducted with five family members of third and fourth generations, and six non-family members. In choosing our informants, we followed Lincoln and Guba's (1985) guidelines for 'purposeful sampling'. This implied initially choosing interviewees who could better inform us on our main research question concerning how family firms overcome the obstacles to exit strategies from long-established businesses. Thus, our sampling began with both family and non-family top managers who played an important role in the strategic aspects of the business exit, and snowballed from these interviews as we asked each informant to recommend who could best explicate Falck's exit from the steel business. Exhibit 2 lists our informants.

Please add exhibit 2 here

To maintain consistency, all interviews were conducted by the lead author, and were later transcribed verbatim. Typically the first round of interviews focused on company and family history; company experience; involvement in the steel business before exit; the family, business and environmental context of exit; thoughts and perceptions about the exit process with a specific focus on hampering and facilitating factors. Subsequent interviews and collection of unobtrusive data became progressively more structured as themes emerged in both secondary and primary data. Following the iterative process, much of the content of further collection of documentation and second interviews focused on categories and themes emerging from previous data collection and preliminary analysis. This progressive focusing of data collection allowed to target attention on patterns, consistencies and inconsistencies across informants until theoretical saturation was reached (Locke, 2001).

Data analysis: As we collected primary and secondary data, we started to inductively analyze them, closely following guidelines for qualitative inquiry including the techniques for the constant comparison of data and emerging data structure (e.g., Lincoln and Guba, 1985; Miles and Huberman, 1994). The study began by developing a chronology of the choices and activities that shaped Falck's history and of related trends and events occurring in the external environment, and in the steel industry in particular. In line with previous research aimed at tracking entrepreneurial behaviors over long periods of time (e.g., Mintzberg and Waters 1982), this was followed by the inference of strategy patterns and a detailed investigation of the focal period in the company's history.

To ensure reliability three strategies were used. First, we meticulously managed our primary and secondary data as they were collected, using QSR-N6™ - a computer-based qualitative data management program which helped us both in managing and analyzing our empirical evidence. Second, we used peer debriefing through seminar and workshop presentations, to solicit critical questions about methods and emerging patterns in our data.

Finally, the third author joined the research mid-way through the data collection process, providing an audit of our empirical processes and preliminary products, and a somewhat external and more objective perspective on how further data collection and analysis should be carried on.

Techniques of open and axial coding were used for data analysis (Locke, 2001). Careful examination and comparison of key events, documentary data and ideas discussed by the informants allowed us to identify initial concepts in the data, which were grouped into categories. Next, relationships between and among these categories were determined by assembling first-order codes into higher-order themes. Finally, we further aggregated similar themes into overarching dimensions, which constitute the building blocks of our emerging framework.

Results are hence grounded in the available data, but developed and refined through constant interaction with the existing literature, as is typical of case study research. The emerging insights cannot be extended to a wider population of family firms as the aim of this type of research is to develop a theoretical framework, rather than being generalizable to a population (Yin, 2003). However, given the dearth of available knowledge on business exits in the context of family firms, the theoretical framework developed here can prove to be a useful heuristic for enterprising family firms contemplating business exit and ensuing regeneration.

In collecting and analyzing our data, we placed particular emphasis on understanding specific family-related issues which may have influenced the exit process. Towards this end, we reconstructed the Falck family genogram (Exhibit 3) and developed a list of the critical events in the family and business history – discussed next.

Please add exhibit 3 here

DATA

To understand the involvement of the Falck family with the steel industry, forces influencing this industry, de-escalation and exit from steel production, and subsequent entry into renewable energy business, it is important to develop a chronological understanding of the industry, family and firm evolution, from 1833 onwards. To present the key events, relevant data is arranged into four chronological phases: (i) Seeding the fundamentals: 1833 - 1930, (ii) Strategic growth: 1930-1963, (iii) Cycles of steel crisis: 1963-1996, (iv) Shift into renewable energy business: 1996 - 2007. The highlights of each phase are presented below. Next section will report data analysis, which yielded the conceptual insights of this study.

Seeding the fundamentals: 1833-1930

The association of the Falck family with steel industry started in 1833 when George Henri Falck, an iron-steel specialist from the Alsace region was invited to manage the iron works owned by the Rubini family in the Dongo region of north-western Italy. Falck put some of his own money (about \$5,600) into the venture to guarantee that he would not move on and abandon the works; ownership was viewed as a means of commitment (James, 2006).

In 1863, thirty years after his association with the Rubini family, George Falck's son - Enrico married Irene Rubini, daughter of the patriarchal ironmaster, thereby merging the two families. After Enrico's death in 1878, Irene Rubini Falck ran the business until her son Giorgio Enrico took over in 1893. In 1906 he established the 'Società Anonima Acciaierie & Ferriere Lombarde – AFL', shifting the entire business to Sesto San Giovanni, on the outskirts of Milan. Given the limited financial resources of the Falck family, AFL was started as a joint-stock company substantially owned by banks and industrial investors, with Giorgio Enrico essentially being more of a manager than owner in the first two decades of the company's existence. Although AFL is the first steel company founded by a Falck family

member, by the time of its establishment three generations of this family had earned their livelihood from the steel industry for over seventy years.

Strategic growth: 1930 – 1963

After the initial start up difficulties, Falck built a close-knit chain of new factories for steel production and took a ‘strategic gamble’ on this industry increasing the Falck family’s investment in it as more family members were brought into leadership positions (James, 2006: 168). In 1930, the next generation of Falck family members, Giorgio Enrico’s sons - Enrico, Giovanni, and Bruno - joined the Board of Directors. The company’s name was changed from AFL to ‘AFL Falck’ to highlight the family involvement in the firm.

Actions were taken to reduce the dependence on external stakeholders for resources critical to steel production – power, iron ore, and capital. Falck was among the first in Italy to build hydro-electricity plants needed for its steel facilities. Financed through the high level of wartime profits due to increasing military demand for metal products, the in-house generation of power provided competitive advantages for the company. Using scrap iron instead of iron ore as a raw material in producing steel required more energy but helped reduce the dependence on foreign imports of the metal ore. Moreover, it allowed Falck to differentiate itself from the giant state-owned steel plants that were located along the Italian coast to facilitate access to imported raw materials.

Efforts were made to reduce dependence on capital from banks by building networks of private individuals for supplying capital, sustained by governance control pacts. Although the major instruments of the Falck family were joint-stock companies, whenever personal wealth allowed it, the Falck family always tried to raise the company autonomy by increasing its financial commitment to the business, even during hard times. For instance, on November 29, 1930, Giorgio Enrico Falck presented his board with a surprising response to economic depression. In those years the small Falck mills at Vobarno and Dongo were running almost

at full capacity, while the major Falck plants in Sesto San Giovanni were operating at only 30 to 40 percent of capacity. Despite this situation, Giorgio Enrico concluded that the best response to these difficulties would be to undertake further investments, both by using the firm's reserves, and by raising more capital.

By 1934, a separate division – ‘Servizi idroelettrici’ - was created to handle the continuing expansion into power generation industry. By mid-50s, Falck was operating fifteen power plants and producing almost 3% of the Italian national output. Meanwhile, high levels of investments continued in the steel industry as technological innovations were introduced. In 1963, when Alberto Falck, son of Enrico, entered the family business, the company had over 16,000 employees and was listed on the stock exchange.

Cycles of steel crises: 1963 – 1996

In 1964, Falck experienced its first operating loss since the postwar years. Although profits returned to the level of early sixties in 1967, they fell back almost immediately. The first of the cyclical crises had hit the company.

In April 1970, Bruno Falck became Chairman of the Falck Group. Three years later, Alberto and Giorgio, sons of Enrico and Giovanni respectively, were admitted to the company's Board of Directors. At this time, they were both 35 years old. Ten years later, when Bruno stepped down as Chairman in 1983, Alberto was appointed Chairman and Giorgio the Vice-Chairman of Falck Group.

Although they were both intensely devoted to the family business, the two cousins had profoundly different styles of thinking and leadership. Family members, non-active family shareholders in particular, were worried about Giorgio's passionate and intuitive approach to business, distant from the discipline imposed by the bottom line. His overindulgent life style attracted interest from the media and made some shareholders skeptical about the viability of his proposed strategic vision for the family company. A passionate sailor, he spent part of his

time either boat-racing or in his beautiful villa in Portofino, leading a glamorous jet-set existence. He remarried three times and had six children from his three partners. He rejected the family practice of naming the first male child 'Giorgio' or 'Enrico' after the progenitor George Henri. His first son Giovanni died in a diving accident in 1993, and he split from his second wife in 1995. Both distressing events happened over the crucial period of exit from steel, adding to his inherent difficulties in giving a fair evaluation of the company's situation.

Alberto, on the other hand, had always been an example of balance and integrity. As CEO Achille Colombo comments: 'his degree in business administration gave him the advantage of being able to frame any decision into a financial context'. James (2006: 347) described him as a 'pious and ascetic catholic', who upheld the family traditions such as naming his first son after his father Enrico. He inherited the deep moral and religious beliefs and widespread interests in charity and social projects from his father.

The steel industry crisis was mainly determined by environmental and industrial factors such as increased production capacity in Europe; oil shock of 1973 that caused the demand for iron and steel products to collapse; and demand in industrialized countries gradually shifting to industries with little or no steel consumption, such as informatics and microelectronics. As a result, the steel industry experienced a worldwide decline of 8.4% in just one year (1974-75) – a period when overstated forecasts of industry development had caused the steel players to invest heavily in order to increase capacity. The obvious result was a sharp decline in steel prices. Governments began to heavily subsidize the industry and in some extreme cases bailed out the collapsing companies.

Falck managed to overcome the worst periods of the crisis, thanks to its superior products and market diversification, lower production costs, high quality products, and effective distribution networks. However, in spite of Falck's forward looking policies, the company suffered heavy losses throughout the 1970s and 1980s. The deeply-rooted

entrepreneurial tradition, strong family unity and social values slowed down the realization of the extent and irreversibility of the crisis.

After the painful and prolonged losses experienced by the Falck group during the years of the steel sector crisis, financial results of the company slightly improved over time, turning positive in late 80s, making it possible to start paying out some dividends to shareholders. Despite these improvements, the situation of the company still attracted a lot of critics, mainly governance control pact partners, who complained about its performance as compared to others in the steel industry. These external stakeholders raised in the two Falck cousins the awareness of the necessity to find a strong partner, which was found in state-owned company ILVA. In 1989, Alberto hired Achille Colombo, an external CEO, new to both the family and the business, with an un-confessed hope that he would guide the family business out of the irreparably compromised steel industry.

Corporate restructuring was promoted at the same time as another major crisis occurred in the worldwide steel industry. This crisis was so deep that made Alberto Falck, then chairman of the Federacciai—the Italian association of steel companies—to consider 1991 as ‘the worst year the steel industry ever had to face over the last 15 years’. The sharp drop in revenues, and therefore in profits, was partly due to aggressive policies implemented by emerging countries and threatened the necessary layoff of over 10,000 steel workers in Italy. In order to prevent layoffs and conflicts with unions, Alberto Falck developed 23 projects of industrial re-conversion to save almost 70% of the workers still employed in the Sesto steel plant. In addition to being tied to the well earned reputation of the Falck family never firing any of its employees, this move enabled access to some government funds which helped reduce the huge outstanding debt of the company. Alberto believed a strong capacity reduction and a wave of mergers between the main industry players was necessary for the

survival of the entire sector. The company began devoting increased attention to raise the autonomy of the promising energy business, which had been ancillary to the steel production.

This deep crisis represented a critical step in the whole history of the Falck dynasty. In 1992 and 1993 financial results of the core steel business of the Falck group were very disappointing, recording huge losses of over 100 million Euros. The poor financial performance led to disagreements within the Falck family. At a tense executive meeting in December 1992, Mr. Colombo, the non-family CEO, proposed a restructuring plan – drawing strong reactions and explicit dissent from Giorgio Falck, who favored continuity in the traditional steel production (Dragoni, 1993). The only other family member active within the firm at that time was Alberto's younger brother Federico, a steel engineer who had been active within the family company since 1977. While he shared his cousin Giorgio's passion for steel, he supported the external CEO and his brother Alberto, as he felt what they proposed was the only logical way to avoid collapse of the family business.

At this time of financial and emotional distress for the Falck family, a major family quarrel erupted revealing the antithetic views of the two descendents of George Henri I – the rational sober Alberto Falck and passionate flamboyant Giorgio Falck (see genogram in Exhibit 3). Giorgio was not only opposed by his cousins Alberto and Federico, and by external CEO Colombo, but most significantly by his sister Gioia, who propounded for the more rational strategy to abandon steel. Although a non-active family member, over the years she and her husband – Carlo Marchi had become major shareholders of the Falck group, by systematically participating in the capital increases suggested by the board to face increasing losses imposed by the steel crisis. Her brother, Giorgio, on the other hand was left with only 6% share in the company as he did not always participate in capital increases over the years. On 23 January 1993, Falck's board of directors approved the restructuring plan proposed by CEO Achille Colombo. This decision initiated the reorganization and progressive dismissal

of Falck's core business, shifting the major focus of the company towards electricity generation and real estate activities.

A combination of the disagreements within the family and the financial losses lead to the dissolution of the governance pact that was scheduled to be renewed in 1994. Giorgio Falck was the first to opt out of the agreement leading other participants to share their unwillingness to adhere to it as well. This led to a large volume of company's shares being transacted on the stock exchange, as major partners divested their holdings. The change in the governance pact and the improved market outlook for 1995 did not make Alberto change course of action about the divestment process. Rather, with the support of CEO Achille Colombo, he championed and promoted his idea actively and vigorously, thus turning environmental issues into successful business programs and innovations.

The long era of steel production in Sesto San Giovanni finally came to an end at the beginning of 1996, when all the remaining employees were either relocated or moved to other companies. Falck group managed to get 130 million euros from the government, as a subsidy to exit from the steel industry. Public financial support made the economics of withdrawal more favorable to Falck as it did for several other European steel companies around this time. Although this support facilitated the exit option, it was not a determining factor as the amount of support was minor relative to the overall divestment costs. Moreover, the Italian government allocated subsidies to steel companies only *after* the formal exit decision was taken.

Shift to energy business: 1996 – 2007

In the 1990s Falck gradually shifted its focus from steel to electricity. Its hydro-electric subsidiary Sondel propelled itself to the forefront of energy production in Italy by building large natural-gas-fuelled, combined-cycle cogeneration plants. This shift from hydro resources to natural gas was followed by renewable and sustainable resources such as waste

and wind. In 2002, two subsidiaries - Falck Renewables and Actelios were formed as the renewable and environmental division of the Falck Group with an aim to generate electricity while leaving zero impact on the environment. While Falck Renewables is focused on wind-energy, Actelios is a biomass and waste-to-energy company. The group is active in the United Kingdom, France, Spain, and Italy, and a major contributor to the European Union's target of producing 20% of energy from renewable resources by 2020. Working closely with local land owners and governments, Falck group is actively involved in all key phases of wind farm development. Although the Falck family faced the sudden death of Alberto in 2003, followed a year later by the death of his cousin Giorgio, the family is determined to lead the company towards its stated mission of creating value through electricity generation mainly from renewable sources.

ANALYSIS AND DISCUSSION: FAMILY CHAMPION FACILITATES CHANGE THROUGH CONTINUITY

The dominant theme that emerges from the analysis of Falck's exit from the steel business is the struggle experienced by the family between the clear signals that exit was inevitable, and the strong sentiments about the long-lasting family tradition in the steel business. The family and its firm needed to move from their anchoring in the glorious past, to focus towards the future. This task was facilitated by Alberto Falck who championed the exit from founder's business to exploit promising entrepreneurial opportunities in the renewable energy sector, while preserving Falck's institutional identity and the family's self-understanding of entrepreneurial engagement. We define this role as that of a '*Family Champion of Continuity*' (FCC). An overview of the factors that enable a family champion to

modify the past-anchored orientation of a generational family firm, into future focused entrepreneurial drivers, is presented in Exhibit 4 and discussed below.

Please add exhibit 4 here

Once environmental pressures and the business case made the need for radical change evident, the three inhibiting factors – family commitment to founder’s steel business, feeling of personal responsibility for the founder’s business, and past performance – could have blocked business exit. Over this crucial period Alberto Falck, the FCC, actively contributed to making radical strategic change acceptable and even desirable to most family members and other key stakeholders. This, he did, by highlighting key elements of continuity with the family’s entrepreneurial past. In effect, he simultaneously took the responsibility of continuing the core established values of the family, while embracing progress and change (Collins and Porras, 1994). The commitment to continue the founder’s business was hence redirected from continuity of the function of the business entity (as in steel production), to the core values of the institutional entity (as in entrepreneurial orientation; Naldi et al., 2007). Family’s sense of feeling responsible for the founder’s steel business changed to feeling the responsibility to succeed in the next entrepreneurial future in the renewable energy business. Past performance and trust in the family ability to recover from hard times legitimized aspirations for future performance. In this section we discuss three factors that enable the family champion to facilitate change through continuity. This is done by leveraging past-anchored family values to redirect the family business towards future oriented entrepreneurial initiatives.

From *commitment to continue the founder’s business to commitment to continue the entrepreneurial spirit of the founder*. The Falck family members have developed over time a tenacious psychological commitment towards the founder’s business - steel production. This

relentless commitment is exemplified by the large family financed investments in the steel business starting from George Henri Falck's investment in his employer's business, and continued investments of his successors even during hard times. Annual balance sheets and the financial press report several instances in which the Falck family poured money into the company to cover mounting losses. In 1990, for instance, at the height of the steel crisis, a financial newspaper reported:

'The Falck family intends to keep, or actually strengthen, its primary role within the steel group ... At the end of the [shareholders] meeting VP Giorgio Falck actually said that the family will try to increase its share up to 29-30 percent'. [Bongiovanni, 1990]

Family's commitment towards steel production is further exemplified by several family members choosing to devote their personal lives and careers to build the company. Perhaps, Irene Rubini strengthened the foundations of family's commitment to the steel industry when she stepped up to lead the company after the untimely death of her husband Enrico Falck, until her son Giorgio Enrico was old enough to take charge of it. Third generation members—Alberto and Giorgio, joined the company even though the steel industry was elapsing into cycles of decline.

Filippo Tamborini, President of Falck's Advisory Board since 1976 observed that the increasing, relentless financial and managerial effort devoted by the family to defend the founder's business and its traditional activity apparently delayed the decision to exit, as family commitment to the founder's business gradually became a perceived family value.

However, at some point in the early 1990s, a few family members started to recognize that exit from steel was inevitable, and that a tough choice had to be made between earning a rent from divesting the founder's business, or entering a new business. Over this period, Alberto Falck played a critical role in legitimizing a new entrepreneurial vision for the family's future. The Falck family ability to regenerate its entrepreneurial drive closely mirrors Habbershon and Pistrui's (2002) description of *enterprising families*. The family's

entrepreneurial spirit has been evident in the earliest years of the firm's long history - when George Henri moved to Italy from Alsace to increase his direct involvement in steel activities; when his daughter-in-law Irene Rubini took over the business; and when her son, Giorgio Enrico, founded the first steel company with the Falck name. It turned into a more administrative attitude over the second generation (see Exhibit 3), when Enrico, Giovanni and Bruno had to manage tumultuous growth. However, the entrepreneurial spirit re-emerged amidst the steel crisis of the early 1990s, when the family faced the choice between cashing-in their assets from steel divestments, *or* reinvesting in a new business. When discussing this choice, the current Chairman Federico Falck highlights the prevailing role of an entrepreneurial commitment to persist in the family's entrepreneurial commitment:

'We believe that if there are entrepreneurial opportunities, they must be exploited as soon as possible – this has always been our approach'. [Federico Falck, Chairman since 2003]

Key external informants showed systematic awareness of the re-emergence of a strong entrepreneurial spirit from the steel crisis, crediting the family of an ability to derive entrepreneurial drive from previous experiences in the founder's business:

'Closing an activity of that size is obviously something which leaves a mark. However, the Falcks are so active, so inclined to the entrepreneurial sense of life.... Throughout all these years, after the decision to shut down steel activities, nobody has ever mentioned steel, other than in a technical sense, when discussing about the few remaining activities..... I believe the Falck family has always had an entrepreneurial vision which went beyond steel, the specific business in which they had been active since the beginning.... It's in their blood, in their DNA; it's the bloodline which prevails – they just don't surrender. You can feel the activism, the resolution to persist, always struggling to improve.... It's the family's entrepreneurial spirit'. [Filippo Tamborini, President of Falck's Advisory Board since 1976]

The role of Alberto Falck in this transition from focus on the steel business to focus on re-energizing the family's entrepreneurial tradition is recognized as central by key informants. Alberto's son, Enrico, makes sense of the exit choice his family had to face as one in which

Alberto, the FCC, drove the family to envision a future of further entrepreneurial commitment stemming from an entrepreneurial spirit which survived the steel crisis:

‘I believe it was easier for my father (Alberto) to decide to exit the steel business and invest in the energy business: he had the intellectual fascination of running a well functioning mechanism; he liked the idea of starting this new mechanism (energy business) in the right way. I also believe he was frightened by the idea of just selling the business and enjoying the financial rent’. [Enrico Falck, Financial Analyst, 4th generation]

From a feeling of personal responsibility for the founder’s business to personal responsibility for new emerging entrepreneurial initiatives. Since 1930, the Falck family members have developed a strong sense of responsibility for the founder’s steel business investing their personal wealth to cope with the cycles of steel crises from 1963 to 1996. Although the profound steel crisis in the 1970s and 1980s caused heavy losses which became even higher at the beginning of the 1990s, family members continued to invest to save their family business and its reputation. For a long period, masked by past successes, they refused to acknowledge and accept the decline of their company confident of its turnaround. Even when the need to exit from the steel industry was evident to both internal and external parties, Giorgio Falck persisted in his determination to revitalize the historical steel business. He tried unsuccessfully to persuade his cousin and other key shareholders to split the activities of the holding company into two parts – steel production to be headed by him, and real estate under the leadership of his cousin Alberto. Here is how Achille Colombo - Falck CEO since 1989 - captured Giorgio Falck’s feelings of personal responsibility towards the founder’s business:

‘Giorgio Falck would not understand these issues: he was a very intelligent man, but his intelligence was severely biased towards the steel business’. [Achille Colombo, CEO]

In sum, the success enjoyed by the Falck group anchored the company into the past with escalated commitment to carry on the founder’s business of steel production. However, the declining nature of this industry became obvious through continued financial losses and a

need to layoff employees. FCC - Alberto Falck worked closely with their highly regarded external CEO Achille Colombo to gradually turn the attention of most family members from a feeling of responsibility towards the steel business, towards an increased engagement in new entrepreneurial initiatives, renewable energy in particular.

Gradually, energy activities became interpreted as an almost natural continuation of the founder's steel business as the family devoted itself to be successful in its new entrepreneurial activities. As evidenced by the statements below, the transition into renewable energy is now being interpreted as 'natural' for Falck:

'Throughout the 90's, Sondel - the hydro-electric subsidiary [of the Falck Group] - propelled itself to the forefront of energy production in Italy by building a galaxy of natural gas fuelled combined-cycle cogeneration plants in what by now had become a strategic energy market ... The main focus of the Group at present is on the production of energy from renewable sources, activities based entirely on the principles of sustainable development to which the Company has always been firmly wedded' [<http://www.falck.it/>]

'Energy is second nature to the Falck Group which, right from its origins, has always boasted large-scale hydro-electricity production in order to guarantee power supply to its iron and steel factories'.

From an anchoring in past performance to future performance aspirations. For many decades, the Falck Group and family enjoyed the prestigious status of being considered one of the most entrepreneurial families in Europe. In the golden era of the steel business, in the early 1970s, Falck was the largest privately owned steel producer in Italy, with an annual production of 1,250,000 tons—approximately 10% of the highly dispersed Italian market and 16,000 employees.

Success systematically enjoyed by Falck until the first steel crises in the 1980s prompted the family to financially support the founder's business even in hard times, with the assumption that the downturn was cyclical, and that profits could be restored by intensifying investments. In other words, the family was legitimizing the choice of sticking to the founder's business, with past history of success. As reported by James (2006: 32), Alberto

Falck felt that it was the wealth of his family and the history of past success and commitment that allowed them to continue bearing heavy losses in the 1970s and 80s. Attachment to the business prevailed over other considerations anchoring them towards the steel business for long after other players had bailed out of it. The family remained unified in its resolve and attachment towards the steel industry for many decades:

‘My family’s main value is the sense of duty ... devotion to the family and to the business, the sense of sacrifice even in hard times, and the sense of family unity which supports the business even during states of crisis ... This has obviously slowed down our decision to quit’. [Alberto Falck, Chairman 1983-2003]

As the business embarked with high energy onto its new chosen pathway, family members of both senior and junior generations began to feel far removed from the business of the founder and started focusing on the new activities. In particular, our analysis reveals that there is a specific factor - not taken into consideration in the strategic management and psychological literature (e.g. Duhaime and Grant, 1984; Duhaime and Schwenk, 1985; Simonson and Staw, 1992) - which facilitated business exit in the Falck family-business case. Falck history reveals that the more family members perceive themselves distanced (in terms of number of generations) from the founding roots of their firm, the less likely they are to hinder or to delay exit. In this respect, Kellermanns and Eddleston (2006, p. 813) explain that “while first generation family firms tend to want to maintain the status quo, later generations tend to push for new ways of doing things” in order to implement change and adapt the organization to the shifting environment. The following comments provide related evidence:

‘Our remaining activities in the steel business are only of interest to me. Younger generation members do not understand them. They were too young when we sold ... we were in our fifth generation (including George Henri Falck I) when we discontinued the business, which means pretty far from the founders’ motivations. The energy business has always been in our DNA, in a sense. We entered the energy business in 1917, when my grandfather understood he could store hydroelectric energy’. [Federico Falck, Chairman since 2003]

‘There is not a keen interest in the remaining activities in steel, within the family. Well, obviously my uncle (Federico) does care, as he was active in the firm in that period; but we are currently too far from the steel era..... we believe in a role of our

entrepreneurial family as an employer..... our role as value creators. Our business activities must create value and development. This I believe, has been the main reason why we decided to abandon the steel business and to enter the energy business'. [Enrico Falck, Financial Analyst, 4th generation]

'[Besides Alberto and Federico], other family members do not have a clear perception of what the steel business is or has been; very few of them were involved in that business at the times of the older generation'. [Achille Colombo, CEO].

In this spiritual address to his children, below is how the champion of change, patriarch Alberto Falck guides the next generation to aspire for future performance:

'This is what we third generation members had to do. And what are you going to do? From current developments it is likely that you will continue along this path, developing it further, because energy has a great future. However, you will also have in some way to re-found it, and this will be your entrepreneurial legitimization: closing activities and opening new ones, choosing strategies, reacting to different economic context. You will advance by innovating and developing, since this is what an entrepreneur is required to do, and this is what you must get ready for'. [Alberto Falck, Chairman 1983-2003]

In February 2008 Falck sold the two remaining activities in the steel sector. A long entrepreneurial history came to an end. In this section we illustrated how past-anchored orientation can be leveraged into future oriented actions. The role of Family Champion of Continuity in this transition is elaborated upon next.

Family Champions of Change: Turning past-anchored orientation into future-focused impetus

With growing clarity of the irreversible decline of the founder's business, far sighted family leaders re-direct the focus of key stakeholders into the future, while respecting and building upon the collective past achievements. In the Falck case, the far-sighted family champion of change Alberto Falck—with crucial support of the external CEO Achille Colombo—was able to de-escalate the family business from steel industry and propel its regeneration into renewable energy business. In doing so, not only did he anchor the exit choice to the past entrepreneurial family tradition, but he went further by turning past-anchored sentiments and behavior—e.g., commitment to the steel business—into future-

focused entrepreneurial drivers—e.g., commitment to continue the family’s entrepreneurial spirit. The disagreement between Alberto and Giorgio Falck, for instance, can be viewed as the tension created by two caring individuals – one with past and the other with future time perspective. Although both were strongly committed to the founder’s business, Giorgio past perspective lead him to associate continuity with steel production, while Alberto’s future perspective lead him to view continuity as perpetuation of the founder’s entrepreneurial spirit and value orientation, rather than become trapped in an industry-specific definition of continuity (Lambrecht and Lievens, 2008).

Our analysis indicates four factors supporting the role of Family Champions of Continuity (FCC) in balancing the counteracting forces of tradition and change within family firms: referent power; engagement of non-family executives; development of a compelling business case; and balanced family engagement (Exhibit 4).

Referent power: Preserving continuity and organizational identity while driving an organization through radical strategic change requires more than the authority stemming from the explicit contractual decision-making and dispute-resolution rights that firms grant key individuals. As chairman of the Falck Group and one of its main shareholders, Alberto Falck had enough formal authority to influence business exit through contractual exchange relations. And at some points throughout the steel crisis formal authority had to be exerted to overcome the strong opposition from his cousin Giorgio. However, our data reveal that family members who eventually joined Alberto in the decision to exit steel were gradually convinced through non-contractual exchange relationships, that is, through his referent power. While expert power is traditionally seen as the power an individual derives from skills or expertise, and from the organization’s need for those skills and expertise, referent power is defined as the ability of individuals to attract others and to build loyalty based on their charisma and interpersonal skills (French and Raven, 1959). Federico Falck noted:

‘He (Alberto) commanded great respect, and had a deeper understanding of the economics Although I am a metallurgic engineer, I ended up voting in favor [of exit from the steel business]. I have always trusted my brother [Alberto]. I obviously understood my cousin’s [Giorgio’s] motivations: he was an engineer too, like myself. But they were sometimes irrational motivations, based on his history, his ego’. [Federico Falck, Chairman since 2003]

It has been observed that the champions of strategic change often derive their referent power from their ability to skillfully adapt managerial practices to the established cultural context. Nordqvist and Melin (2008) capture this role as that of ‘artful interpreter’. Furthermore, strategic champions have been observed to be ‘social craftspersons’ with highly developed social and communication skills, enabling them to persuade and influence their targets (Chrusciel, 2008; Markham, 1998; Nordqvist and Melin, 2008; Wreden, 2002).

This somewhat instrumental use of social relations and communication, however, is not suitable in most family firms. In particular, when the change agent is a family member, what is reinterpreted is not managerial practices, but core family values. The role of the FCC is hence that of legitimizing new courses of actions through a reinterpretation of deeply ingrained family values. The aim is to avoid losing institutional integrity, which would impede or slow radical change. An ability to perform such a sensitive task can only result from family-related referent power. Alberto’s referent power was derived from his displayed respect for family traditions such as devout following of the catholic religion, engaging in social and charitable causes, naming his first son after his father.

Generational family businesses are characterized by socially intense interactions between family members developed through a history of interactions and mutual trust. As suggested by Tagiuri and Davis (1996):

“over the many years of shared experiences between relatives special words, phrases, expressions, and body movements evolve that have agreed upon meanings. Private languages, ‘family languages,’ allow family members to communicate more efficiently than is generally possible among nonrelatives, even among close friends. This can permit relatives to exchange more information with greater privacy and

arrive at decisions more rapidly than can two nonrelatives” (Tagiuri and Davis, 1996, p. 204-205).

Leveraging these resources to facilitate business change and institutional continuity is hence an opportunity open almost exclusively to family members. For this reason, while the role of champions of *business* change can be performed by non-family members—as in the case of Falck’s external CEO Achille Colombo—championing *continuity and institutional integrity* is a role available only to family members. Alberto’s role in building continuity and preserving institutional integrity, however, suggested him to let a non family member exert most of the expert power needed to implement an exit strategy.

Engagement of non-family executives: Although possession of expert and referent power clearly helped Alberto in enabling regeneration of his family firm, the critical appointment of Achille Colombo, a non-family CEO, in 1989 represented a turnaround point in Falck’s history as indicated in the following comment by Alberto Falck:

‘Having empowered non-family executives and having a well functioning board of directors, dramatically improves the quality of strategic decisions; it allows an objective view of the situation that you, as a deeply involved family member may not capture. An example? Achille Colombo has significantly helped us realize that the steel crisis was irreversible’. [Alberto Falck, Chairman 1983-2003]

Officially, the new managing director was given the task to restructure the steel business by focusing on those activities where Falck could sustain a competitive advantage. As the current Chairman Federico Falck recalls, Alberto appreciated several qualities of Achille Colombo as he had successfully undergone restructuring activities, was an external both to the family and the steel industry, therefore could ‘break the old schemes and build a more effective structure without carrying old problems on his shoulders’. Moreover, ‘he had a polite but resolute style that would have been helpful in dealing with family conflicts’.

Although he was formally hired to focus on the steel business, Alberto Falck saw in Achille Colombo the manager who could help him transform Falck from steel to an energy

business, overcoming the resistance of his cousin Giorgio. While this aim was not explicitly formulated, it is apparent in the accounts of those who were closer to Alberto in that period.

As his brother Federico explains:

‘Clearly, when I say [Achille Colombo] came from outside and could bring fresh air to the company, and he was not from the steel business, I mean that the belief was that steel would not have been our future. However, this is a motivation I never heard from my brother [Alberto]; but that this was his belief is a totally different issue’. [Federico Falck, Chairman since 2003]

Literature on change agents and exit strategies suggests that divestment decisions are facilitated when a new CEO or a new top management team takes over (Duhaime and Schwenk, 1985; Hayward and Shimizu, 2006). Replacement of the top management is often seen as a good option to make rapid changes in family firms, especially “during crisis periods where a quick turnaround is needed” (Dyer, 1988: 49). In this light, the new CEO Achille Colombo was able to contrast some family members’ reluctance towards change and better evaluate the way resources had to be allocated since his decisions were not perceived as being grounded on emotions. He managed the dialectic between different interests of internal and external family and non-family actors which helped Alberto Falck to move the organization in a new and innovative direction. His figure can be associated with Nordqvist and Melin (2008)’s concept of ‘known stranger’, that is, someone able to get close enough to the other organizational members, thus gaining their respect and trust, while staying distant enough to avoid threatening their positions. This suggests that in order to maintain institutional integrity throughout the change process, the role of FCC needs to be at least partially decoupled from that of an external expert, who enacts business discontinuity.

Development of a compelling business case: Working in concert, the powerful and respected FCC and the impartial non-family executive, were able to develop and present a compelling business case around the renewable energy business. This was critical in helping change the mind-set of the key family and non-family stakeholders’ from their strong

anchoring into the past towards future orientation. Although the energy business was underdeveloped, relative to the established activities Falck had in steel, it played the role of an anchor in translating the core values of the founder into future-oriented change factors. Without a compelling business case developed by the FCC and the non-family external executive, discussions about change would have remained at a very abstract level, anchored as they were to past-focused values:

‘You should keep in mind that Falck’s operating margins were around 10-12 percent in steel, when competitors were around 17%. With cogeneration we immediately reached 30 and 40 percent. A pretty relevant leap! ... Early in the 1990s [banks] would not lend us a dime for steel activities, as we were losing 100 billion lire a year. In the same period, for the development of energy we had a line of credit of around 300 billion, exclusively devoted to developing Sondel [Falck’s energy company]. Hence, the choice was: do you want to pursue something with a potential, or keep losing money in steel? It was crystal clear to me.’ [Achille Colombo, CEO since 1990].

‘When we completed our first co-generation station, Sondel’s stock price raised. When we started the second one, the value rose again. It then became very clear to everybody what we were supposed to do’. [Achille Colombo, CEO]

Balanced family engagement: A final component of the FCC’s ability to maintain institutional integrity while guiding the family firm throughout radical business change has a structural nature and could not hence be intentionally manipulated. Two structural facilitators—small number of active family members and presence of non-active family shareholders—seem to have facilitated the balancing role of the FCC. The limited number of family members actively involved in the business significantly reduced the impact of conflicts which are inevitable when opposing family and business interests are at stake:

‘I believe that the fact that only three of us – my brother Alberto, myself, and our cousin Giorgio- were actively involved in the business has facilitated our decision to exit from steel. It is obviously easier to reach an agreement when the parties directly involved are two or three, rather than ten or more’ [Federico Falck, Chairman since 2003].

A different rationale seems to explain the role of non-active family shareholders in facilitating the champion’s role: by focusing on the bottom line, non-active shareholders tend

to balance with their objective view on change the tradition-laden feelings of family members who have been engaged—sometimes for decades—in everyday business activities:

‘The Falck group has two groups of shareholders: the Falcks and the Marchis. The Falcks have always been closer to the business, while the Marchis are merely shareholders, and are hence more inclined to focus on financial results ... It is an issue of balance between different types of family shareholders’ [Achille Colombo, CEO].

In both instances, it is clear how reduced direct family involvement and business-oriented family shareholders avoided proliferation of collective interpretive processes throughout the organization, that are not easily controlled by the FCC.

CONCLUSION

In this article, we set out to investigate factors that constrain or facilitate exit from failing family businesses. Strategic management research offers several insights into the role played by de-escalation from failing courses of action in allowing long-term firm survival and prosperity (Kimberly and Miles, 1980). However, little research has been devoted to understanding the role business exit can play in entrepreneurial regeneration of enterprising family firms (Habbershon and Pistrui, 2002).

As observed by scholars such as Drozdow (1998) and Kaye (1996), family business literature seems to have an implicit bias in favor of continuity and persistence in the founder’s business. This is explained by heavy emotional involvement and development of core competences over generations. (Miller and Le-Breton Miller, 2005), which are often described as blocking much needed radical change.

Extant research has almost exclusively focused on the discontinuity aspects inherent in radical change such as business exit. Limited attention has been paid to the role that the need for continuity and institutional integrity plays within family firms engaging in de-escalation of commitment from troubled business. Data on Falck’s history contribute to this literature in

two ways. First, by highlighting that radical change, even in the form of exit from the founder's business, is facilitated by the family's ability to ensure continuity and institutional integrity. Second, by revealing how the role of key family change agents is central in gradually converting previously identified inhibitors into change factors.

In this study we hence offer a different perspective on change, by suggesting that it is not much involvement in the founder's business which impedes renewal, but the family's fear of losing its institutional identity. Such identity is more related to deeply ingrained family values, than to the founder's business itself. Radical business change—such as exit from the founder's business—can hence be enacted, provided a “Family Champion of Continuity” (FCC) facilitates preservation of institutional integrity throughout the business regeneration process. The FCC triggers preservation of institutional integrity and hence continuity by legitimizing future-focused change factors through past-anchored values. Action of the FCC is made possible by four organizational and business-related factors: the champion's referent power, choice of non-family executives providing an objective expert view on change, development of a compelling business case, and a balanced engagement of family members in the business (Exhibit 4). The emerging framework offers a more nuanced interpretation of de-commitment activities in family firms, pointing to the differential role family-specific factors may play as facilitators or inhibitors of business exit.

The experience of the Falck Group complements the findings of research on failed successions which points towards the inadequacy both of wholesale rejection of the past, as well as tenacious holding onto every aspect of it as both these strategies lead to failures (e.g., Miller, Steier, and Le-Breton Miller, 2003). As experienced in the Falck case and previous studies of firms that have undergone successful regenerations (Collins and Porras, 1994), it is the delicate balance of holding onto the core values (entrepreneurial spirit in Falck's case)

while embracing progress (exit from steel production and energized entry into renewable energy sector) that enables trans-generational value creation (Chirico and Nordqvist, 2008).

This case study points to one effective way of how this balance can be achieved – by development and presentation of a viable attractive alternative course of action. When effectively implemented such a strategy can help loosen the grip of past anchors and re-focus the enterprise and its stakeholders toward the future. In this framework, the role of one or more FCCs is essential in helping family members to reinterpret past-anchored inhibitors of change, and to turn them into future focused facilitators of the pursuit of novel emerging entrepreneurial opportunities.

It is reasonable to ask whether findings from one case study can be transferred to other domains, as it is always potentially problematic to argue for generalizability of such findings. This study has a number of features suggesting that exit processes we found operating at Falck are likely to share commonalities with other family business domains. Although the specific reasons for business exit at Falck may have had an effect on the de-escalation and exit processes we observed, there is nothing unusual in the external triggers that started the process in our focal organization. In fact, several family firms are active in industries that are hit by cyclical crises, and where players of a different ownership and governance nature—i.e., state- and privately-owned—are active. This lends confidence that exit processes similar to those observed at Falck are likely to be triggered in other family business settings.

In summation, family firms need to continuously retain their focus into the future while respecting the past achievements and sacrifices made by previous generations. Entrepreneurship and innovation is not an option but a necessity for enterprising family firms aspiring to create trans-generational value (Habbershon and Pistrui, 2002). Careful and timely resource shedding is hence a necessity for growth and regeneration of family firms.

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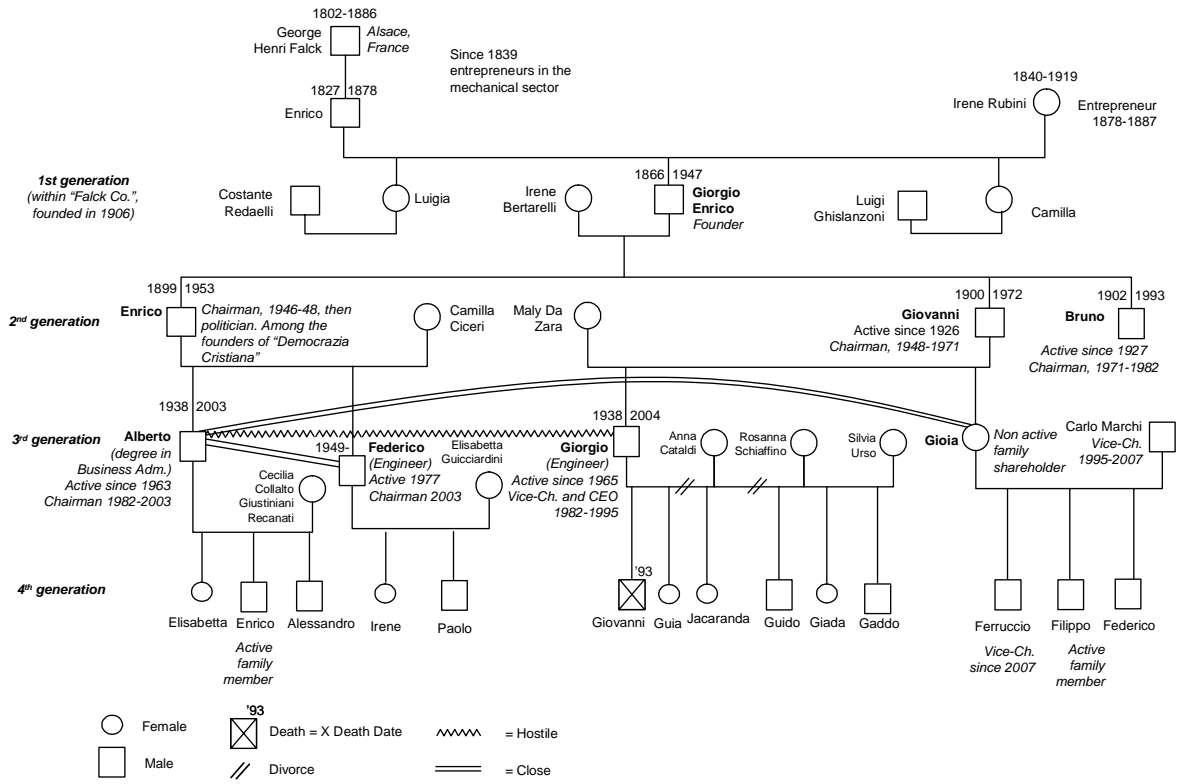
EXHIBIT 1: MAIN SECONDARY DATA SOURCES

- Financial reports, 15 years.
- Newspapers clips, 20 years (selected articles are reported in the reference list), retrieved through “RDS Business & Industry”, “FACTIVA”, and “Il Sole 24 Ore” online databases.
- Company website.
- Research report on meetings of Falck’s Board of Directors.
- Transcripts of previous interviews to Alberto and Federico Falck; video-taped interviews; transcripts of Alberto and Federico Falck’s speeches at seminars and workshops.
- Actelios (Falck Group’s company active in the renewable energy business), note to the investors (in the occasion of Actelios’ IPO, 2002).
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EXHIBIT 2: INTERVIEW INFORMANTS

| Informant | Number of interviews | Family vs. Non-family | Position in the firm at the time of the interviews |
|--------------------|-----------------------------|------------------------------|---|
| Federico Falck | 3 | Family | President Falck Group (entered in 1977) |
| Enrico Falck | 1 | Family | Financial analyst, Falck Group |
| Carlo Marchi | 2 | Family | Vice-president, Falck Group; shareholder, Falck Group |
| Gioia Marchi Falck | 2 | Family | Non active family member; shareholder, Falck Group |
| Filippo Marchi | 1 | Family | Project Developer, wind farms, Falck Renewables |
| Achille Colombo | 2 | Non family | CEO, Falck Group (entered in 1989) |
| Carlo Magnani | 1 | Non family | CFO, Falck Group |
| Umberto Rosa | 1 | Non family | Independent board member, Falck Group |
| Filippo Tamborini | 1 | Non family | President Board of Statutory Auditors, Falck Group |
| William Heller | 1 | Non family | Managing Director of Falck Renewables (wind farms) |
| Roberto Tellarini | 1 | Non family | Managing director of Actelios (waste-to-energy) |

EXHIBIT 3: FALCK FAMILY GENOGRAM (Simplified)



**EXHIBIT 4: THE ROLE OF THE FAMILY CHAMPION OF CONTINUITY IN
BUSINESS EXIT AND RENEWAL**

