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# Family business: innovation and tradition in a global economy

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## **ABSTRACT**

### **FAMILY BUSINESS: INNOVATION AND TRADITION IN A GLOBAL ECONOMY**

**by**

**Francesca Fornasari**

Eighty-five percent of Italian companies are run as a family business. They are considered vital for Italian economy. The purpose of this thesis is to study how these companies challenge the global market to understand if the globalization can cause them disadvantages or benefits. The study explains what a family business is and who are the components that can be part of it. Then it focuses on the structure of the firms, how the families run their businesses and organize the tasks between the family members. This thesis considers the strategies of innovation adopted by the family to remain competitive in the national and global industry as opposite to non-family run businesses. Then it examines how the management of these businesses chooses to innovate and preserve tradition, balancing the need of renovation and the processes that helped the firm rise.

**FAMILY BUSINESS:  
INNOVATION AND TRADITION IN A GLOBAL ECONOMY**

**by  
Francesca Fornasari**

**A Dissertation  
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**Department of Mechanical and Industrial Engineering  
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**APPROVAL PAGE**

**FAMILY BUSINESS:  
INNOVATION AND TRADITION IN A GLOBAL ECONOMY**

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To my family,  
who supported and loved me from the very beginning.  
Thank you so much.



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# CHAPTER 1

## INTRODUCTION

Even though family businesses are fundamentally the keystone of, and more or less sustain, our economy and society, their pervasiveness often goes unnoticed (Cox, 1998). Because family-owned businesses are the majority of all businesses in the world (Heck & Trent, 1999), and they have been understudied relative to other businesses (Winter, Fitzgerald, Keck, Haynes, & Danes, 1998), it is clear that there is a prevailing need for more research conducted on this important topic.

Family-owned firms are one of the foundations of the world's business community. Their creation, growth and longevity are critical to the success of the global economy. If we only consider the Italian market 85% of Italian Companies are run as a family business. They are considered vital for Italian economy and industry.

Family firms represent a very important component of the world's economy: they are two thirds of all enterprise worldwide, they create 50%-80% of all new jobs yearly and contribute to the Global GDP (Gross Domestic Product) in the measure of 70%-90% (data provided by the Family Firm Institute).

In order to be so relevant in business science and everyday life, family enterprise have had, and still need, the ability to compete against other economic agents, such as multinational companies and non-family businesses of any size. Being competitive, especially in these years marked by economic and financial downturns, seems to be the only way to stay on the market, for business, in general, and for family firms, specifically.



One of the keys of competitiveness is innovation capacity, defined by Prof. Suarez-Villa (1990) as ‘‘ *the concept that measures the level of invention and the potential for innovation in any nation, geographical area or economic activity*’’.

This is the relationship this paper aims at analyzing: Can family firms innovate? Can they remain relevant in the global market even though they are opposing multinationals? The main issue that arises from these questions is how family firms can remain as such, and still be able to increase their level of innovation capacity: as a matter of fact, this challenge was found to be prominent in the Family Business Survey, run in 2014 by PricewaterhouseCoopers. 64% of those questioned outlined that the main challenge in five years’ time will be to continually innovate, figure that should be read together with the fact that 36% of those interviewed stated that succession planning will be an obstacle in the same time span. Family firms are seen as entities able to reinvent themselves, but that find it hard to realize it with a well-structured plan. Formalization, written plans, documents may be perceived as deterrent for flexibility, creativity and innovation. On the other hand, they are needed to provide the path the firm has to follow so to remain a family enterprise.

The second chapter of this paper focuses on the definition of family business and the study of its components, both human and technical. The third chapter deepens in the subject of firms’ characteristics and organization. The fourth one focuses on the innovation strategies adopted by the firms to keep them competitive, comparing the traditional and innovational elements present in an enterprise and explaining the connection between them inside family businesses. The fifth one illustrates three real companies’ examples with their innovation strategies. The sixth one contains the conclusions obtained through this study.

## **CHAPTER 2**

### **DEFINITION AND COMPONENTS**

#### **2.1 Family Firms**

In the following chapter, theoretical definitions and concepts related to family enterprises are presented in order to better and deeper understand key features characterizing these entities and those to be analyzed and taken into account.

Many scholars have attempted to define family-owned businesses and have focused primarily on distinguishing family-owned businesses from other businesses (e.g., Chua, Chrisman, & Sharma, 1999; Handler, 1989; Litz, 1995). Family businesses are, by their nature, complicated by dynamics within the owning family. These dynamics not only affect business performance but also business growth, change and transitioning over time. They also simultaneously affect family well-being outcomes. However, none of the definitions they came up with appears to have yet gained widespread recognition or approval (Sharma, 2004). The majority of definitions seem to focus on the vital role of family in terms of determining the management and control methods used in the business. Conventional wisdom holds that the unique ownership structure of family businesses gives their owners a long-term orientation that traditional public firms often lack. But beyond that, little is known about exactly what makes family businesses different. Some studies suggest that, on average, they outperform other businesses over the long term but other studies prove the opposite.

Family businesses are a particularly apt context to appreciate how the past can be leveraged in innovation. Indeed, the extraordinary longevity and long-term orientation of some family businesses (Miller & Le Breton-Miller, 2005) can result in a special capability to create links between their past, present, and future (e.g., Zellweger, Nason, & Nordqvist, 2012), enabling them to search and recombine temporally distant knowledge to develop new products. This capability allows many family businesses to innovate by exploiting knowledge pertaining to the firms' tradition and to that of their territory.

Because of their importance in business sciences, family firms have been the main target of several studies carried out by different sorts of authors: economists, managers, analysts, consulting agencies and universities. As they all have different objectives in their papers and they all base their theories on specific pillars, related to their professional nature, it is easy to think that many theoretical definitions have been developed. The main reason for this multitude of definitions is that each one of them is strongly linked to a specific feature, which can be economic-related or human-related, but they all provide different, while combinable, points of view. The inexistence of a consensus on family firms' definition does not represent a drawback, in our opinion: as a matter of fact, the ability of looking at the same element (family firms) from different standing points (finance, structure, human traits, economic approach) allows us to better understand the hidden faceting that would be left aside if a unique definition was available. In addition, these definitions can be combined so to create the most proper background to work on. In fact, as we see in this chapter, all definitions can coexist at the same time, as they do not present contradictions among one another, highlighting the uniqueness of family firms.

In the future, as the global environment is constantly changing and evolving, we

assume that other definitions could be developed: this should be read as a sign of continuous adaptation of both theory and real-life practice, underlining how important family firms are in worldwide economy and how authors deeply and constantly follow their evolution, making this sector one of the most intriguing in business sciences.

## **2.2 Definitions of Family Enterprise**

Thanks to the ever-growing number of research conducted on family business topics, there is a large variety of definitions that underlines specific features. In order to provide a complete scenario, it seems appropriate to present the most accepted definitions, although no consensus is found on this topic.

Due to their strong links with the past, family businesses are conventionally seen as conservative, path dependent, and ultimately less innovative than non-family counterparts (Gomez-Mejia et al., 2007). However, family businesses may display extremely diverse innovation behaviors and outcomes (Chrisman & Patel, 2012; De Massis et al., in press; Kotlar et al., 2014). Under certain circumstances, family businesses are even more innovative than their non-family counterparts (De Massis, Di Minin, & Frattini, 2015; Patel & Chrisman, 2014) and are better able to convert innovation input into output (Duran et al., in press).

Bennedsen et al. (2007) state that family firms are such if controlled and managed by family members, sometimes belonging to different generations. According to finance literature, a family firm is any public company where a family owns more than 5 percent of share capital (Anderson and Reeb, 2003). Another definition is provided by Chua et al. (1999), who define family business as “*a firm governed and/or managed with the intention*

*to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families''*. This definition emphasizes that in some family businesses, the values and beliefs of the founding family are handed down across generations for decades, sometimes centuries, such that organizational culture and identity closely reflect the way the firm has operated in the past (Gagne' et al., 2014; Le Breton-Miller & Miller, 2008; Tapies & Ward, 2008). In these firms, family history pervades business practices, producing and reinforcing shared values, norms, and beliefs over time and creating a close link between the present and the past (Zellweger et al., 2012).

Ianarelli (1996) structures family enterprises as the combination of two systems, which are interconnected, that are: family and business. The key element that differentiates family businesses from other type of businesses is the presence of people, linked by family bonds, who are actively included in the firm.

According to two different experts, Jaffe (1990) and Novak (1983), the main feature of this type of business is the possession of share capital by people belonging to the founding family. Moreover, they both enlarge their view, by looking at the consequences family businesses have on external environment. As a result, family enterprises' culture is rooted in the local community they develop in: because of this, these businesses are more socially conscious, more oriented towards creating jobs and treating workforce fairly and without discrimination.

The Expert Group of the European Commission (Vlaeminck, Bastino; Augustin et al., 2009) defines family businesses as follow:

*‘‘ A firm, of any size, is a family if:*

- 1. The majority of decision-making rights is in the possession of the natural person(s) who established the firm, or in the possession of the natural person(s) who has/have acquired the share capital of the firm, or in the possession of their spouses’ parents, child or children’s direct heirs.*
- 2. The majority of decision-making rights are indirect or direct.*
- 3. At least one representative of the family or kin is formally involved in the governance of the firm.*
- 4. Listed companies meet the definition of family enterprise if the person who established or acquired the firm (share capital) or their families or descendants possess 25 percent of the decision-making rights mandated by their share capital.*

*Family businesses can be very diverse: they can be small, medium sized or large, listed or unlisted.’’*

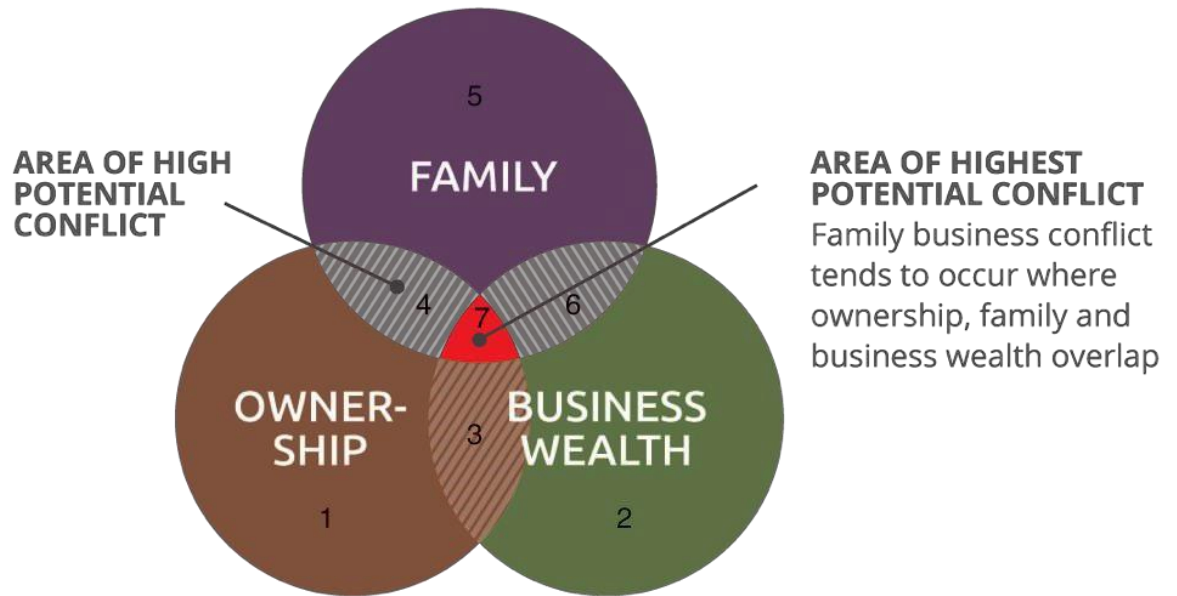
As it appears in this definition, the European Commission emphasizes the fact that size is not related to family enterprise traits (Kraus et al. 2012); decision-making rights have to be possessed by people who founded the firm or people who inherited share capital of the firm itself, which recognizes the active participation in decision-making processes. This means that decision-making power has to be read together with membership to the founding family.

A more complex definition is provided by Rößl et al. (2010) and is based on five key features:

- Several family members hold capital shares;
- One or more family members hold major business capital;
- Family members, according to their capital shares, contribute to strategic decision-making processes;
- Family members drive the economic development of the business, as there is a direct financial dependence;
- The business is meant to remain within the family, as a form of legacy.

Suh et al. (2008) provide a definition on three levels broad, middle and narrow. The broadest definition requires that the family has certain degree of effective control on strategic decisions, through voting power in the board and that the business is meant to remain within the family context. The middle definition requires that the family members dominate the firms' control and activities. The narrowest definition is based on the assumption that more than one family member from different generations is involved in the firm's management, for which he/she is held responsible. All definitions share the view that family business is a type of firm that is directly owned and managed by a family, but it can also be overtaken by the next generation.

As ownership, management and business were just mentioned, it seems appropriate to cite the three-circle model of family businesses.



**Figure 2.1** Three-circle Model of Family Businesses. Source: Author’s elaboration.

This model represents the structure of a family firm, by showing the three main components and the way they are interconnected within the enterprise. In the following part, the numbered areas are briefly described:

1. Ownership: external investors that own shared but are not employed by the firm and are not part of the founding family.
2. Business: managers and workforce that do not belong to the founding family.
3. Ownership and business: managers and employees that own part of the enterprise but are not family members.
4. Ownership and family: family members who own share capital but are not part of the firm’s workforce.
5. Family: family members who are not managers, employees or investors.
6. Business and family: family members who are actively involved in the



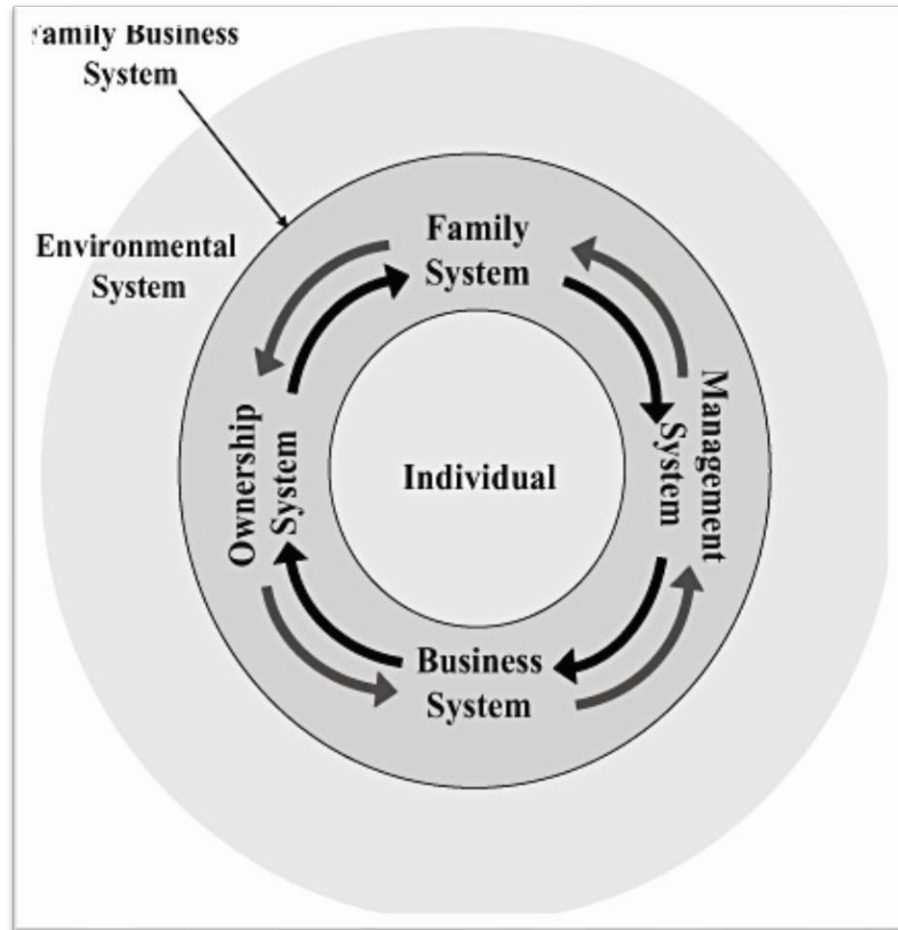
business, as managers and/or employees, but do not own shares.

7. Ownership, business and family: owners, who are simultaneously family members and work in the firm.

The equilibrium of these elements is given by the very core of the three-circle model, where all factors influence one another: this is the situation in which finding the balance is extremely both important and difficult, as it represents the real essence of family businesses.

An important factor to be underlined is the size of these three circles: in the picture, as it is generally assumed, dimensions are the same for all components. In family businesses, however, we can suppose that the ‘Family’ circle is to be bigger than the other two: this assumption is based on the fact that, although we do not have a unique definition of this type of firm, the element related to the family and its members appears to be the most relevant and crucial in the firm definition (Walsh, 2011).

Another additional way to look at family businesses and their characterizing elements is the bullseye approach:

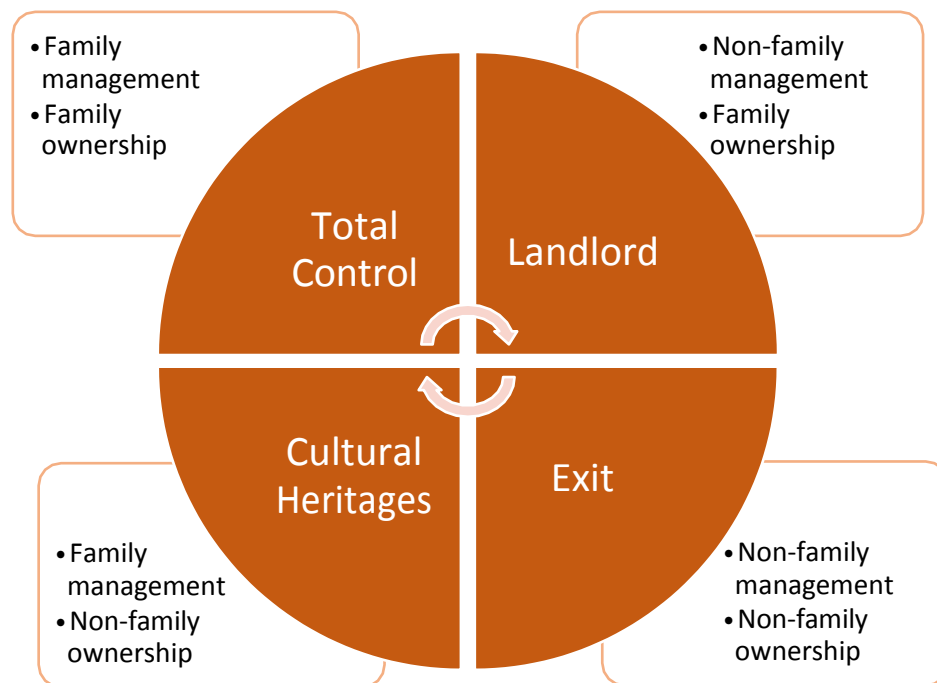


**Figure 2.2** Bullseye Approach. Source: Author’s elaboration.

Similarly to the previous one, ownership, management and business are interconnected and share interdependent relationships, among them and with the family system as well (Pieper and Klein, 2007). The combination of these four elements is the so-called Family Business System that is rooted in the individual’s features (e.g. the influence on decision-making processes, the role he/she has in the enterprise, his/her values, intentions, ideas, motivation, skills, competences) and faces the environmental system by continuous improvement, adaptations and reciprocal influences.

By combining ownership and management, we can obtain four different situations. At the very early stage of a new-born family business, “total control” seems to be the average situation: all owners and all managers belong to the founding family. This means that all capital shares and strategic decisions are in the hands of family members.

As time passes by, this situation is likely to change into one or more of the other three stages of the matrix. “Landlord” happens when ownership is held by the family in the measure of 100% while managers are external to the family. This may happen when key employees are promoted to top-management positions, as family members/predecessors get older. Not so common is the “cultural heritages” situation, as it only happens when the company is sold and some family members still remain in key managerial positions. Finally, “exit” shows that the business is not a family firm anymore, as both managers and owners do not belong to the family that once founded the business.



**Figure 2.3** Family Business System. Source: Author’s elaboration.

According to the same author a family firm has to have

- (1) Ownership control held by two or more family members,
- (2) Strategic influence by active family members,
- (3) Concern for family relationships,
- (4) The willingness of passing on the company to future generations.

Long-lasting family businesses benefit from their privileged access to past knowledge and the innovation success of these firms can be explained by their ability to leverage tradition to develop successful new products. Indeed, the long-lasting involvement in ownership and management characterizing some founding families, their socio-emotional wealth, and the resulting strong links with the past can represent valuable resources for innovation. The unique opportunities these family businesses have to create and maintain a link with the past can streamline temporal search processes and facilitate the identification of past knowledge, enabling the effective use of this knowledge for successful innovations.

Some family businesses are endowed with unique capabilities that allow them to make the past available and understandable to employees involved in the innovation process by putting in place organizational routines that ensure continuity across time and generations (Shils, 1981), preserving the original meaning and content of past knowledge (Hibbert & Huxham, 2010). This in turn increases the value of temporal search by overcoming the risk of misinterpretations, misunderstandings, and misapplications (Argote, 1999), which may reduce the “inventor’s ability to correctly recall, retrieve, and apply overly mature knowledge in an innovation” (Capaldo et al., in press, p. 6). Therefore,

long-lasting innovative family businesses can particularly illuminate how the past can be valuable; the distinctive capabilities needed to link the past, present, and future in meaningful ways; and ways to purposefully search and recombine past knowledge to develop innovative products.

### **2.3 Family Firms as Beneficial for the Whole Society**

An entrepreneur usually decides to found his/her own business in a place where it is convenient for the activity, for instance where: right skills can be found, suppliers are fragmented (in order to have a balance between their negotiation powers), customers present unsatisfied needs to have a potentially large market share, infrastructure and environment are positively developed and correlated to the firm's business.

For all these reasons, family enterprises are more likely to be philanthropic and give some sort of return to the community that hosts them as a sign of recognition, but also to help the development of the area they were born in by: hiring local people and increasing local employment rate, creating long-lasting development and training plans to reduce turnover, treating human resources as family members, establishing long-term and stable relationships with local suppliers and retailers, getting involved in social responsibility activities.

Linked to this mission, we can also underline the fact that local family firms are more likely to hire local employees and are less likely to lay people off, when the possibility to face an economic downturn rises. Philosophically, workforce becomes part of the founding family as vision and objectives are commonly shared across all people involved in the business.

Moreover, because of their willingness to pass the business on to future generations, family firms pursue a long-term orientation. This outlook usually leads to higher profitability levels, as consolidation takes time to be implemented. Financially, despite low amounts of financial resources, family firms tend to finance their activities with low levels of external debts. In other words, through self-financing, family firms prefer to reinvest their profits in the business, reducing personal earnings, so to keep financial expenses on debts under control as well as creditors' power and their influence on firms' decision-making processes. Consolidation and long-term perspective are strongly important because they allow family firms to take benefits from the local environment, both in terms of human and economic inputs, and to become a pillar for the community, creating reliable linkages and relationship, whose advantage is to provide help and support while cooperating for the good of the local people.

## **2.4 Main Factors in Family Businesses**

As mentioned by Daily and Dollinger (1991), family firms are different from whatever other type of business. They found relevance in four main distinguishing factors from non-family business:

- Family size: family members involved in the firm's management seek to realize a good business performance, which is aligned with personal interests. In comparison with non-family firms, family enterprises are found to be smaller in size, so to avoid the presence of slack resources, the compensation of executives based on bottom line results, the conflict of interest in terms of objectives and agency theory issues that could arise in case of separation between management and ownership;

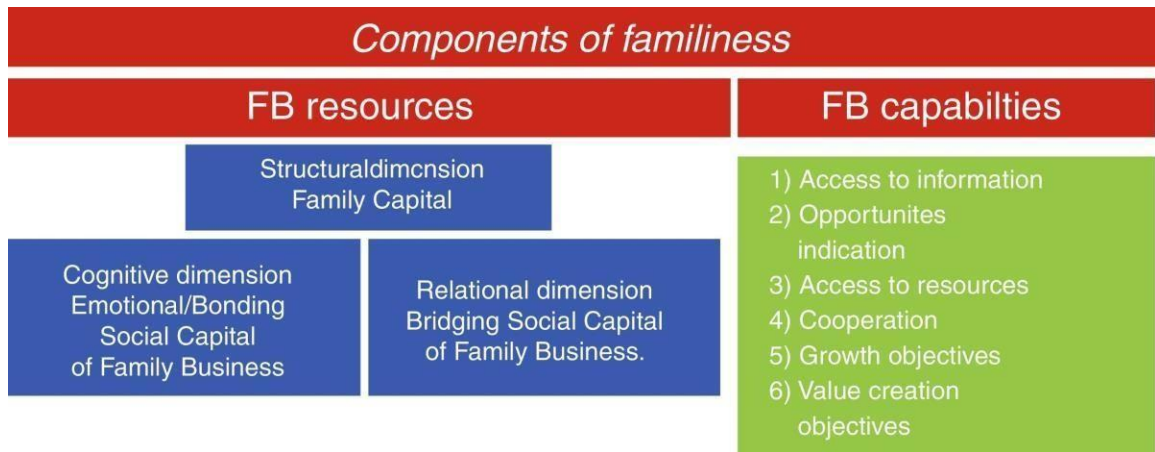
- Firm age: succession planning, plays a crucial role in determining the duration of a family business. As a matter of fact, because of lack of planning or wrong implementation of succession plans, most family firms do not survive past the first founding generation. According to the Family Business Institute, about 30% of family firms will survive into the second generation, 12% will still be viable to the third generation and only 3% will remain as such with the fourth generation or beyond;
- Firm strategy: growth in the family firms happens at a slower rate than the one in non-family firms, due to the absence of professional managers, who are likely to implement growth-oriented strategies to reach profit targets. Within a family firm, consolidation appears to be more relevant than fast growth, as the final aim of current generations is to pass the business on to the next ones. Implementing the wrong growth strategy would lead to a complete failure and to the loss of the family business;
- Internal control system: thanks to its internal structure and relationships, family firms are usually based on low degree of formalization. Therefore, less control systems are used to analyze performances and compare results with benchmarks. The main reason for this of control system is that among family members there should be a lower risk of moral hazard and opportunistic behaviors. However, at the same time, control is needed to verify performances and benchmarks, to provide information and suggestions on how to reach higher goals and meet objectives: family firms are good at combining low formalization and informal control systems, to take advantage of cost reduction, flexibility and simplicity.

Other features characterizing family firms were found by Price et al. (2013), who based their definition on organizational culture and qualities. Family firms are seen as entities able to “ *create a unique vision and control mechanisms that benefit the firm through the creation of distinctive resources and capabilities*”, added to the fact that they have a long-term orientation that reduces the level of risk-taking strategies. Moreover, we find management controls and quick responses proactively suggested by operating family members. On the other hand, family firms are characterized by lack of infrastructure capabilities and appropriate management techniques, which could affect performances and increase the number of obstacles and constraints.

Two unique and intertwined elements were studied by Carrasco-Hernandez and Jiménez-Jiménez (2013) that are: social capital and familiness. Social capital, as defined in the introduction, helps the development of distinctive knowledge, which fosters the creation of firm’s advantages. Familiness, as previously mentioned, expresses the involvement of family members in firms’ matters and is affected by experience and culture, to be read as “*the coherent pattern of beliefs and values that represent acceptable solutions to major organizational problems for the family*” (Dyer, 1998). The alliance between long-term orientation and sharing of the same vision, the same path, distinctive knowledge and all party involvement, gives rise to the realization of targets, thanks to the ability to overcome obstacles.



**Table 2.1** Components of Familiness



Walsh (2011) provides a long list of benefits and challenges in family businesses, underlining that all of them depend on the dimensions and stage evolution of the firm, to be read as the generation in charge of the business itself. Let's analyze both sides of the scale (Table 2).

**Table 2.2** Benefits and Challenges in Family Businesses

BENEFITS			
Family		Human resources	
Loyalty	Family members share vision, commitment and are more loyal to both the family and the firm.	Labor pool	Active family members work in a more flexible way and are willing to work in job positions for others.
Legacy	A strong sense of pride and heritage support the willingness and need to create value and future for family	Key employees	Because of their importance, key employees are treated as family members and develop a strong and unique

	successors.		relationship with the family itself.
Patience	Family firms have a long-term orientation, based on strategic objectives supported by patient capital, as investment approach.	Career opportunities	Promotions and career opportunities are provided to family and non-family members and can be realized both within and outside the family firms.
Values	Work and family culture overlap and influence both current and future generations.	Financial rewards	Especially for family members, rewards can be higher than the ones obtainable in other firms.
Relationships	Interdependency and harmony are built thanks to stable and long-term network relationships.		
Succession	Family firm managers operate with the final objective to pass on the business to future generations.		
Community and philanthropy	Family firms exploit local resources and repay communities by employing local people, acquiring local products and services and creating value.		
<b>CHALLENGES</b>			
<b>SUBJECTIVE</b>		<b>OBJECTIVE</b>	
Conflicting	Different objectives and beliefs may lead	Hiring criteria	Priorities between competences and

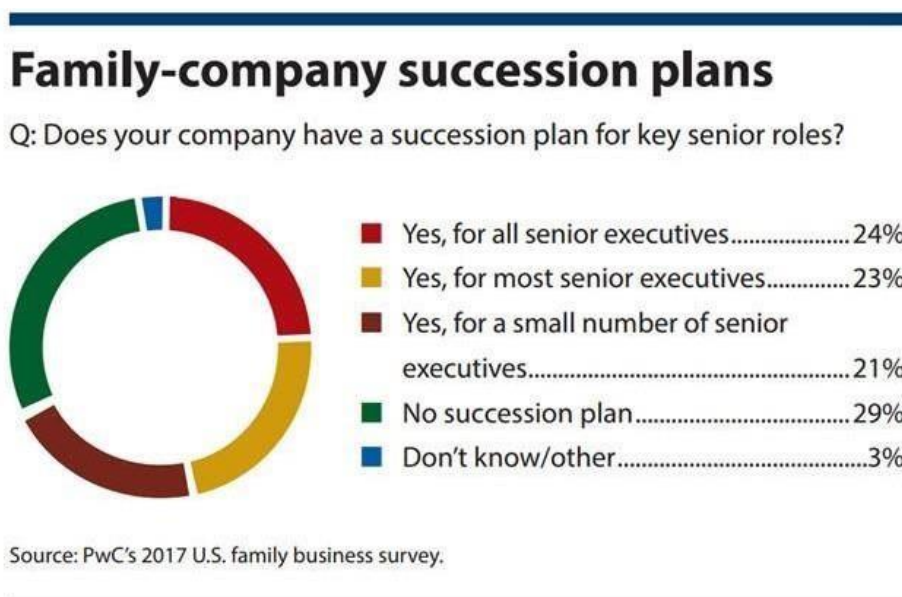
goals/values	to arguments and conflicts if not expressed and understood.		family membership should be clearly stated in order to avoid conflicts.
Conflicting personalities	Harmony is at risk as rivalries and conflicts may arise due to personal differences.	Compensation systems	Criteria on compensation levels and structures should be properly decided without conflicting differences between family and non-family members.
Expectations	Family members can have different expectations regarding every aspect of the business' life.	Time	Time is a real challenge both in terms of succession and in terms of day-to-day operations.
Work ethic	This trait is linked with dedication and commitment to the firm, which are lower in younger generations.	Formalization	Written documents and rules are means to address the business, but are also seen as obstacles to change.
Reluctance to plan	Founders and elder managers see planning as a waste of time and an element of inflexibility and ineffectiveness.		

As mentioned before, the presence of countless definitions of family enterprise does not allow us to have a single definition to follow. On the other hand, it helps us remember all the relevant features to take into account while studying and analyzing this type of business: the intention to pass on the firm to future generations of family members (Chua

et al., 1999), the domain of the founding family (Bennedsen et al., 2007), the coexistence of two (Iannarelli, 1996) or more (Davis and Tagiury, 1982) systems, the active role played by family members in both management and business (Röbl et al., 2010), the influence on communities and external environment (Jaffe, 1990; Novak, 1983).

## 2.5 Problems

It shouldn't be a surprise that planning for strategy and succession is one of the biggest problems encountered by family businesses. Jonathan Flack, CPA, PwC's U.S. family business services leader, said first-generation family business founders often have succeeded because they trusted their instincts and decisions. That belief in their own abilities can cause them to resist the multiple points of view required for a comprehensive strategic planning process, and it may cause reluctance to plan for the time when they will have to turn over the leadership to others.



**Figure 2.4.** Family Succession Plan. Source: Journal of Accountancy, 2017.

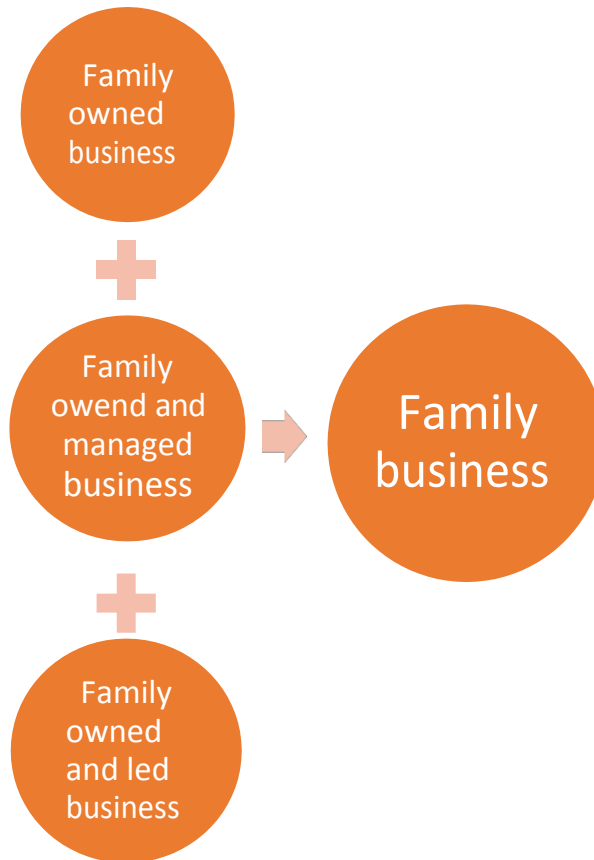
## **CHAPTER 3**

### **STRUCTURE AND ORGANIZATION**

#### **3.1 Family Firms Structure**

This chapter provides a framework for the design and use of organizational structures in family business. Like the planning process in family businesses, the organizational structure needs to strike the right balance between family needs and business needs—that is, achieve the “right” equilibrium. We begin by examining some basics of and tools for designing and managing structure. We then discuss some of the family issues that can undermine effective structure design.

There are three types of family businesses:



**Figure 3.1** Types of family business. Source: Author’s elaboration.

**Family owned business:** is a profit organization where numbers of voting shares, but not necessarily the majority of them are owned by members of single extended families but significantly influenced by other members of the family.

**Family owned and managed business:** is a profit organization where number of voting shares, but not necessarily majority of shares are owned by members of single extended family but significantly influenced by other members of family. In this business has active participation by one family member in the top management of company so that one or more family members have ultimate management control.

**Family owned and led company:** is a profit organization where number of voting shares, but not necessarily majority of shares are owned by members of single extended family but significantly influenced by other members of family. In this business has active participation by one family member in the top management of company so that one or more family members have ultimate management control. But in this method one member has major influence on business activities who is in charge of regulating activities of business and members of family business.

### **3.2 Family Collaborators**

In carrying out his activity, the owner of a family business can be joined by a particular figure, other than his employees: the family collaborator. He is defined by the art. 2 of the law 4 July 1959, n.463 as that familiar, inside very precise kinship limits, who works habitually and predominantly in the firm.

The sentence n. 485 of December 29<sup>th</sup> of the Constitutional Court has expressly listed the expected degrees of kinship for the collaborator, which are the same as in the family business ex art. 230/bis of the Civil Code.

**Table 3.1** Family Collaborators

<b>RELATIONSHIP (KINSHIP)</b>		
<b>DEGREE</b>	<b>SUBJECT</b>	<b>RELATIONSHIP TYPE</b>
1° degree	Parents	Relatives in straight ascending line
1° degree	Sons	Relatives in straight ascending line
2° degree	Grandparents	Relatives in straight ascending line
2° degree	Grandchildren	Relatives in straight descending line
2° degree	Brother and Sisters	Relatives in collateral line
3° degree	Great-grandparents	Relatives in straight ascending line
3° degree	Great-grandchildren	Relatives in straight descending line
3° degree	Grandchildren (siblings' sons)	Relatives in collateral line
3° degree	Paternal and maternal uncles	Relatives in collateral line

<b>AFFINITY</b>	
<b>GRADE</b>	<b>SUBJECT</b>
1° degree	<ul style="list-style-type: none"> <li>- In-laws and mothers-in-law</li> <li>- Sons-in-law and daughters-in-law</li> <li>- Stepfathers and stepmothers</li> <li>- Stepchildren</li> </ul>
2° degree	Brothers-in-law and sisters-in-law



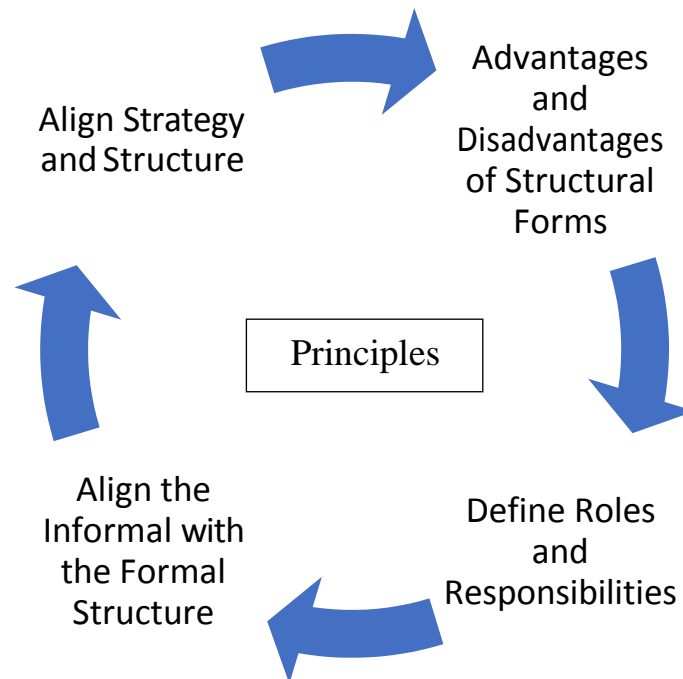
In order to obtain maximum results, firms have to rely on three components to governance family businesses:

1. **Periodic assemblies of family.**
2. **Family council meeting:** if the size of the family is small than the members can meet on a frequent basis. When the family business expands geographically each team has to choose a representative for every unit who, on behalf of every area, can meet on regular basis to make plans, create policies and strengthen family business communication.
3. **Family constitution:** family policies and guiding vision and values that regulate member's relationship in business. The plan developed may be detailed or simple in nature but every family is benefited in the same way.

### **3.3 Designing Organizational Structure and Roles: The Basics**

We define structure as the patterned arrangement of specified roles to be performed by people within an organization. How a business is structured and how its structure is managed can have a significant positive or negative impact on organizational success. In the early stages of growth, roles are typically defined fairly informally. However, once a business reaches the Professionalization stage of development, a more formal structure is needed. Without it, people will spend time on activities that add no value; there will be duplication of effort, "role conflict," and ultimately, an inability to achieve important goals.

There is no one best structure for all organizations, or even for all organizations of a specific size or type; every organization has a unique culture, staff, and history. There are, however, four design principles that all leadership teams need to understand and use as they work to create and manage their company's structure.



**Figure 3.2** Design Principles. Source: Author's elaboration.

### 3.3.1 Principle #1: Align Strategy and Structure

Frank Lloyd Wright, the iconic architect of the twentieth century, based his work on the principle that form must follow function. This means that the form of a building or structure must be determined by its function or intended use. We believe that this same principle applies to the design of organizational structures that is, the various roles (individual and functional) that constitute a structure should be designed to maximize the likelihood of effectively and efficiently achieving the company's goals. For example, if a business offers

several different products to several different customers, its structure should be different from that of a business that sells a single product to a single customer.

The starting point for designing any structure, then, is the clear identification of the company's purpose (business concept) and goals, which should be included in the strategic plan. As the leadership team plans for the company's growth and development, it needs to identify the structural changes that should be made to support it. Building the strategic plan around the levels in the Pyramid of Organizational Development increases the probability that during the annual plan development meeting, the leadership team will discuss structure (a key management system) and identify short- and longer-term changes that need to be made to ensure that it is aligned with the company's strategy.

### **3.3.2 Principle #2: Consider the Advantages and Disadvantages of Different Structural Forms in Designing the “Macro Structure”**

There are three basic forms of structure to choose from in developing what we call the macro structure of an organization (that is, the functions and organization of functions typically included in an organizational chart), and each has strengths and limitations. Each is also most likely to be effective under certain conditions. It should be noted that for some companies a “hybrid” or blend of these three basic forms is appropriate. It is important that leaders understand the structural forms they have to choose from and under which conditions they are most likely to be effective.

The three basic forms of organizational structure are: (1) the functional structure; (2) the divisional structure; and (3) the matrix structure. In what follows, we discuss their strengths and weaknesses, as well as the circumstances in which each structure tends to be

the best. However, each basic form must always be customized to the specific situation, including any relevant family considerations.

***Functional Structure.*** In a functional organizational structure, roles are organized according to the various “functions” that have to be performed to achieve the company’s overall mission. All functions report to the CEO or president, who is responsible for coordinating all operations and for maximizing the company’s overall profitability. For example, at Bell-Carter Foods in 1995, the major functions (each led by a member of the senior leadership team) sales/marketing, production (olive processing and packing), olive acquisition/grower relations, and finance were organized as shown in Figure 2.3. Tim and Jud Carter shared the role of CEO. Jud also had a functional role as the manager of grower relations.

A variation of the functional structure—what we call a prefunctional structure—is typically used at the birth of a business and during its initial stages of growth. When an organization is very small and has only its founder or a pair of family founders and a small number of “helpers,” it is a bit of an overstatement to call it a functional structure. This is the type of structure that Henry and Arthur Bell used at the founding of Bell-Carter and that the company used up until the 1980s.

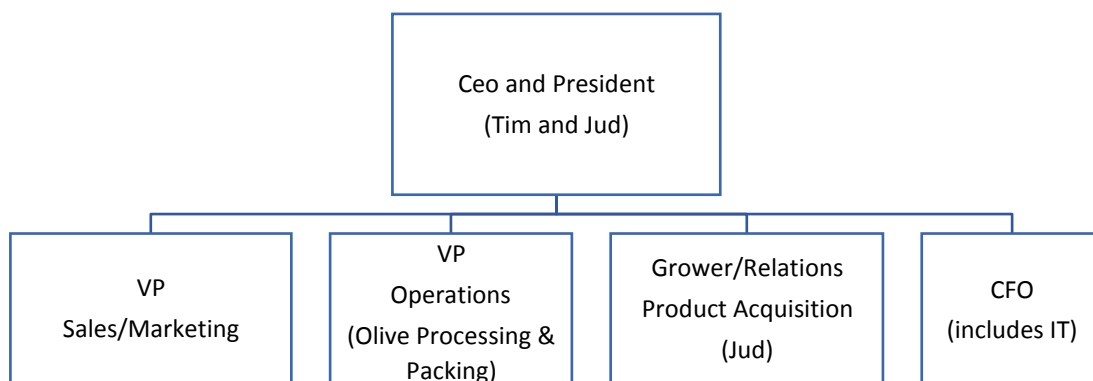
The primary strength of a functional structure is that it provides for specialization of function, allowing people to develop specialized skills in one area and allowing each area of the company to focus on developing specific capabilities.

One disadvantage of a functional structure is that the strong focus on maximizing functional expertise can minimize the extent to which the company as a whole is able to

identify and capitalize on new market or product opportunities. Another disadvantage is that, as the organization increases in size, senior leadership time is spread thin because they are focused on ensuring that the various functions work effectively together in achieving goals. This structure also tends to promote “business as usual,” and may lead to a situation in which new products or services do not receive the attention they need to become successful.

The functional structure is usually the first structure created for a business during its startup phase and early development. Typically, it is used until a second (different) product line is either developed or acquired, or the organization reaches between \$100 million and \$1 billion in revenue.

Often, meeting the needs of a new market or offering new products or services is the catalyst for a transition to a divisional form of structure.



**Figure 3.3** Example of a Functional Organizational Structure: Bell-Carter Olive Company, 1995. Source: Building Family Business Champions, 2016.

***Divisional Structure.*** The divisional structure was created to take advantage of key aspects of the functional form, while also addressing the problems of reduced focus and lack of in-depth concern for a particular product or customer grouping. In this structure, the larger organization is divided into smaller units each of which offers unique products or services to a specific market (set of customers) and controls its operations and the development of its infrastructure (the Pyramid of Organizational Development). Divisions can also be structured around products, technologies, and even geographic locations.

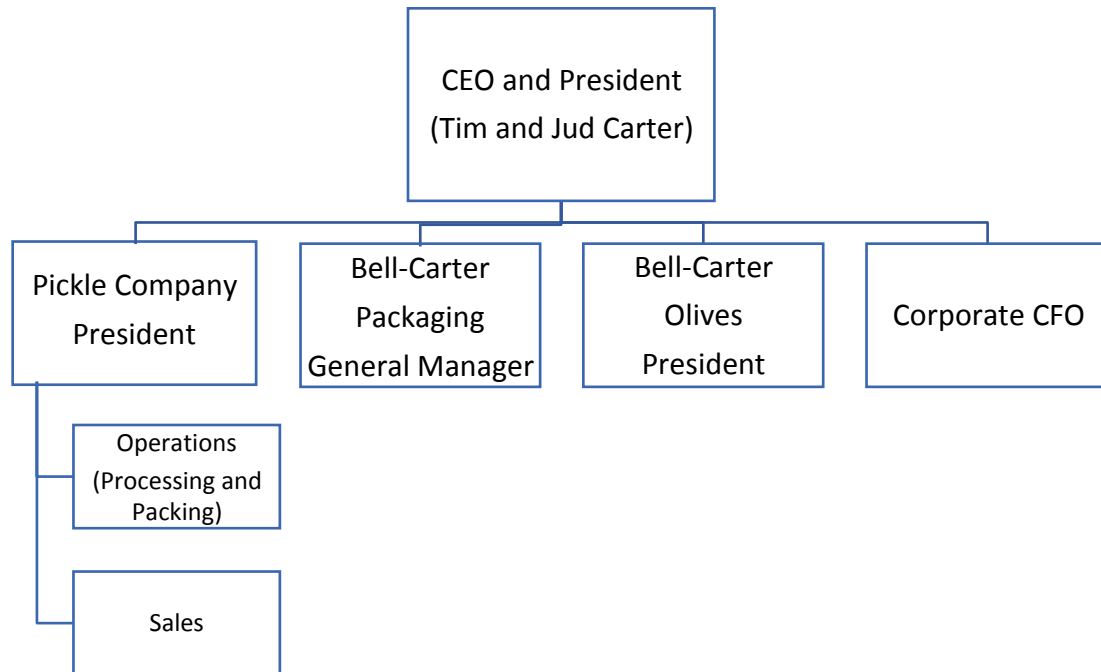
A division is essentially a mini-company within a company, with each divisional leadership team having responsibility for managing the division's profitability; except that certain functions are still performed at the corporate level. The concept for this structure is to create separate divisions with a defined focus and then provide a common set of services to these divisions at the corporate level. The common services can include capital allocation, finance, legal, human resource management, and administrative services, among others. The functions that are performed at the corporate level can differ depending on the size of the divisions, and they can differ from company to company.

The divisional approach is widely used in large well-known companies like Johnson & Johnson and GE, as well as in many smaller businesses. For example, in 2002, with the acquisition of a pickle company located in Springfield, Missouri, Bell-Carter moved to a divisional structure and formally adopted the name Bell-Carter Foods, Inc. They also owned and were beginning to grow a small (around \$1 million in annual revenue at the time) co-packing company (Bell-Carter Packaging) in Modesto, California. Bell-Carter Packaging was led by a general manager who happened to be Tim and Jud Carter's nephew; the pickle company would eventually have its own president who had been a

member of the Bell-Carter production team. The general manager of Bell-Carter Packaging and the president of the pickle company reported to Tim and Jud (see Figure 2.4), and each had responsibility for managing the operations and profitability of their respective businesses. Tim, Jud, and their leadership team continued to oversee the operations and profit of the olive company.

The primary strength of the divisional structure is that it creates a focus on specific market or product segments. The primary disadvantage is that it results in the duplication of functions in each division. The divisional structure can also lead to intense competition for corporate resources among the general managers of each division. Therefore it is important for the organization that decides to adopt a divisional structure to invest in training true general managers who understand not only how to run a “business within a business,” but also how to be an effective member of the broader corporate management team.

The divisional structure is very robust. It can be found at most of the later stages of growth—from Professionalization to Institutionalization. Because of its robustness, many very large family businesses use it. For example, a family business owned by three brothers, Simon Property Group (owners of Mall of America) had a development and a property management division.



**Figure 3.4** Example of a Divisional Organizational Structure: Bell-Carter Foods, Inc., 2002-2007. Source: Building Family Business Champions, 2016.

**Matrix Structure.** In principle, the classic matrix structure is intended to achieve the best of both the functional and divisional forms. As in the divisional structure, in a matrix, managers are responsible for all aspects of a particular program, project, or client. The matrix also includes specific functions headed by senior managers who typically report directly to the most senior executive (the CEO or president).

In a matrix, each program, project, or client manager forms a team of functional specialists (drawn from the various functions) who work together to achieve program-, project-, or client-related goals. These functional specialists thus have “dual reporting relationships”: to the project, program, or client manager and to their functional manager. Functional and program/project/client managers must coordinate frequently on the deployment and management of human resources, and those allocated to specific teams



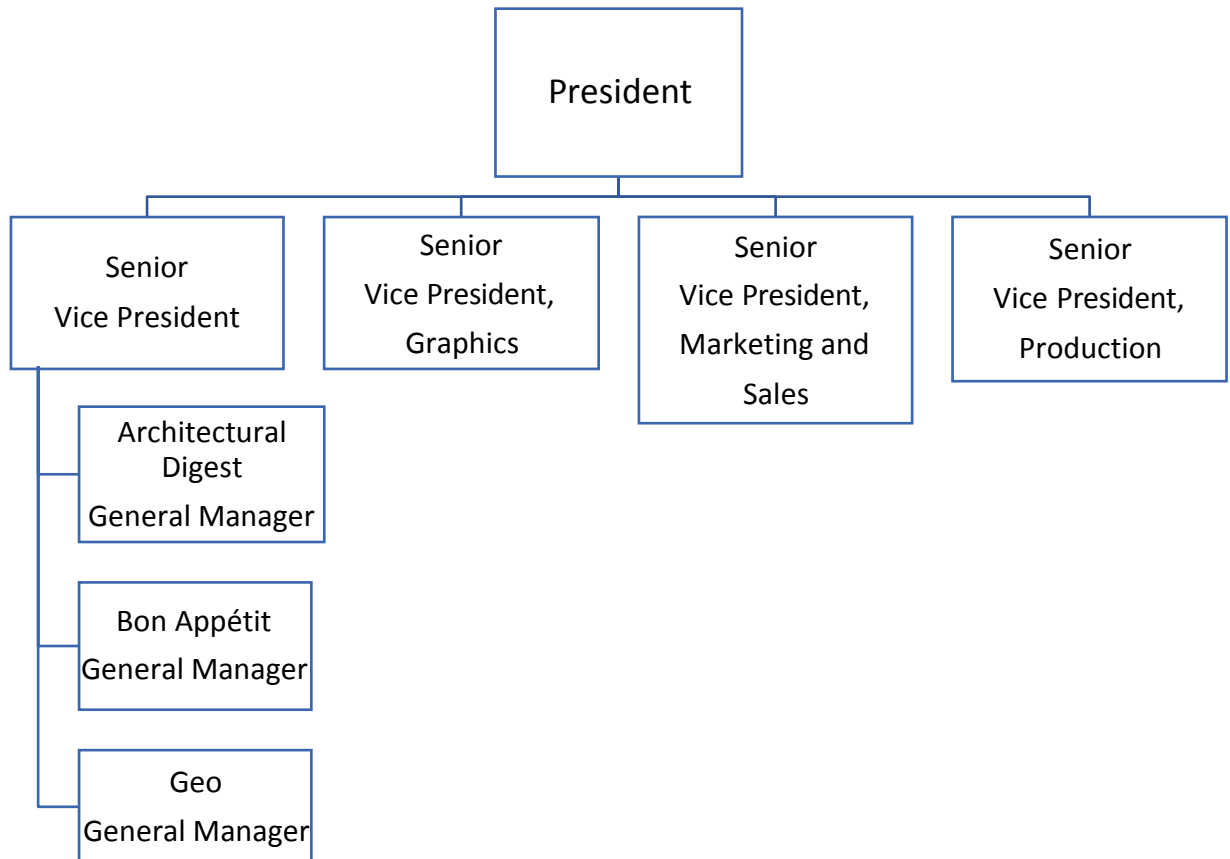
can move onto and off of these teams as needed to support the achievement of overall company goals.

The matrix structure is appropriate in businesses where there are reasons for different business units to focus on customer groups or “projects” and where there is a need for a common set of support services. It was first developed in the aerospace industry, but it has been applied in many other industries, including publishing, real estate, and professional services. Figure 3.5 shows a matrix structure for a publishing company, which was a family business before its sale to a much larger company, Condé Nast, in 1993. The family company was Knapp Communications Corporation, publisher of *Architectural Digest*, *Bon Appétit*, and *Geo* magazines, as well as other periodicals.

Each of the company’s products (magazines) has a general manager who is responsible for maximizing the success of the specific product. Each functional area graphics, marketing, sales, and manufacturing is headed by an executive who is responsible managing and maximizing the effectiveness of a team of functional specialists.

The strength of the matrix structure is that it permits a focus on the customer and the product, and also allows for functional specialization. It adds to the organization’s flexibility because human resources can be moved from one project, program, or product to another so as to maximize return. The major limitation of the matrix structure is that it requires a high degree of coordination to be effective. The keys to successfully operating a matrix structure are conducting regularly scheduled meetings to review the status of work and having the ability to deal with the inevitable conflict that arises when employees are accountable to more than one supervisor (a program, project, or product manager and a

functional manager) and possibly involved in more than one program or project (and therefore responsible to multiple supervisors). Accordingly, the matrix structure requires a considerable amount of training in work-related interpersonal skills to ensure its smooth operation.



**Figure 3.5** Example of a Matrix Organizational Structure: Knapp Communications Corporation, Early 1990s. Source: Building Family Business Champions, 2016.

### 3.3.3 Principle #3: Define and Communicate Roles and Responsibilities

A “role” is a set of responsibilities to be performed by the person occupying it. Roles are basic units and building blocks of an organizational structure. If properly designed, each

role provides a unique contribution to the achievement of the organization's goals. Further, effective *role descriptions* help people understand their own responsibilities, other positions' responsibilities, and the relationship between positions. This minimizes duplication of effort and the possibility that important decisions, tasks, projects, etc., will "fall through the cracks" because they are no one's responsibility.

Formal (written) role descriptions should provide those occupying a particular position with the information they need to understand what is expected of them. In a sense, the role description should be a "playbook"—that is, a guide for individual behavior—and it should be used as the foundation of the individual performance management system. As organizations grow and consider changing their structures, they need to identify how the roles themselves should change and may, at times, need to create new roles. For example, in the late 1990s, the executive team at Bell-Carter (consisting of Tim, Jud, the VP of sales, and the CFO) found that they did not have the time to focus on both the strategic development of the business and day-to-day operations. To solve this problem, they created the position of chief operating officer (COO) to manage day-to-day operations; the VP of sales was given this position, and his former position was filled by one of his direct reports.

While there are several ways to create these playbooks, it was developed and successfully managed, working with hundreds of both family and non-family businesses to implement this approach called Key Result Area (KRA) based role descriptions. A KRA-based role description consists of:

- A mission: A one- or two-sentence statement that identifies the purpose or reason the position exists. The mission of the CEO might be stated simply as, “To profitably and effectively lead the organization.”
  
- Five to nine KRAs: Categories of activities that the position holder needs to focus on to be successful in his or her role. KRAs should be stated in a few words (as if they were labels on tabs in a binder), and each should specify “results” that the position holder should be focused on achieving. The rationale for having five to nine KRAs is that people can remember only five to nine things at any one time. It follows that if people can remember the things that they need to do, there is a higher probability that they will actually do them. A CEO’s KRAs might include:
  - Strategic Plan Development and Implementation
  
  - Corporate Financial Results Management
  
  - Senior Leadership Team Development and Management
  
  - Corporate Culture Management
  
  - Board and External Relations
  
- The amount of time (as a percentage), on average, that should be allocated to each Key Result Area. This provides guidance for the position holder about how time should be invested to best support the organization’s goals. It also creates standards for performance.

- For each KRA, a list of on-going responsibilities that identify what the individual should be doing when focused on that Key Result Area. Stated in another way, the purpose of this element of the role description (what we refer to as “objectives/activities”) is to define for the position holder what each KRA means.

Typically, the process of developing KRA-based role descriptions begins with a workshop for managers—starting with the most senior leadership team—during which they are introduced to the methodology and terminology. During the workshop, participants are asked to use what they are learning to create, share, and solicit feedback on draft components of the KRA-based role description for their position. One purpose of these workshops is to help managers at all levels understand how to create role descriptions that support the effective implementation of the structure and, in turn, the achievement of company goals. A second purpose is to help minimize duplication between roles and ensure that everything that is important to an organization’s success is “owned” by someone on the team.

#### **3.3.4 Key Principle #4: Align the Informal with the Formal Structure**

The “formal” or defined structure is documented in the organizational chart and in the written role descriptions. The informal structure is how the organization actually works or functions, which might or might not be aligned with the formal structure. The distinction between the formal and informal structures is particularly important in family businesses because of the possibility that family members can occupy roles due to their membership in the family regardless of their competence. Recognizing that family membership may have been a factor in assigning roles is important to both family and non-family members

employed in the business. It helps everyone understand “why we do things the way that we do.” One non-family senior manager of a family business said this upon being introduced to the firm: “It would be nice if each box on the organizational chart of a family business would ‘blink’ or ‘twinkle,’ showing that a family member occupied the box, so you could know the terrain.” He also suggested that maybe the organizational chart could be color coded so that “core family members” were one color, the “secondary” family was a second color, and non-family was a third.

In all companies, two key strategies for maximizing the alignment between the formal and informal structure are to: (1) effectively and frequently communicate the formal structure; and (2) reinforce the formal structure by embedding it in the performance evaluation process.

An overview of the company’s organizational chart—including information about who is responsible for what—should be included in the new-employee orientation process. In addition, the senior leadership team should periodically review the structure and communicate to the staff any changes that will or have been made. Finally, each manager should, as a part of each direct report’s annual performance evaluation meeting, review and discuss the individual’s role description.

Role descriptions should be used as one component of the individual performance management process. Managers should periodically discuss with each direct report how he or she is performing with respect to each Key Result Area and time utilization targets.

The level of family functionality will affect a leadership team’s ability to reinforce, manage, and align the structure with the strategy, as described next.

### **3.4 Aligning Family and Business Needs: Key Structural Challenges**

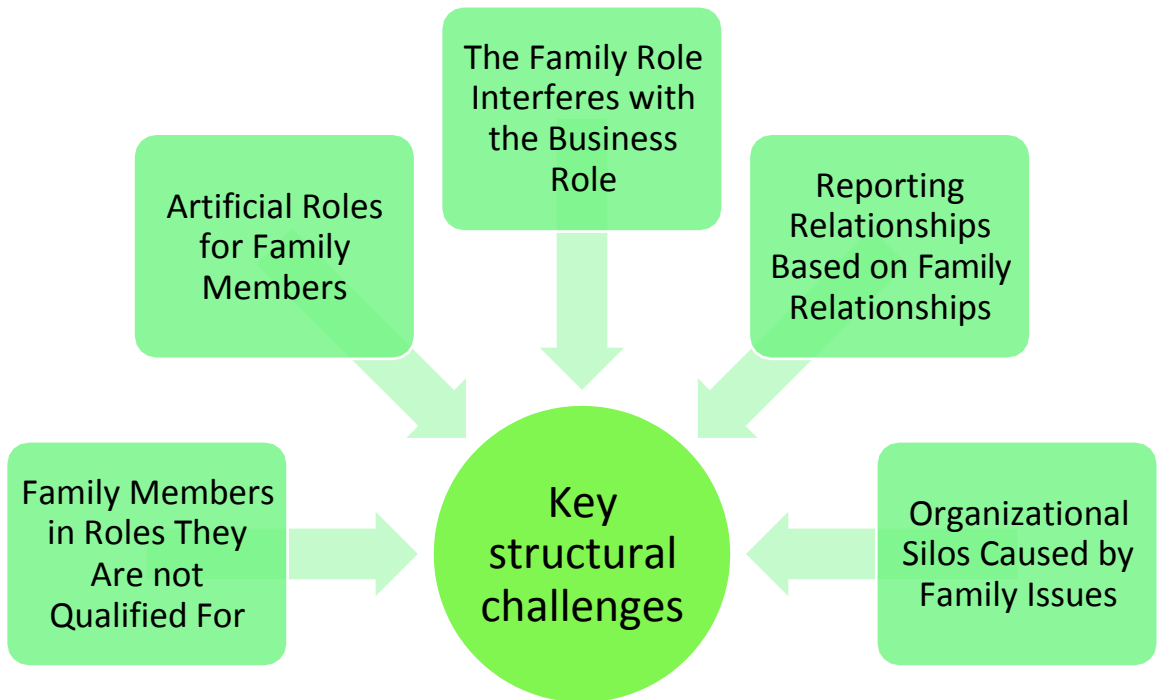
The overall challenge faced by family businesses in creating and managing structure is to find the right balance, or equilibrium, between meeting family member and business needs. In many family businesses, structures are designed to reduce the potential for family conflict rather than to optimize the functioning and long-term development of the organization. This is far less likely to happen in highly functional families like the one that owns Bell-Carter.

It is only natural for family membership and needs (including opportunities for employment) to play some role in how the business is structured. For example, at Bell-Carter, a decision was made in 1973 to have Tim and Jud Carter jointly lead the company upon their father's retirement, with each directly managing specific organizational functions, while working together to make strategic decisions about the company's development. This structural option would probably not have been considered if they were not family members and if they did not work well together.

While this example suggests that creative structures can be developed that meet both family and business needs, some companies create structures that only meet one or more family members' needs. Sibling competition can influence the design of organizational structure.

Sometimes the consequences of structuring around the family are minimal; at other times they can be quite significant. For example, when a role is created only to provide income to a family member, regardless of competency, we call this the Albatross Syndrome. Other structural issues caused by family dysfunctionality include:

- family members occupying roles they are not qualified for;
- family members occupying “artificial roles”;
- family roles interfering or conflicting with business roles;
- special reporting relationships based on family membership rather than what is best for the business;
- organizational silos that result from family dynamics being played out in the business.



**Figure 3.6** Key Structural Challenges. Source: Author’s elaboration.



### **3.4.1 Family Members in Roles They Are not Qualified For**

Companies sometimes place family members in roles they are not qualified to perform in the belief that a family member is more trustworthy than an outsider. This might be true, but the consequences of placing an underqualified individual in an important role can be quite significant including failure to effectively perform the role and damage to organizational climate and morale. In one family distribution company, the owner had decided to retire and appointed his son, a longtime employee of the business, to replace him as CEO. The son, who had some management experience, was ill-equipped to lead what was by that time a \$50 million business, but did his best. When his father asked how things were going, the son assured him that results were “great.” In reality, the company was beginning to lose market share to a competitor, the senior executive team was becoming demoralized by the son’s lack of leadership, and profits were beginning to decline. When financial results were reviewed at year-end, it was clear that the son was in over his head, and his sister, who had a strong financial management background and was an experienced manager, was brought in as CEO. Her brother returned to his role as operations manager. In some businesses, a family member may have the skills to be effective in his or her role, but not be accepted by non-family members of the team.

Sometimes family members fail because they are put in roles where they are not provided with appropriate support, given their qualifications. In one medium-sized family business, the founder, whom we will call Robert, acquired a small business (related to the core of his existing business) and installed his son, Robert Jr. (known as “Junior”), as manager. Not surprisingly, Junior, who was inexperienced, failed badly. The business was

sold and Junior was brought back into the core family business. Since everyone in the business knew about Junior's failure, he was labeled and treated as a loser. Junior lived down to that reputation by becoming a dilettante who cared more about his car than he did about the business. In reality, however, Junior was a talented individual who was untrained. He had been set up for failure. When Junior was seen as a total loser, he was not perceived as a factor in the "political" system of the firm. Specifically, he was not seen as a candidate for succession to the position of CEO. Once he became competent, it was a different situation entirely. Instead of being pleased that he was in a position to become the next CEO, other managers were now uncomfortable.

### **3.4.2 Artificial Roles for Family Members**

When the concept of a family member's role is not clear or well defined, it is usually a sign that the role is artificial and has been created to satisfy a family need, not a business need. Sometimes this is done to take care of a family member whom the business leaders believe can't make it in another business. The family member is given a position that nominally makes a contribution to the company, but the real reason is to provide him or her with a means of support and source of self-esteem. The job title "vice president of special projects" is often a sign that the position is artificial, especially when occupied by a family member. Artificial titles can lead to the creation of artificial units to support them, which can be quite costly.

If the organization can afford the cost of the artificial position and the occupant of the position is relatively isolated from other positions, it may create few problems. As the company grows, though, people will start to question why the individual is there, what he

or she actually does, and why he or she is rewarded for sometimes doing relatively little. The presence of these positions can, in fact, have a negative impact on the morale of the entire team.

### **3.4.3 The Family Role Interferes with the Business Role**

A lack of separation or conflict between the business role of family members and their role in the family can affect the overall functioning of any structure. One typical problem of this type is the elevation of a younger sibling over an older brother or sister. This type of family and business role conflict was aptly illustrated in the film *Godfather 2*, when Fredo explains his betrayal of Michael by saying, “I’m your older brother, Mike, and I was stepped over!” Michael replies, “That’s the way Pop wanted it.” Fredo then raises his voice and says, “That’s not the way I wanted it! I can handle things. I’m smart, not dumb like everyone says. I’m smart, and I want respect!”

### **3.4.4 Reporting Relationships Based on Family Relationships**

Family dynamics can play a role in both the formal structure (what is on the organizational chart) and the informal structure (how the structure really works). In the formal structure, family dynamics can create organizational structure anomalies. For example, in a divisional structure all divisions should report to the COO or CEO. In some family businesses, however, a division reports to a family member, not to a nonfamily COO or CEO. For example, in one family-owned truck dealership, both the non-family president of the firm and the family-member head of the parts department reported directly to the head of the family and chairman. This was a clear organizational anomaly. It did not make structural sense and was a result of family “dynamics.” While the structure worked for this business,

creating reporting relationships based on family relationships frequently contributes to morale and other problems.

Even when a structure seems to be logically arranged “on paper,” when family members report to nonfamily members problems can arise. Although a non-family member is nominally in charge of his or her direct reports, a family member may feel entitled as “family royalty” and, therefore, able to ignore the directives of his or her supervisor. In one medium- sized retail company, a non-family member serving as COO had two senior family members reporting to him. One was the founder’s son and the other was his son-in-law. Both family members seemed to resent the “intrusion” of the non-family interloper, and both seemed to believe they were better qualified than the non-family COO for his job.

When a family member imposes the “family trump card,” the problem of dual reporting can ensue. Examples are when a junior member of the family who is supposed to report to a non-family member chooses, instead, to report to a senior member of the family (regardless of the structure that appears on the formal organization chart); or when a senior member of the family ignores the formal reporting structure and requires an individual to report informally to him or her. Such dual reporting relationships create confusion, reduce efficiency, and undermine the authority of the nonfamily manager. The key point is that the structure is the result of family politics rather than business considerations—a classic symptom of low family functionality.

### **3.4.5 Organizational Silos Caused by Family Issues**

Another structural problem in family businesses occurs when family members create “efdoms” or “silos”—business units that do not work effectively together. Sometimes they

do this simply as a way of “marking their territory,” as animals do in the wild. At other times, divisive family feuds are the catalyst.

Silos cannot be identified by examining a formal organizational chart, but they do reflect how an organization really works. Obviously, when different parts of the organization are not working effectively together toward common goals, overall organizational performance suffers.

## CHAPTER 4

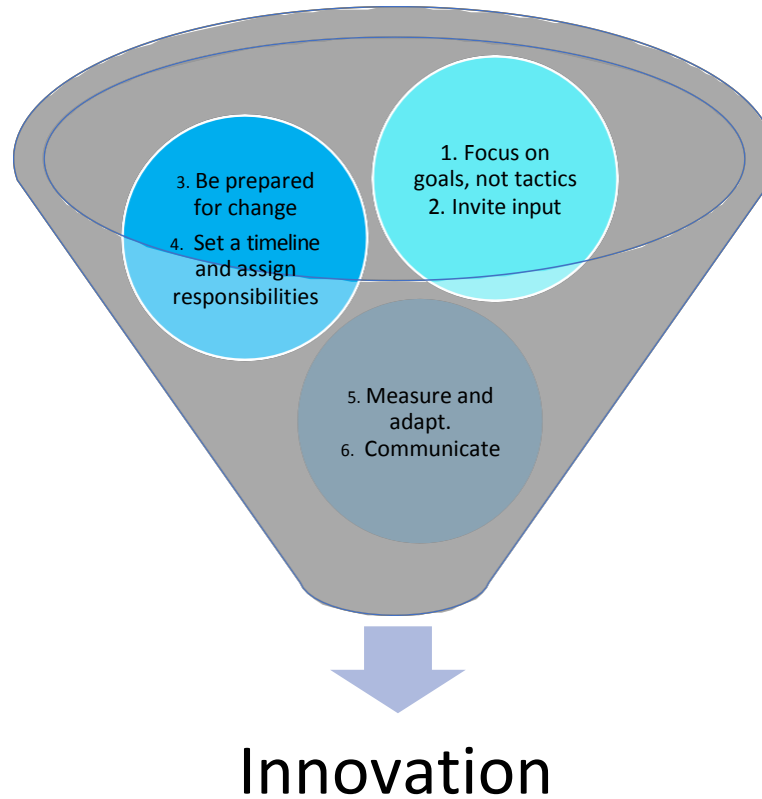
### STRATEGIES OF INNOVATION

#### 4.1 Strategic Initiatives

This chapter aims to analyze the best strategies adopted by firms to innovate. Furthermore, it discusses how tradition is correlated with innovation and how innovation can be pushed to its higher degree in enterprises where it is commonly not the ultimate goal to reach. With the appropriate decision-making structure in place, a family-owned business can focus on strategic initiatives that are in everyone's best interests. PwC's survey report suggests that for effective strategic planning, family-owned companies should:

- **Focus on goals, not tactics.** A strategic plan establishes the company's goals and direction, while a business plan lays out the tactics needed to pursue the goals.
- **Invite input.** People are more motivated to achieve goals that they helped create.
- **Be prepared for change.** After examining the goals for the future and the present situation, you will create a business plan to execute the strategic plan. And you may discover that different approaches are needed to roles and the way the business operates.
- **Set a timeline and assign responsibilities.** Although the CEO and board own the plan, other managers will drive specific elements of it, and they will need resources to accomplish objectives.
- **Measure and adapt.** Key performance indicators help in evaluating progress.

- **Communicate.** Share both the plan and the progress you are making toward accomplishing it. This can help build momentum toward your goals.



**Figure 4.1** Strategic Initiatives. Source: Author's elaboration.

During the past years, several authors have carried out studies and research on innovation and innovation capacity: as a result, many theoretical definitions can be found on this topic.

Initially, Schumpeter (1934) distinguished five types of innovation, which are: new products, new production methods, new markets, new sources of supply and new forms of organization. New products are strongly linked to the ability of a firm to meet latent needs, so to be able to charge higher price than the average and increase both their offer and market share. New production methods require long-term planning, as new mechanism and

techniques are to be developed and acquired; these are useful to improve production processes and increase productivity and quality, while reducing time and waste, by reaching a higher level of efficiency, New markets show the firm's interest in opening its boundaries and reaching new customer targets; this leads to a larger offer and market share. New sources of supply look at the providers' side of the economic relationship and aim at seeking more convenient and trustworthy suppliers, to reduce costs, while maintaining an accepted level of quality and relationship. New forms of organization are focused on the internal structure and their objective is to reduce various firm inefficiencies by implementing new and time-saving procedures. These categories cover all areas of a firm, both internal and external.

Later on, Daft (1982) defined innovation as *“the adoption of an idea or behavior – being a system a program, a policy, a device, a product or a service, that is new to the adopting organization.”* This definition is strictly organization-oriented, as it does not take into the account the external innovation benchmark reached by the environment in which the firm operates.

Another definition that is focused on internal operations defines innovation as the process that generates new products as well as the new and/or improved product itself (Porter, 1990). Porter focused his attention on both the process and the outcome, to show that innovation affects the set of actions needed to obtain an output, but also the output itself. On the same page, we can find Damanpuor's definition (1991) that describes innovation as *“the capacity, ability and willpower of an organization to introduce new processes, products and ideas within the firm in a successful way”*.



## 4.2 10 Constructive Steps

There are a number of ways a family can facilitate innovation by nurturing the positive resources and avoiding the forces of resource erosion. First, they must foster attitudes favorable to innovation across the generations: to transmit the passion and creativity of many founders to the many who follow them. This not only involves the family members who will take over the company but also other next generation family members who will become influential shareholders. That may be achieved by passing on values and legacies that celebrate innovation and renewal by regularly recalling past achievements in innovation and the courageous quests required, and by encouraging a firm culture of creativity through meritocratic promotion. This may mean that cherished practices involving, say, father-to-eldest son succession may need to be altered if the eldest son in a particular generation does not possess the competences or motivation required for innovation. The process of deciding whether the eldest son is the best potential innovative successor needs to begin early in case alternative candidates need to be identified and mentored. A climate of innovation may also be aided by flat organization structures and excellent cross-functional and vertical communications, by welcoming experimentation, and by tolerating errors.

Second, because innovation, especially in more volatile environments, demands significant managerial and often technical and creative human capital, expertise and motivation are essential. This can sometimes be fostered via formal education, having family members garner work experience at innovative firms outside the family company, and by mentoring later generation family members in various roles in the family firm.

Third, where there is too little innovative talent in the family, it will be essential to hire outside experts and to eschew nepotism in high-level management positions. Moreover, when family managers lose touch with the market or become obsolete in their competences, their kinship must not promote entrenchment and the board must act to replace them. Indeed, because of the personal nature of family firms and the freedom of family owners and managers to take a long-term view, they may be able to develop enduring win-win relationships with their employees by taking the time to hire very selectively, mentor assiduously, and reward generously. Although the initial costs of such an approach might be significant, the long-term benefits may make such “culture-building” worthwhile.

Fourth, it will be useful to develop governance through expertise and independent judgment on boards of directors that is consistent with delivering the kind of innovation needed for firm survival and success. Outside management and board members with innovation experience, or even turnaround experience, may be recruited to provide added expertise and fresh perspectives on market opportunities. There must also be an attitude of commercial objectivity and independence from management such that the board is able to oust poorly performing family members. Boards also will have to be able to evaluate and be willing to approve the significant investments often needed for projects of innovation. At the same time, they will have to have the independence from family politics needed to deny parochial requests from family members that rob the firm of financial resources or saddle it with inferior human capital. Family firms with “family boards” may be able to pre-empt problems by approaching their accountants, lawyers, or banks in order to find suitable candidates for their boards.

Fifth, there is a need for innovative family firms to develop networks of long-term partners who share their innovation ethos and who can be adaptive and help co-create innovation. Because innovation is dynamic, board development involving outsiders can also help extend the social networks needed to facilitate innovative activity in new areas beyond traditional activities. This makes it especially useful to recruit board members for both their independent expertise and their contacts.

Sixth, decision-making and implementation processes must be developed that facilitate innovation compatible with different SEW goals, and which meet the needs of the competitive environment. In other words, it is important to achieve an appropriate match between family objectives and environmental demands. Sometimes a family is so dominant that an ideology of innovation runs rampant and the firm innovates far more than their environment would reward. More likely, they may be entrenched in past ways and innovate too little. Furthermore, the time horizon of family objectives needs to be consistent with the demands of the market if an innovation is to be successful. Too short a time horizon will not allow for the funds, planning, or human resources required for innovation; too long a time horizon may drain firm resources and tax family funds due to the long-delayed payoffs.

Seventh, there can be a grey area where there are gradations between these poles. Further, SEW-related goals may co-exist with other goals and will probably change over the life-cycle of the firm. The statistic that few family firms are handed down to the grandchildren of the founder is one possible indicator of the changing goals of the family over time. As a result, there is a need for careful negotiation among owners and managers to resolve potential conflicts between goals that may compromise the need for innovation

if the family business is to be able to continue to compete effectively or even survive. If conflicting objectives compromise survival, it is important for this to be recognized and acted upon as soon as possible, and for alternate plans to be set in motion—for example, the possible sale of the company to the management team or to a commercial buyer.

Eighth, the velocity of the competitive environment can change over the life cycle of the family business. Such changes call forth a need for family businesses to adopt governance and managerial processes that anticipate environmental changes and facilitate requisite changes in resources and capabilities.

Ninth, there is a need for prudent financial management. Careful husbanding of financial resources is crucial if the family firm is to reconcile the need for being innovative on the one hand and maintaining family control of the firm by eschewing external finance on the other.

Finally, it will be essential to introduce mechanisms that ensure that parochial initiatives compromising long-term SEW and commercial aspirations will be terminated. All businesses face the problem of abandoning the pet projects of key personnel. In family businesses, this may be a particular challenge wherever it uproots family members involved in such activities. Therefore procedures must be in place to redeploy these employees elsewhere in the firm. In short, there is a constant need to be vigilant in reconciling family-centric SEW objectives with the resource and innovation requirements of the business.

It is encouraging that in an age in which short-termism has dominated many non-family firms, the family firm—if managed properly to exploit its preferences and the natural resource advantages they bring—may be an especially productive fount of

significant innovation for many decades to come. Clearly, environmental velocity is an important moderator of the performance consequences of family firm innovation, and thus family firm goals. All of these factors must be considered in order to have a more complete picture of innovation in family businesses.

- 1 Passing on values and legacies
- 2 Formal education of family members
- 3 Hire outside experts
- 4 Develop governance through expertise and independent judgment
- 5 Develop networks of long-term partners who share their innovation ethos
- 6 Achieve an appropriate match between family objectives and environmental demands
- 7 Negotiation to resolve potential conflicts that may compromise the need for innovation
- 8 Anticipate environmental changes
- 9 Prudent financial management
- 10 Abandon pet projects of key personnel

**Figure 4.2** 10 Steps. Source: Author's elaboration.

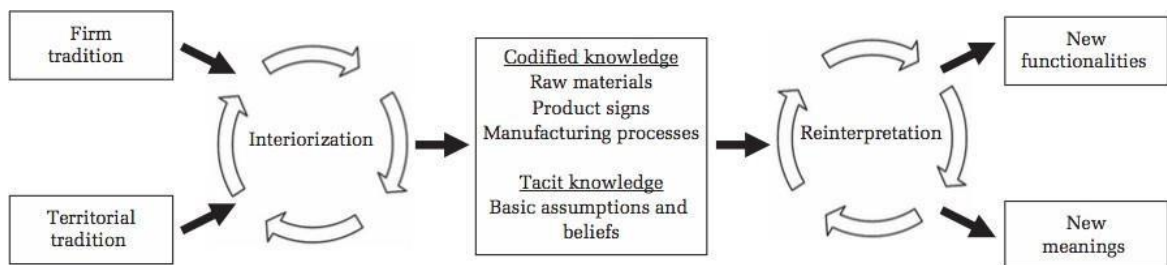
### 4.3 Toward a Model of Innovation Through Tradition

Competitive advantage requires a combination of good strategy, strong dynamic capabilities, and difficult-to-imitate resources (Teece, 2014). Following this approach, understanding why and how ITT can lead to a competitive advantage requires identifying the idiosyncratic resources on which this strategy is built and the capabilities through which these resources are adapted, orchestrated, and innovated over time (Teece, 2007). Understanding how firms search and use past knowledge to innovate requires integrating a multitude of theoretical perspectives and diverse literature streams. The various theoretical concepts and relationships underlying ITT are systematized in Figure 4.3, which provides an integrative framework that highlights the main building blocks and outcomes of ITT and explains how firms can develop new products by leveraging knowledge from the past.

We integrate different streams of research into this framework. First, the dynamic capabilities view (Helfat & Peteraf, 2003) suggests that ITT is based on two key capabilities: interiorization and reinterpretation. Interiorization allows assimilation and sharing of knowledge pertaining to the firm's traditions or the traditions of its territory across the entire organization, as reflected by the different forms of codified and tacit knowledge used to develop new products. Reinterpretation allows the combination of selected forms of past knowledge with up-to-date technologies to develop new products. Second, research on temporal search in innovation is used to identify the sources from which past knowledge, the idiosyncratic resource at the heart of ITT, can be searched and retrieved (Messeni Petruzzelli & Albino, 2012). Furthermore, knowledge management and organization studies suggest that, when firms interiorize past knowledge, this can take

different forms, both codified and tacit, that feed the product innovation process (Cowan, David, & Foray, 2000).

Finally, innovation research suggests that, by combining codified or tacit forms of past knowledge with new technologies, it is possible to elicit two different types of product innovation strategies: an innovation of functionality or an innovation of meaning (Veryzer, 1998). Figure 4.3 also points to several emerging themes that have been under- researched or addressed only in a fragmented way across different research streams.



**Figure 4.3** Innovation through tradition. Source: Academy of Management Perspectives, 2016.

#### 4.4 The Innovation Cycle

According to different authors, the innovation cycle is composed of seven stages (Exhibit 6) that are interconnected and continuously evaluated and adapted to new objectives. The seven steps are the following:

1. Strategic thinking: during planning activities, managers determine their current and potential strategic advantage on competition and this will guide their entire innovation process. In family firms, this stage is usually located at top levels: managers of a certain age, planning may be hard to realize, while with younger

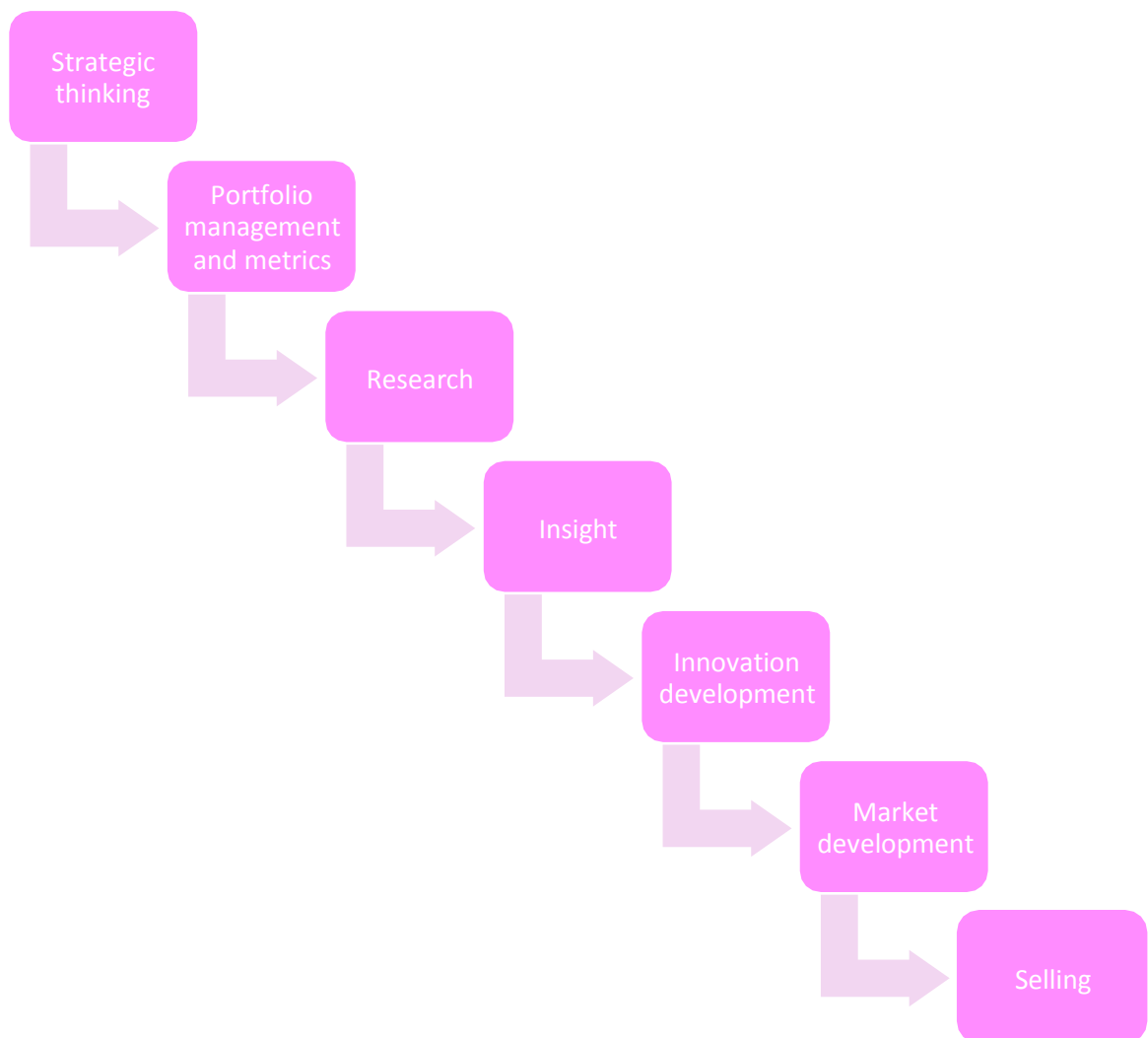
successors it may be easier;

2. Portfolio management and metrics: in this phase, managers assess innovation's risks and rewards in order to decide, in advance with a certain level of accuracy based on forecast, if and how to proceed with innovation processes. In family firms, a clear view on time and monetary investment must be shared at this stage, in order to be able to move towards the same objectives;
3. Research: by analyzing the current situation, gaps to be filled are found: they represent the areas into which the company has to put all its efforts to meet those unsatisfied needs that create a strategic vacuum. In family firms, due to scarcity of resources, this stage appears to be very costly, but can produce great outcomes if targets are shared;
4. Insight: in this strategic development area, there comes a time when the right value proposition is ideally created for the right customer in a way that strongly indicates the path to follow. Family firms, at this point, act as creators of both needs and solutions;
5. Innovation development: this is a multi-disciplinary process, which includes design, engineering prototyping and testing, that aims at obtaining internal and external coherence, among objectives and needs. In family firms, a hard decision has to be taken regarding this phase: should they rely on external partners and outsource some of the most expensive activities or not?;
6. Market development: when the new product/service is ready to hit the market, branding it comes next. Creating curiosity and attracting existing and new potential customers appears to be a good start for novelty. At this time, family firms have to



put their greater efforts to create a solid foundation to obtain high returns;

7. Selling: this is the moment in which the implemented innovation realizes its payoff and quantitatively shows the economic return and value of both the innovation process and the innovative output. Here is the point where either family firms face success or undergo failure.



**Figure 4.4** Innovation Cycle. Source: Author's elaboration.

This cycle can be concluded successfully with the creation of a needed and profitable innovation or it can be interrupted at any stage, if difficulties or impossibilities arise. In this case, according to the stage in which the company is operating, different expenses may be faced: at the beginning of the cycle, not much is at stake, but after researching and prototyping, a lot has been invested and it seems to be late and hard to go back and correct mistakes with small economic damages. To partially solve this issue, family firms could be willing to collaborate with other firms (family-managed or not) by establishing partnerships to share risks, costs, benefits and earnings.

In conclusion, it is better to carefully carry out and evaluate each stage in order to have safe foundations to build on and avoid going behind facing high costs (Langdon, 2011).

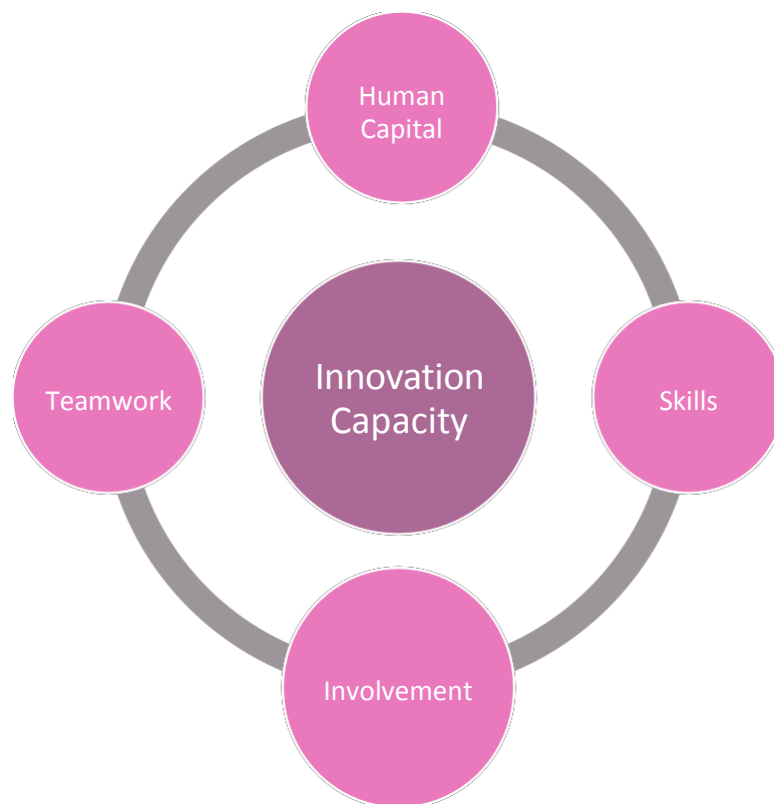
#### **4.5 Enhancers and Drivers of Innovation Capacity**

Generally, the antecedents of innovation in family firms are structured as a continuous process (Beck et al., 2009) influenced by the following factors: characteristics of the firm, environmental factors and characteristics of the organizational members. These three elements all have influences on innovation capacity, which determines the organizational performance. So, we can group drivers as technological aspects, such as Research and Development, and human aspects, which include:

- Human capital: it stresses the fact that social practices and people themselves are the very determinant of success and innovation (Craig and Moores, 2005).
- Skills: knowledge, intellectual capacity, competences, abilities and capacities lead to change and interpretation of change, to be read as innovation. Usually, in family

firms, staff turnover is lower than in non-family firms and this acts as a conservation of these drivers in the long term.

- Involvement: human resources practices and policies need to encourage workers' interaction with each other, foster their change attitude and exploit their talent (Price et al., 2013).
- Teamwork: adaptation of skills and high innovation capacity is created thanks to horizontal relationships and cross-functional projects, which are able to develop trust within the firm, reduce obstacles and share knowledge.



**Figure 4.5** Drivers of innovation capacity. Source: Author's elaboration.

Family businesses have unique advantages that trigger innovative thinking: firstly, trust and personal approach that drive information and knowledge flows within the firm

and lead to fast implementation and adaptation. Secondly, a mix of skills and ideas is possible thanks to the coexistence of diverse generations of family members (Zahra, 2005). Related to this factor, Beck et al. (2011) stress that “*later-generation family firms show a lower level of innovation*”: this can be explained with the greater conservativeness of new generations and their objective to preserve the family legacy and wealth. However, many statistics do not agree as they tested that the greater amount of innovation contribution by family businesses, probably because of sample, methodology and measures under evaluation. Lastly, the typical traits of family firms allow to quickly implement changes, as fewer processes and people are involved (Bernard, 2014).

#### 4.6 Measures of Innovation

Langdon (2011) states that, across the whole innovation process, there are at least 92 different metrics to measure innovation. This unbelievable amount seems to be very hard to calculate and handle for all types of companies, especially for family firms that are broadly recognized for their simplicity and low formalization. Kolk et al. (2012) summarized the most common innovation indicators as shown in the table below.

**Table 4.1** Innovation Indicators

AIM/MEASURE	Input	Process	Output
<b>Financial Return</b>	Absolute expenses, relative expenses (as percentage)	Productivity, speed, forecast	Revenues, growth, expenses, margins
<b>Competitive Advantage</b>	Clear innovation targets	Third-party collaborations, network development,	Market shares, product/service performance, targets

		relationships establishment	perception
<b>People development</b>	Skill levels, time invested, dedication observed	Within-firm collaboration, horizontal tasks, process excellence, workforce satisfaction	Skill improvement, competency development, retention rate

Especially in the field of Human Resources, family firms develop relationships with their workforce that do not require formalized survey or evaluation systems. Furthermore, “competitive advantage” indicators appear to be daily matters in multinational companies with millions of revenues. As a result, some of these indicators may be useful in family business, but the majority is not suitable for the specific structure we are working with.

An indicator that does not require addition accounting systems, comes from tradition accounting, goes from financial measure to performance indicator and allows alignment of decisions is the RoPDE (Return on Product Development Expense) as presented by Malinowski et al. (2011).

#### **4.7 Family Firms and Innovation Capacity**

After these independent and descriptive chapters, it is now time to combine the two key factors, content of this paper: family firms and innovation capacity. Family firms are seen as the most innovative economic entities, statistically speaking (while keeping in mind some contradictory results), thanks to the fact that they are able to combine their best practices to create novelty.

Planning should be seen as a way of predicting difficulties and being flexible even before the moment it becomes necessary. Innovation is flexibility, rooted in a combination of new fresh ideas (coming from family and non-family members encouraged by open-minded and autonomy-granting HR policies) and risk-taking attitude (as this kind of investment is extremely unpredictable due to the dependence on market's response). Even with scarcity of resources, family firms have all the inputs to successfully create innovation and increase their innovation capacity. However, there are some aspects that have a double face: successors, for example, contribute with higher-level education, newer skills, but fear the threat of failing and losing the firm founded by their fathers. Moreover, human resources play a crucial role as they start the innovation cycle creation, they operate to realize all steps, they evaluate and improve the obtained results; in addition, partnering with external entities (universities, study centers and/or other firms) supports the development of a knowledge network, thanks to which family firms can share their innovative projects by cooperating with others, in terms of monetary resources and people's capabilities.

In the following, theoretical features about the relationship between innovation capacity and family enterprises are presented, pausing on advantages and disadvantages of being a family firm and on ways to sustain innovation.

#### **4.8 Innovation in Family Businesses**

As already mentioned, innovation is crucial for long-term success and adaptation to the market's requests. Within a family firm, the willingness to create a legacy together with the long-term orientation provides a positive environment into which promoting inventions

and innovation. This grooming possibility is supported, as well, by the fact that family enterprises are associated with the concepts of stability and low-risk development. On the other hand, these businesses are strongly dependent on their own self-financing ability and on their personal wealth invested in the company. Low levels of financial resources, which cannot be enlarged due to high debt risks and costs, reduce the innovation capacity of a firm, as not much research can be carried out and small projects usually lead to small results. However, competences possessed by key talented employees, both family and non-family members, provide all necessary capabilities to create something new, which unfortunately, cannot be totally realized due to lack of resources. In addition to this economic aspect, tradition may act as a deterrent for innovation, as both old and young generations prefer not to risk their company, by refusing possible higher profitability returns, and are more likely to stay in their comfort zone (Floris et al., 2013).

#### **4.8.1 Advantages of Family Firms**

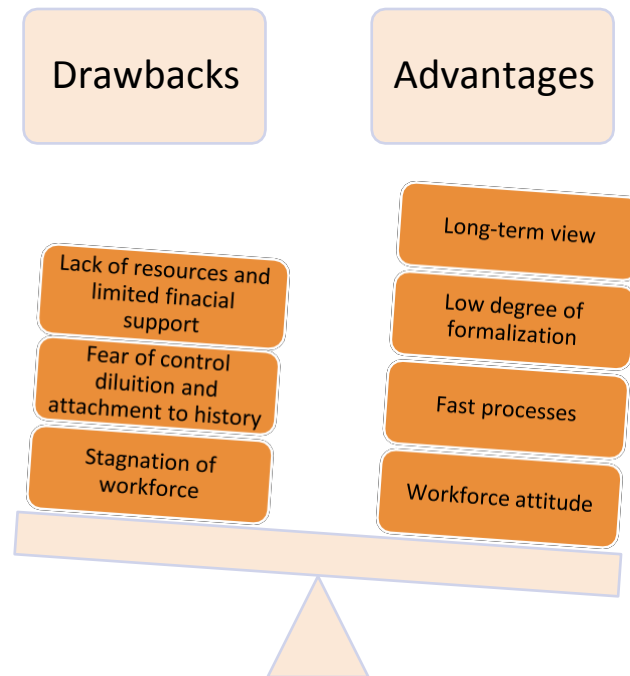
Innovation in family firms is supported by presence of some assets, typical of this form of enterprise. The following represents the strengths possessed by family businesses in innovation development: long-term view, formalization and workforce attitude. As previously cited, long-term orientation provides patience and careful allocation of scarce resource. Patient capital, defined as *“the ability to invest money in a project that will take years to develop and give outcomes”* (Nasser, 2013), goes along with long-term view and form a competitive advantage based on risk aversion and long-term investments. Another advantage is the low degree of formalization and the consequent decision-making principles. Thanks to their flexible structure and processes, family businesses can quickly decide, react and adapt to new unexpected changes coming from the external environment.

In addition, decisions are taken by very few people, who are able to convince employees to adhere to their view, and this brings to unplanned and fast processes. Finally, low turnover rates and relationships with key employees support the creation of another competitive advantage: the conservation of tacit knowledge and talent needed to initiate and continue an innovation creation process. By sharing a family firm identity, workforce becomes more loyal to the business and is willing to put efforts in innovative projects.

#### **4.8.2 Drawbacks of Family Firms**

The other side of the coin is represented by disadvantages of being a family firm when talking about innovation capacity. The lack of resources and the availability of limited amount of financial support reduce the monetary possibility to run trials, try, implement, evaluate and readjust any sort of expensive innovation. Family managers fear the dilution of control: therefore, they prefer to invest less in innovation, but continue their legacy and maintain their power on crucial managerial decisions. Emotionally speaking, feelings and attachment to their history act as an intangible and invisible obstacle to face. “Myopia” is a big risk for family firms, as managers glorify their past successes and do not see the need and opportunity for new one and innovative change. Older generations suffer from this problem, while younger ones may be driven to change and to the creation of something new, starting from what their predecessors left them. Finally, uniformity and stagnation of workforce and related skills lower the innovation-driven view, as fewer ideas are suggested and radical advances are seen as shocks to be avoided.





**Figure 4.6** Advantages and Drawbacks of Innovation. Source: Author's elaboration.

#### 4.9 The Increase of Innovation Levels

Family firms are characterized by specific factors that act as both advantages and deterrents to an increase of innovation capacity. Some of these, such as familiness, tradition, internal relationships, cannot be easily changed; but others can be improved. Formal collaborations and information exchanges with other family firms in the same sector may give rise to new needs, new possibilities and new chances of cooperation to balance resources and risks to obtain an innovative result. Diversity within the workforce, especially when talking about R&D-linked positions, needs to be pursued: fresh ideas and visions, flexibility, out-of-the-box ways of thinking can only be beneficial from an innovation point of view. Long-term view and decision-making processes allow family businesses to quickly respond to external changes and needs: for this reason, managers should leverage on these competitive advantages to boost innovation.

#### **4.10 The Importance of the Past and Improvements**

Family firms need to have clear in mind the fact that they already have some sort of competitive advantage on their competitors, especially bigger non-family companies. According to Nasser (2014), family firms' managers can positively outperform other types of business' innovation performance because:

- Path dependence is not a strong obstacle: in large enterprises, driven by profit-based objectives, the common practice is to repeat all successful maneuvers, with the risk of becoming tied to the same decisions taken in the past, even when circumstances are different and what worked in the past is not likely to be successful in the present or future. On the other hand, family businesses are less path dependent (we highlight the contrast with the “Myopia” concept previously expressed) as they recognize the fact that every day is different from the past and that the external environment can act as both a support and an obstacle, changing the outcome of their decisions. Family managers are aware of the fact that, if a project was successful in the past, it is because of its time frame and contingent situation: the same project, in a different situation, may lead to a complete opposite result.
- Sustaining innovation is preferred to disruptive innovation: large companies, outside the family context, are more likely to introduce disruptive innovation, i.e. redefining value proposition from the scratch. These businesses operate in a short-termed environment and are continuously put under pressure by stakeholders, especially those who have financial interests (e.g. lenders). Family firms, due to their relatively smaller financial capacity, are more driven towards sustaining innovation, definable as an improvement of an existing product or service. Adding

some value to an offer that proved to be well-accepted by the audience appears to be a safer investment: lower research and development costs have to be faced, implementation has already strong fundamentals to support the innovation, and there is a bigger chance of recognizing the adjusted value proposition instead of introducing a “disruptive” new offer. In addition to this, family enterprises experience a weaker stakeholders’ pressure on final returns, as their external dependence is circumscribed, and a longer-termed vision, in which outcomes do not have to be obtained in a few months, leaving time to customers to absorb and accept the new idea.

The same author (Nasser, 2013; Nasser, 2014) suggest that successful innovation is the result of the combination of the following elements: innovation, fast execution and trust among stakeholders. In family firms, it is assumed that strong ties and stable long-term relationships, within and outside the business, increase the level of trust between stakeholders of whatever category (employees, who become “part of the family”; communities, who act as providers and obtain some return by the firm’s activities; suppliers, who establish reliable networks with family enterprises). However, innovation and fast execution still remain an issue, if they are not supported by an internal culture oriented to innovation and change. This collection of beliefs and values can be modernized by younger generations that can drive the family heritage towards a lower risk-reluctance attitude and a higher willingness to boost innovation. This change is possible only if successors are able to inspire key employees to allocate time and resources to innovation and new ideas, as motivation is hard to impose because it is groomed more inside, to be applies to any organizational function, not only product development.

#### **4.11 Sustainable Innovation**

Key functions should employ people with different backgrounds, both in terms of ethnic origins and working experiences. This hiring practice sustains innovation as previous jobs and positions covered helped develop a series of combinable and cross-functional capabilities that enlarge the perspective and add freshness to closed mentality. Ethnic origins, as part of cross-cultural management, definitely occupy a top priority if the aim is supporting innovation: different cultures can introduce diverse attitudes and ideas that are strongly linked with their personal backgrounds and can round off the corners of some limitative cultural dimensions, such as certainty avoidance and long/short-term orientation.

Another asset for innovation is to partner with other businesses, with the explicit aim of innovating and creating something new. This is particularly common in industrial districts, where companies work together by recognizing a higher value and priority to the collective result, instead of the individual firm's performance. Partnering with others reduce costs, but allows collaboration and roots in a shared purpose, from which all partners will take advantage.

Furthermore, people and processes must be aligned: employees have to be engaged and encouraged to begin new projects, as questioning everything should become a rule: taking everything for granted and without questioning if something more or better could be done represents the disappearance of innovation. In addition to this, processes have to be optimized and updated, so to avoid impediments to new opportunities.

All these factors can be found in Re et al.'s paper (2013) as well and are grouped in two different, while interdependent, processes: the "structured process" and the "family

process”. Within family businesses, these processes proceed along the same path, with a constant flow of information, and lead to the creation of innovation in a so-called “traditional” environment. The family process starts thanks to the creativity and courage of the family leader, i.e. the founder or his/her successors, to shape their own opportunities to address the market. The leader does not act like a dictator, but he/she provides the starting point to work on, together with family and non-family members, with the aim of creating innovation and maintaining culture and values at the same time.

The structured process is a more formal and complex activity, as the innovation cycle goes through all stages: brainstorming, selection of ideas, development of ideas, analysis, prototyping, testing and selling. This process finds its starting point from the collaboration of key employees in the firm, without the main idea coming from the top of the hierarchy. However, even if these processes are different, they appear to be compatible with one another, thanks to the fact that knowledge sharing is promoted. A continuous flow of information among all people within the firm provides access to the entire business’ knowledge and this allows the success of both processes in the accomplishment of their innovation objectives.

Innovation is a long process. A long-term process can be successful only if it is planned to face risks and unexpected events, and if it is supported by an innovation-driven culture. Family firms appear to be a positive environment in which innovation can grow as young generations are more likely to face challenges and are less dependent on past decisions, failures and successes. In addition to this, human resources policies rely on diversity and freedom, considering non-family members as precious resources to be exploited both in decision-making processes and operational activities. However, the key

factor that leads to the success of innovative projects in family firms is the combination of familiness and culture. These two features match with the philosophy of family enterprises to accept differences and follow them to encourage change. Although there is not a one-best way to foster innovation capacity in family firms, we assume that these economic entities are the real leaders in innovation. Despite the scarcity of monetary and financial inputs, family enterprises have all the right features to drive innovation and have the ability to figure out the best combination of costs and benefits to reach their goals.

## CHAPTER 5

### INDUSTRIES

#### 5.1 Family Firms Examples

This chapter aims to analyze some of the most famous Italian family businesses worldwide. It focuses on explaining their history, illustrating how the firms evolved through time, and their innovation strategies. By doing that this dissertation tries to highlight the aspects that helped the most this companies to remain competitive in a global economy.

#### 5.2 Barilla



**Figure 5.1.** Barilla's logo. Source: Barilla's website.

The first firm we decided to take into consideration for this study is the most well-known Italian pasta brand all over the world, Barilla. In almost any country it can be found on the shelves of its markets and it is famous for the quality of its products. It is a family

business started by Pietro Barilla.

### 5.2.1 History



**Figure 5.2.** Pietro Barilla. Source: Barilla’s website.

In 1887, Pietro Barilla opened a bread and pasta shop in Parma. From 1910 to 1947 Pietro’s sons, Riccardo (1880–1947) and Gualtiero (1881–1919) at the helm. Barilla’s industrialization began. In 1910 the first factory was built: 80 workers produce 8 tons of pasta and 2 tons of bread per day thanks to innovative “continuous baking” oven. In 1910 there was also the first trademark by sculptor Emilio Trombara. In 1936 it started the commercial network development by Pietro, Riccardo’s son who introduced innovations in pasta production such as 6 continuous presses – for the first time, combining the functions of a mixer, a kneader and a press. In 1937 it was the time of nutrition innovation.



Barilla launched the Phosphine pasta, enriched with phosphorus, the ideal dietary food for a critical period in Italy.

During the period 1947 - 1971 Gianni and Pietro Barilla – Riccardo's sons – were at the helm. Barilla strong development in Italy began. In 1947 Gianni and Pietro Barilla changed the organization of the company dividing up their tasks. Gianni took the manufacturing and administration, while Pietro managed the sales market, advertising and public relations. In 1950 intellectual curiosity pushed Pietro to travel to the United States in search for the most innovative techniques on packaging, marketing and mass distribution. While Gianni, together with Manfredo Manfredi, gave the company's technical innovation a new push, with the new cardboard packaging. A courageous business choice was perpetrated in 1952: the traditional fresh bread bakery was closed to further develop the brand's presence in the pasta market. Innovation in communication was further developed with the partnership with graphic artist and famous architect Erberto Carboni. Barilla entered the packaged bakery products market for the first time in 1965, with the production of breadsticks and cracker in the new bakery factory of Rubbiano (near Parma).

From 1965 to 1970 in was a time of expansion of the company and innovative advertising. Innovative and impactful communication was improved thanks to Mina's participation (the most important Italian singer), more than 60 clips for 'Carosello' were shown on Italian TV. In 1969 the largest pasta production plant was built in Pedrignano (Parma) that counted more than 120 meters of production line, producing 1,000 tons of pasta a day.

1971 – 1979 was the American period with W.R. Grace Group. Barilla became American, but the company managers remained and continued the strong development that was began at that time. 1973 was the year Voiello (another well know pasta brand) became part of the family and Barilla continued to grow in the market with its acquisitions. Two years later, in 1975, thanks to the extraordinary collaboration with Giò Rossi, Barilla creates a new range of products that meet the need to “return to nature” in those years: a reassuring return to the “good things of the past”, like the launch of Mulino Bianco.

Pietro Barilla was suffering for the loss of his company, he said.” *During those years...I was a man who was suffering for different reasons, but the most important one was that I had abandoned the “ship” that had been entrusted to me and on which I had sailed until the age of 58...*”. So, between 1979 -1993 Pietro Barilla came back to the helm. Barilla was managed by the Grace company until 1979 when Pietro Barilla succeeded in buying back the company, which since then has always remained in the hands of the Italian family.

In 1979 Pietro Barilla managed to buy back his company and continued his innovative approach in communication with advertising spots by famous directors such as Federico Fellini and cartoons like Mulino Bianco’s Little White Miller. Other important steps in the industrial development where made in 1991 with the trademark acquisition of Misko, the leading pasta brand in Greece, and the acquisition of Pavesi, historical brand specialized in the production of cracker and biscuits from Novara (Northern Italy), in 1992.

From 1993 until today Guido, Luca and Paolo are at the helm of the company. Barilla began a strong internationalization. It was implemented with a series of acquisitions, starting with Filiz, a top pasta brand of Turkey, in 1994 and going on with

Wasa, a leading crispbread brand in Northern Europe, in 1999. During the same year there was the inauguration of the first US plant in Ames, Iowa. Barilla continued to expand itself with a joint venture with Herdez top pasta company in Mexico, Vesta e Yemina,(2002) and the acquisition of a top soft bread brand in France Harrys (2003). In 2004 we see the inauguration of Academia Barilla: an international project devoted to safeguarding, developing and promoting the regional Italian gastronomic culture as a unique world heritage.

2007 it signed the beginning of a new plant: in us expansion continues with a second pasta plant in Avon, NY. In 2009 Barilla launched a center for food and nutrition la. The BCFN was created to better understand and share knowledge about the food chain, from production, to waste, consumption and sustainability. It's an international, multidisciplinary center of high-level experts who tackle complex issues and translate them into simple messages and proposals.

2012 saw the inauguration of Rubbiano Sauces Plant the first Pasta Sauce Plant in Italy, in technologically advanced, high potential, efficient and sustainable facility. Barilla decided to entry in the in the Brazilian market in 2013 with a dedicated product range. Whereas 2014 new gluten free was launched across the world.

2015 started with the inauguration in Chateauroux where opened the biggest plant of industrially produced bakery product in France, at the forefront for efficiency and environmental performances. Also, the first wheat transport train was created arriving at the barilla plant in Parma. 2016 Barilla launched a policy which stated, "*good for you good for the planet*". The company continued to improve the nutritional profile of its products, replacing palm oil in its bakery portfolio and expanding the range of whole grain products.

The new Bio/Organic Pasta was launched on the European and US markets: 100% selected durum wheat from organic farms. In the same year 3D pasta was created. A shape is drawn on the computer, then the information is transmitted to the printer that materializes it using dough instead of ink.

In 2017 Barilla celebrated 140 years of its history and journey. For 140 years Barilla is passionate about pasta, from the field to the table, and it is committed to bring people the best experiences: high quality and great tasty moments, preserving our planet. The current owners said about this: *“we consider the company’s position not as a personal privilege, but as a responsibility for the transmission of values, behaviors and skills that must be nurtured over time for the generations to come”* ( Guido, Luca and Paolo, Barilla).



**Figure 5.3.** Barilla pasta plant in Parma. Source: Barilla’s website.

### **5.2.2 Innovation**

It is commonly acknowledged that the topics linked to environmental impacts, economies, and peoples' health and nutrition are closely interlinked: in this respect there are great expectations of positive results, but the large amount of work to do cannot be dealt with by the individual supply chain players, if they are not part of an overall project.

Thanks to the contribution of all its people, Barilla is committed to its responsibilities and collaboration with Governmental and non-Governmental organizations with the purpose of promoting and then working on a shared path.

Barilla recorded another year of growth in 2016. In its “meal solutions” category they grew ahead of the markets and a special mention goes to its sauces business with a strong top-line performance.

Whilst replacing palm oil in its complete portfolio, indeed, they ensured in the “bakery business” in Italy, even if they reinforced their presence in France. They continued their geographic expansion in developing economies: Brazil, Middle East and Russia. And, furthermore, they entered in Kingdom of Saudi Arabia. They continued to grow their presence in all strategic channels: brick-and-mortar, on line, food service, clubs and restaurants. Regarding restaurants, last year it was opened the first Barilla Restaurant outside the USA, offering the inhabitants and visitors of Dubai the very best in authentic Italian food.

The strategy is not going to change. Barilla is driving value and premiumization of its categories through personalization, wellbeing and convenience. “Ruthless execution” is

a commitment in each store that hosts them, with a strong attention for quality and food safety all along their value chains.

They are setting an unprecedented investment plan to update their industrial assets and support their growth ambitions. Barilla is carrying on its “Diversity and Inclusion” path and “Good for You, Good for the Planet” journey: the strong tangible components that will make the company even more distinctive in the future. In order to translate this into reality, first of all, making tangible good choices in all its markets, along all its value chains and for all its stakeholders. And, secondly, translating them into a perceived value for consumers, shoppers and all the business partners.

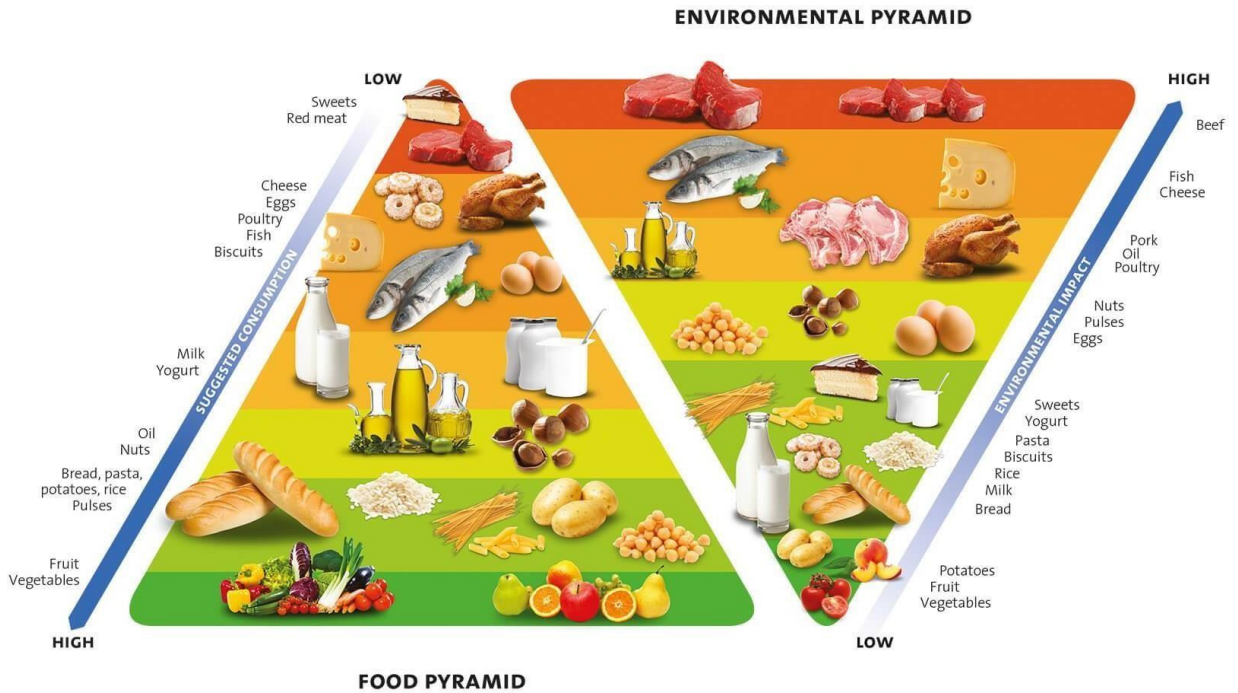
In 2016 this has been clearer than ever: the palm oil ingredient was replaced in every product of the Italian bakery portfolio. Barilla believed this was the right thing to do, completely aligned with their “Good for You, Good for the Planet” strategy. Their priority, in fact, is always to offer consumers products that are everyday “better” for their wellbeing.

Through the palm oil replacement, it has been significantly reduced the saturated fat of the bakery range and, in few months, provided people with a healthier and more sustainable choice. Barilla is part of a broader commitment set by the United Nations in 2015. They have the responsibility to promote and make progress towards a Global Agenda and its 17 Sustainable Development Goals. This can only be done through open collaborations with many other actors: by considering themselves a company “open to stakeholders” and by being keen to receive suggestions and set many collaborations to improve their paths.

Also, in 2016 the Human Rights Council has awarded Barilla America, for the third time in a row, with a score of 100% in the “Corporate Equality Index”. According to the

Business Benchmark on Farm Animal Welfare, moreover, Barilla confirms to be the highest ranking Italian company. In Italy the Procurement Awards 2016 provided them a special mention for the “Sustainable Agriculture” project on durum wheat. Barilla believes these accolades are the mirror of their commitments, reached only through a robust engagement of all their partners. Finally, Barilla is committed in working to guarantee transparency of their efforts and traceability of value chains for all the consumers and shoppers more and better.

In order to improve their innovation Barilla developed in 2009 (by the BCFN foundation), the Double Pyramid. It shows that food choices play a key role for our wellbeing and for the environment. In the food pyramid food is located based on the recommended consumption frequency, established according to the correct nutritional balance defined by the Mediterranean Diet. At the base of the pyramid there are foods of vegetable origin, rich in nutrients and protective substances, such as vegetables, pulses, fresh and dried fruit, and cereals, half of which whole grain. At the top of the pyramid there are instead foods with a growing energy density that should be consumed less frequently, including fish, white meat and dairy products, and finally, the products, such as sweets and red meat, for which a more moderate consumption is recommended.



**Figure 5.4.** The Double Pyramid. Source: Barilla’s website.

The production and consumption of food however does not only affect the wellbeing of people, but also the quality of the environment surrounding us. For this reason, in the environmental pyramid, foods are classified based on their ecological footprint, defined in terms of use of water, CO2 emissions and consumption of natural resources.

The model indeed shows that the foods with low environmental impact are the same for which a more frequent consumption is recommended, whereas foods with a higher environmental impact are the ones that should be consumed with moderation.

Barilla is committed to bringing wellbeing in people’s lives through the development of good and safe products, using quality ingredients and thus offering flavors that draw inspiration from the balanced Mediterranean Diet. This dietary model is characterized by high content in fruit, vegetables, pulses, whole grain cereals, fish, dry fruit



and low animal fat content. But even more, it is a lifestyle characterized by correct eating habits, combined with a regular physical activity and a convivial consumption of food.

Scientific research has confirmed the benefits of the Mediterranean Diet on the health of people. If strictly followed, it indeed reduces the risk of cardiovascular diseases, it protects from diabetes and obesity, and it can contribute to a longer and healthier life.

Pasta is one of the pillars of the Mediterranean Diet, but what many people don't know is that, due to its natural qualities, pasta can be a daily choice for one's wellbeing. This is so because pasta is naturally low in sodium and fat, as long as you do not exaggerate with salt for cooking or dressing. And, unlike what many people think, pasta doesn't make you fat. It's the other way round. The type of starch contained in pasta is turned into sugar by our body more slowly compared to other foods, therefore pasta makes us feel full for longer.

This is the reason why in the United States Barilla has been running the "Passion for Pasta" campaign for two years, with the purpose of providing consumers and stakeholders correct and transparent information with the support of scientific organizations and international experts.

However, Barilla offers products of daily use in all its portfolio, constantly focusing on the nutritional balance and seeking excellence in taste. In particular, since 2009 the "Better Nutrition" project has been implemented to develop new proposals and reformulate existing products. For this purpose, Barilla is following a series of nutritional guidelines, i.e. indicative values on the content in sodium, fat calories and sugar for every type of product. These guidelines have been defined thanks to the collaboration with the Nutrition

Advisory Board, i.e. a group of scientists that belong to internationally known organizations, which support Barilla in its improvement process.

As part of the program for reformulating existing recipes, since 2013 Barilla has been focusing on the reduction of fat. So, in 2016 by replacing the palm oil used in recipes with sunflower oil it improved the nutritional profile of bakery products. In one year, they managed to remove 4,350 tons of saturated fat from more than 150 recipes.

Through the “si.mediterraneo” project, developed in collaboration with the Department of Clinical and Experimental Medicine of the Federico II University of Naples and the contribution of the Barilla Nutrition Advisory Board, Barilla promotes correct eating habits in order to favor the knowledge and adoption of the Mediterranean Diet Model. Initially developed as a project dedicated to the education and involvement of Barilla People, today Barilla is working to make it part of the Group’s offer as it is always committed not only to guaranteeing quality products, but also to promoting a healthy and sustainable lifestyle.

The goals that Barilla choose to pursue even in the coming years is, first of all, offering people “simple” food: enhancing the origin of the raw materials, the naturalness of the recipes and the simplicity of the ingredient list. Furthermore, designing products and packaging that satisfy the new needs of wellbeing of consumers who have increasingly more urgent obesity problems. And, finally, continuing working on food quality and safety aspects: a priority in our sector.

Another aspect that is imperative to consider is to manage the impact on the Planet in an effective way, considering the entire value chain: from suppliers to customers. This is why we hear about “integrated supply chain” at Barilla, i.e. purchasing, production,

logistics and distribution must be analyzed and managed as a whole, with the aim of working synergistically and optimizing actions. As a consequence, products are analyzed from field to table. The life cycle analysis has shown that the most significant impact on the environment occurs during the cultivation of the raw materials in the fields and, for pasta-based dishes, during cooking. For years Barilla has thus committed to playing an active role along the supply chains of the main ingredients. In particular, in developing projects to promote more sustainable agricultural practices, including in terms of efficiency, for people, the Planet and the community in collaboration with suppliers and academic partners worldwide.

In addition to this, plants production are rigorously controlled, reducing - year after year - greenhouse gas emissions and process waste. Finally, Barilla carefully manages its logistic processes to render transport increasingly more sustainable. The environmental performance of its production plants is achieved by using cogeneration plants, energy saving projects and the selection of energy suppliers using renewable sources.

The production plants of Celle in Germany and Filipstad in Sweden use electric power purchased from providers who can certify the origin from hydroelectric sources. For the brands Mulino Bianco, Grancereale, Pandistelle and Barilla sauces, it is used GO certification (Guarantee of Origin) to confirm the origin from renewable sources of the power used for production. In order to create “Sustainable Agriculture” Barilla has put in place a “Sustainable Agriculture Code”. Through the Code they have defined the principles that guide the choice of more sustainable cultivation systems, i.e. more efficient, capable of leading to high quality and safer agricultural produce, protecting and improving the environment, and the financial and social conditions of farmers.

The “Sustainable Agriculture” projects today account for 80% of the volumes of raw materials purchased by the Group. That means all the strategic supply chains: durum wheat and semolina, common wheat and our, rye and rye our, tomato, vegetable oils and eggs.

In particular, the Code is based on five principles: 1) pursuing the efficiency and competitiveness of production system; 2) integrity and respect of Barilla’s Code of Ethics; 3) quest for quality and food safety of the raw materials; 4) reduction of the environmental impact of cultivation and 5) listening to partners and working with them for continuous improvement.

Barilla uses about 24,000 tons of eggs every year, coming from almost 2 million hens. And more than 2,500 tons of meat. For this reason, it is important to define the Guidelines on Animal Welfare to ensure that any animal involved in the supply chains is respected and can enjoy primary freedoms. This means freedom from hunger and thirst; from pain, injury and disease; from fear and distress; freedom to have a suitable physical environment and, finally, to express normal species-specific behavior.

Barilla believes that keeping hens in cages is a harmful practice for their wellbeing, and therefore it has decided to progressively abandon it along the supply chain and to use exclusively eggs from cage-free hens by 2020. The suppliers of meat for the production of sauces and stuffed pasta signed the Guidelines in 2015. Today 100% of the pork and beef supplies for sauces and stuffed pasta produced in Italy, i.e. 80% of the meat used by Barilla, complies with the guidelines. Furthermore, the Group does not use products made from farmed fish, but only tuna. All our tuna suppliers are Marine Stewardship Council (MSC) certified.

Their commitment to animal welfare has been recognized by the European Good Farm Animal Welfare Awards, organized by Compassion in World Farming. In 2011 and 2012 Barilla was given the Good Egg Awards with the brands Pavesi, Mulino Bianco and Le Emiliane for its egg procurement policy in Europe. In 2016 also, the Harrys brand was given the award thanks to the commitment to use exclusively eggs from cage-free hens. Finally, Barilla published a global position statement “No tests on animals”, i.e. the Group has committed not to test its products, or the raw materials used on animals and not to fund, commission, co-author or support in any other way animal testing.

As mentioned before, the priority is identifying more efficient cultivation systems in all the countries where Barilla does purchasing to reduce environmental impact and to improve the revenue of farmers. This applies to many raw materials and, in particular, to durum wheat. Since 2009 in Italy they have been developing a collaboration project with HORTA, a spin-off of the University Cattolica of Piacenza, to analyze different agricultural practices and identify the most sustainable ones. These have been translated into rules in the “Barilla Decalogue for Sustainable Durum Wheat Cultivation”. Furthermore, the company has put “Granoduro.net” at the farmers’ disposal, i.e. a support system for technical decisions linked to a meteorological network providing advice on how to plan and optimize cultivation practices. The project proved that greenhouse gas emissions and production costs can be reduced by up to 30% and production yields increased by 20% with improved revenue for the farmers.

In 2016 Barilla reached 190,000 tons cultivated in Italy in this way for a total of about 1,500 farms involved. This is why they obtained a special mention at “The Procurement Awards 2016”. In 2017 the firm aims at reaching at least 250,000 tons of

sustainable durum wheat, which accounts for 35% of our total requirement. By 2020 they are committed to purchasing 100% of their strategic raw materials in a responsible way and offering people only products at the base of the environmental pyramid because for Barilla what is good for us, must be good for the Community and the Planet too.

An advantage of being a family business is that is not just an economic entity, but rather a moral community with roots in its local area. For this reason, when we talk about “community”, we refer especially to all the countries where Barilla is present with branches or production sites. The strategy is favoring transparent and long-lasting relations of collaboration at a local level, but with a global scope, i.e. they are committed to disseminating the “values of food”, which are essential to help people live better, and adapting these values to reference geographies.

Overeating and using food badly can cause serious health problems in people; this is why Barilla has been active for years in promoting educational programs for the young, so that they learn about the importance of what they eat and how they live.

On the other hand, food security is a problem affecting a growing number of people both in continuing difficulty, and in emergencies. Barilla is thus committed to favoring social inclusion and food security for people in need, and to take immediate action to help people hit by natural disasters. Of undoubted interest is Giocampus, a project meant for kids and teenagers from 5 to 14 years of age, who live in Parma. It combines education on healthy eating and physical activity, and it raises awareness on the environmental impact of food choices. It is a public-private educational alliance between many institutions and companies that has involved more than 35,000 kids since 2009. The studies carried out by the scientific committee of the project have shown that the percentage of overweight

kids has diminished, the number of kids who eat fruit for breakfast and the number of kids who walk to school have increased.

But also, overseas projects have been designed to promote the education of younger people to healthy lifestyles and correct eating habits thanks to the collaboration with the American organizations Girl Scouts and Common Threads.

Barilla wants to be at the forefront to help. In Italy, for example, the collaboration with the Italian Civil Protection has been active for years. In 2016, following the devastating earthquake in Central Italy, the Mobile Unit and the Barilla Angels were active providing meals and donating food to rescue camps.

Inclusion of diversity is an integral part of their identity and it certainly represents a competitive advantage. In particular, Barilla wants to support all its staff, offer equal opportunities, respect trading partners and buyers, and embrace the differences between people acknowledging the richness that differences bring to our lives and to the company.

Lastly Barilla has come up with the idea of 3D pasta, called the “Smart Pasta”, which is still in its processing phase.



**Figure 5.5.** Barilla 3D pasta. Source: Barilla's website.

### 5.3 Mutti



**Figure 5.6.** Mutti logo. Source: Mutti's website.

The second firm we are considering is Mutti, mostly known for its tomato sauces and tomatoes in general. Mutti has established a very good reputation in its market field.



### 5.3.1 History



**Figure 5.7.** Marcellino Mutti. Source: Mutti's website.

In 1850 Giovanni Mutti created a sidereal system, which is now used in organic farming, taking into account the influence of the sun and the moon on plant cultivation. After many different experiments, Mutti (1804-1894) showed real innovation by applying the crop rotation technique to farming. This allowed the soil to recover its nutrients while cutting down on the use of both natural and chemical fertilizers. Crop rotation is an important practice in modern farming and is proof that the secret to exceptional tomatoes lies in ancestral countryside traditions.

In 1899 Giovanni's nephews Marcellino Mutti (1862-1941) and his brother Callisto (1870-1936), created the Fratelli Mutti company. The focus of the family's farming tradition began to shift towards manufacturing, but tomatoes were still processed using

artisanal methods, which gained in efficiency year after year. The burgeoning tomato industry had started to take root.

Ugo Mutti (1893-1980) was very young when he designed a process that would transform the family's farming business. In 1909 he suggested to his father, Marcellino, that they should create a small factory to produce tomato extract. The sous-vide cooking technique had only just been fine-tuned, and tomato concentrate, instead of being preserved in rectangular bars, could from then on be canned. This was a turning point for the future canned food industry, and the product was sold under the Mutti brand name right from the start. Known as "conserva nera" (black preserve), it was the forerunner of modern tomato concentrate.

1911 saw Marcellino Mutti registered his brand in the same year as an international exhibition celebrating 50 years since the unification of Italy. It shows two fighting lions, who appear to be protecting the first awards won by the brand, displayed in the center. These important prizes were a testament to the passion with which he produced his tomato concentrate. In a country where illiteracy was still the norm, it was essential for food companies to make their products stand out with a strong and simple image. This image had to be highly memorable and easy to recognize at the local shop.

Shortly after the start of tomatoes production, the quality of Mutti's products had already become legendary and Mutti began to receive its first prestigious awards. After the Medaglia d'Oro di 1° Grado (first grade gold medal) at the 1911 exhibition, came the Gran Croce award in 1914, an Italian distinction which was accompanied by an entry in the celebrated pages of the Gran Libro d'Oro dei Benemeriti del lavoro (Golden Book or Labor Awards) annals of history. As well as being a food product that was easy to store and sell,

Mutti tomato extract became the symbol of Italian gastronomic excellence. Since that time, countless accolades have singled out the quality of Mutti's products. They form the basis of the bond of trust that Mutti first established with its customers over a hundred years ago.

Concentrate has come a long way since it was first made in the form of "conserva nera", cooked in large saucepans for long hours and then dried in the sun. Thanks to the invention of sous-vide cooking, concentrate made its appearance, followed by double concentrate, and then from 1938, triple concentrate. The packaging also saw major changes: the large boxes used by greengrocers to sell concentrate to their consumers were replaced with smaller packs that were suitable for domestic consumption. This was how Mutti concentrate found its way into Italian kitchens, as well as into a great number of dishes. It enjoyed massive public success; people were now delighted that they could enjoy their favorite food all year round.

Italy suffered a severe economic downturn during the interwar period, which affected many food preservation companies in the province of Parma. Mutti's strategy ensured that it successfully maintained a steady business, so it decided to acquire the companies that were struggling the most. By saving these factories and their employees, the House was able to help many of the families in the region. It was a way of contributing to the life of the community. Businesses were purchased in quick succession until 1940. But the Second World war was fast approaching, and the expansion of Italy and its companies was once again put on hold.

These days, there is nothing surprising about preserving food in an aluminum tube. But in 1951 this form of packaging was synonymous of cream or toothpaste: the idea of putting tomato concentrate in a tube was a major revolution, both for the preserve industry

and for millions of Italian families. The idea was put forward by the enterprising Ugo and discussed during a family meeting. Ugo easily convinced the Mutti brothers to lend their support by testing a new production line specially designed for concentrate in a tube. Once people had overcome their initial surprise, they were won over by its practical nature and the money they could save. The concentrate didn't spoil, because it was no longer in contact with the air, and could be used as needed. In addition, the cap in the shape of a thimble was useful for housewives. The legendary "thimble tube" had arrived.

The enormous social changes that came about during the 1960s meant that women were reclaiming their time and making their entry into the world of work. This also meant that they had new requirements: food had to be more practical, so that less time could be spent in the kitchen without sacrificing good eating habits. Mutti anticipated these new expectations by designing new products such as Verdurine tomato sauce. This innovation by Mutti cemented the two-lion brand's role as a pioneer, and that it would continue listening to the needs of its customers in an ever-changing society.



**Figure 5.8.** Verdurine Tomato Sauce. Source: Mutti’s website.

The 1970s began with a spectacular turn of events, orchestrated by Ugo Mutti. He gave himself an ambitious objective: to make a fresh, ready-to-use product with a less watery consistency than peeled tomatoes. After several trials and with the help of an innovative cold-processing method, the tomato pulp was created. It is still Mutti’s flagship product today.

As soon as technology made it possible to use glass in the food preservation industry (1980s), Mutti began using this material, which is not only recyclable but also has good preservation properties and showcases the beauty of the product. This is how a range entirely devoted to tomato pulp came about. The decision was made by Marcello Mutti,

who took an active role in the company's development from 1965. Bottled tomato pulp became the catalyst for the food preservation industry on the Italian market.

In 1994, while the prestigious French gastronomy magazine Gault & Millau was extolling the virtues of Mutti tomato pulp across Europe, Francesco Mutti, Marcello's son, became the company's new CEO. He continued the family tradition by implementing innovative and bold ideas. He undertook a complete reorganization of the commercial side of the business, created a research and development unit, designed and launched new products while reporting success on new international markets. As the leader in the sector, Mutti continued striving to promote the sustainable development of its "made in Italy" product.

The first consequence of the "nothing but tomatoes" decision was receiving Certifications of integrated production from Check Fruit, in 1999. These distinctions were a testament to the balance between the incomparable taste of Mutti tomatoes, the quality procedures implemented to produce them, and the respect for the environment. This assessment encompasses all the stages in production and is carried out regularly to ensure the certification is retained in the long term. Two years later, production was certified as GMO-free. This brought another major guarantee for the customer in terms of taste and flavor authenticity for this staple ingredient in the Italian Mediterranean diet.

Fifteen years ago, Francesco Mutti decided to present the Pomodorino d'oro quality award to the farmers who achieved the best results in their tomato fields, producing fruit with optimal organoleptic and nutritional characteristics.

Mutti's passion for tomatoes and its continuing quest for innovation gave rise to ready-made sauces, launched in 2007. In its recipes, Mutti combines freshly processed

peeled tomatoes with a dash of concentrate to enhance the flavors. Through its partnership with WWF Italy, Mutti launched a research and analysis project to measure the impact of water and energy use in tomato production. The World-Wide Fund for Nature became an influential ally for the in-depth analysis of production processes and for pinpointing measures to reduce energy and water consumption.

In 2012, Mutti launched the Baby Roma sauce selecting the finest Datterini tomatoes to provide it for all year round. Followed in 2013 by the opening of the Fiordagosto Factory in Oliveto Citra, Campania. Through the recent years Mutti elaborated a new advertising campaign to tell its story effectively.



**Figure 5.9.** Tomato Production. Source: Mutti's website.

### 5.3.2 Innovation

Mutti decided to base its innovation strategy on the fact that its products are deeply rooted in the land where they grow. Respecting the land means not only protecting it, but also taking an active role in its development. On the strength of this conviction, Mutti fosters interactive relationships with the people, institutions and universities in the regions where it operates, to ensure a shared vision of the future. The firm carries out many different research programs that aim to control the use of resources and develop effective farming methods that have a low impact on the environment.

At Mutti are constantly working to reduce the water consumption of the production process. However, they are well aware that where they really need to make a difference is in the fields. Since 2010, Mutti has been working hand in hand with WWF Italy to help farmers find sustainable ways of cutting down on water resource consumption and carbon dioxide emissions. WWF Italy doesn't merely set objectives; the organization also helps farmers to analyze and check data so that they can understand where and how to intervene in order to reduce water consumption. For instance, they suggest using special sensors to measure the level of moisture in the soil and provide useful information for effective water consumption management. Mutti has invested in technology, training modules and technical assistance for farmers and producer organizations.

Another method to ensure the quality of its products and the right use they do of their lands is using guarantees and certifications. *“Protecting the consumer means first and foremost respecting the environment, and this is guaranteed by the certification of our products. Certification is evidence of our responsible behavior and it helps us avoid alternations and contamination. We carry out painstaking controls at each stage in the*



*tomatoes growth cycle, from farming to the finished product.*” Is Mutti’s proposition towards its products and consumers.

For over a hundred years, Mutti has been combining research and innovation to guarantee the optimal quality of tomatoes. This can be demonstrated through certifications which are invaluable, as it demonstrates that both Mutti and the farmers who grow the tomatoes are fully compliant with a series of very strict control procedures. Mutti is committed to overseeing plots of land and crop culture, analyzing tomatoes as soon as they arrive at the factory, applying the traceability principle to each batch of tomatoes and tracking the product right up to the delivery. In addition, Mutti ensures constant monitoring of the seeds used, the plants in the nurseries and the plantations in over 200 partner farming estates. In 2001, Mutti also received the certification to prove that there are no GMOs in its products. This significant documentation certifies the eradication of crop contamination, achieved through the checks carried out on the soil, plants, fresh tomatoes and finished products.

Mutti bases its progress and stability on the Italian market on three watchwords: quality, transparency and reliability. Dedicated to upholding these three principles and ensuring optimum quality standards, Mutti only uses tomatoes from Italy, selecting high quality raw ingredients and rigorously monitoring every single stage in the production process. This commitment to guaranteeing quality for customers relies upon a specific set of conditions: solid coordination with farming organizations and farmers, strict checks when tomatoes arrive at the factory, a very short waiting time for the batches, and finally, a way to reward the farmers who stand out for producing high quality tomatoes. Over ten years ago, this quest for innovation and quality led Mutti to launch a unique initiative,

whereby they award the Pomodorino d'oro (Golden Tomato) quality award to farmers who produce the best tomatoes for that season.



**Figure 5.10** Mutti's tomatoes. Source: Mutti's website.

The company encourages constant dialogue between institutions (the research centers and universities involved alongside WWF Italy), farmers, canning factories and packaging companies. The aim is to create a solid foundation of shared values to optimize each actor's contribution and translate the principle of respect for the land into tangible actions. This is how Mutti defines sustainability: a set of choices that give meaning to the word "taste". It is not simply a question of economic sustainability, without which no company can survive, but also of environmental and social sustainability. When you buy a Mutti product, you are not only choosing a high-quality ingredient, you are making a much more meaningful gesture.

## 5.4 Benetton



**Figure 5.11** Benetton's logo. Source: Benetton's website.

The third enterprise that this study takes into consideration is the United Colors of Benetton. Benetton is one of the oldest and most respected Italian clothing brand. Benetton Group is one of the best-known fashion companies in the world, present in the most important markets worldwide with a network of about 5,000 stores;

### 5.4.1 History



**Figure 5.12** Luciano Benetton. Source: Benetton's website.

In 1963, Luciano Benetton, the oldest of four children, was a 30-year-old salesman in Treviso. His initial small collection of sweaters received a positive response in local stores in the Veneto region, and soon after he asked his sister and two younger brothers, Gilberto and Carlo, to join him. In 1965, the entity known as the "Benetton Group" was formed. In 1969 Benetton opened its first store outside Italy, in Paris. Followed by the addition of Sisley in the group's brand portfolio, in 1974.

By 1978 the group's exports reached 60% of production, which led to the opening of the first New York City store, on Madison Avenue in 1980 and of the first store in Tokyo in 1982. The same year saw the collaboration with Oliviero Toscani begins.

In 1983 the group entered Formula 1 as sponsor of the Tyrrel team. Following the acquisition of Toleman, the Benetton Formula Limited racing team was created and won

one constructors' and two drivers' world championships (1986). In 2000 Renault acquired the Benetton team.

Benetton advertising was awarded the "Grand Prix de la Publicité" in France in 1985. It was the first in a series of acknowledgments that, together with critiques and censorship, fosters debated in many countries around the world. In fact, the Group is listed on the Milan (1987), Frankfurt (1988) and New York (1989) Stock Exchanges. During the same years the Fondazione Benetton Studi e Ricerche and establishment of the International Carlo Scarpa Prize was created, and Benetton entered into Eastern European and Soviet Union markets.

From 1991, the COLORS magazine was on sale in 40 countries and published in four languages. Moreover, in 1994, Fabrica, Benetton Group's Communication Research Centre, was created.

The family took a step back in 2003, giving more responsibility to managers. By 2005 Benetton was present in 120 countries with 5,000 stores. Alessandro Benetton was appointed Deputy Chairman of the Group. On October 10<sup>th</sup> 2006, the Centre Pompidou in Paris hosts the exhibit Fabrica: Les Yeux Ouverts and a Benetton catwalk fashion show. This favored the start of a series of partnerships with Trent (Tata family), India and agreement with Sears (Slim family), Mexico in the following years.

Benetton opened the first store of the future in Istanbul in 2009, in the context of the "Opening soon..." project. Alessandro Benetton, Tina Brown and Arne and Marc Glimcher celebrated the opening of the Biennale d'Arte in Venice with the "cocktail in Venice" event.

February 2010 saw the launch of the IT'S MY TIME Global Casting Competition. In 36 days: over 65,000 participants, interest from 217 different countries, a website visited by almost four million people with around 60 million pages viewed. Followed in April by the launch of the IT'S MY TIME Global Fashion Community. Biagio Chiarolanza and Franco Furrnò were new Directors with executive powers.

In 2011 You Nguyen was appointed United Colors of Benetton's new Chief Merchandising Officer and Creative Director. LANA SUTRA project started: events in the Benetton concept stores of Istanbul, Milan, Munich and on the web. Furthermore UNHATE, new worldwide communication campaign, was presented in a preview by Alessandro Benetton in Paris.

From 2012 to 2013 Benetton Group delisted from the Milan Stock Exchange and the new Sisley Autumn/Winter campaign 2013, with the exceptional testimonial Georgia Jagger, was revealed online, premièred and shared through a multi-channel social platform #sisleylive. An iconic fashion campaign for United Colors of Benetton to celebrate the upcoming launch of the Spring/Summer 2013 collection. Also, Benetton Group's commitment to protecting the environment and product safety were recognized by Greenpeace.

In 2014 the organization of the company was split into three separate entities: one focused directly on the brands, one on manufacturing and one on real estate management. In addition, the group launched "On Canvas", a new store concept that makes the product the real protagonist of the historic United Colors of Benetton brand. First locations: Milan, Moscow and Berlin. New United Colors of Benetton campaign was created in support of

UN Women, on the occasion of the UN International Day for the Elimination of Violence Against Women.

Through 2015 Benetton launched the Benetton Women Empowerment Program, a long-term initiative to support women's rights worldwide. Once again, Benetton Group led the 2016 Greenpeace Detox campaign rankings. Under the umbrella of its Women Empowerment Program, Benetton launched two concrete projects aimed at granting sustainable livelihood to women who work at home or in the Ready-Made Garments sector in Bangladesh and Pakistan. Furthermore, from state of the art knitting technology developed in its laboratories in Castrette, Treviso came Benetton's TV31100, a new concept in pullovers. United Colors of Benetton launched its first collaboration with a capsule collection by the Italian-Haitian Stella Jean.

In 2017 Benetton Group joined the International Wool Textile Organization (IWTO). In taking this step, Benetton became the first European fashion company to gain membership – with associated member status – of the IWTO, further confirming the Group's commitment to sustainability in the supply chain. From 24 to 28 September United Colors of Benetton presented the exhibition I See Colors Everywhere at Milan's Triennale Design Museum. Visitors to the exhibit were totally immersed in a story of color, as told by garments from the Spring-Summer 2018 collection and works by Fabrica. Benetton also launched an Oliviero Toscani campaign on integration, renewing to the theme that has long been dear to the Benetton brand, imbuing it with new meaning and urgency.





**Figure 5.13** Benetton's production. Source: Benetton's website.

#### **5.4.2 Innovation**

Today, Benetton Group faces a continuously evolving competitive scenario with a business model that has changed dramatically compared to the past. Therefore, steering efforts to concentrate on core activities and create value in the long term represent the challenge that the Company faces now and will face over the next few years. The corporate reorganization process aims at implementing an operating model that ensures the Company's competitiveness. As a result, the first step is consolidating and strengthening consistency between the product and the corporate identity. Accordingly, Benetton Group's strategy is based on defining its brand identity, as a representation of a life style for its customers while emphasizing its uniqueness. These elements reflect the Group's determination to clarify and reinforce its positioning around the brand's time-honored core values; focus product design on consumer needs and create unique, easily



recognizable stores. *“We manufacture quality apparel and are interested in creativity in all of its forms. We believe in intelligence, courage and passion. We aim to become a universal and inclusive brand, through the creation of an elegant, global and Italian style.”*

In line with its strategic orientation, values and organizational choices made in recent years, Benetton Group defined three priority objectives: Consumer Centricity: the consumer is at the center of its business activities; Sustainable Business Operations: business activities are carried out with a view to guaranteeing long-term sustainability; Our People: a corporate culture is developed consistently with the values expressed by the brand.

Product innovation is an important part of Benetton Group’s mission: in fact, one of the Company’s main goals is the combination of quality and tradition, since ever key elements of Benetton products, along with the ongoing pursuit of economic, social and environmental sustainability. This explains the Company’s long-held commitment to experimenting - in close collaboration with its suppliers - with innovative new processing techniques. Evidence of it are the projects launched by the Group in 2016 and, namely, TV-31100 and Mineral Dye.

The TV-31100 sweater is the result of an advanced development area created at the Castrette site: an innovation-based project in line with the brand’s legacy. There is much of the brand’s original identity in this project: manufacturing tradition, color, high quality and above all the “made in Italy” seal: these items are produced at the Castrette di Villorba site in a specifically dedicated division. Back to origins with a modern twist thanks also to the seamless technology that ensures total comfort, avoiding any friction between the sweater and the skin. Environmental sustainability is guaranteed by Whole Garment

Technology to avoid wool wastage. This is a true example of innovation, resulting in a perfect sweater for men and women, characterized by quality yarns and a clean and versatile color palette.



**Figure 5.14** TV-31100 sweaters. Source: Benetton shop online.

Color and environmental sustainability are key elements for Benetton. This was the starting point for the launch of a project to use natural alternative dyes for the garments. The FW 2016 collection features T-shirts produced exclusively with plant dyes. The project also included the use of minerals and different types of soil in the dyeing process. The range of colors varies according to the element used: from bright mineral tones to the warmer and more pastel earth hues. The possibility of drawing on the natural world represents an important alternative to man-made dyes. For this reason, Benetton Group invests in research and development to design tools that guarantee garment safety and quality.

The same dedication to product innovation is applied to the creation of the store format, where the main goal is the development of cutting-edge and sustainable solutions that are consistent with the collections and brand identity.

In 2016, Benetton Group invested in the development of a digital platform, which will come into use in the next operating period and which will make it possible to manage the e-commerce channel and customer relations in a synergic manner. Thanks to this investment, the Company will therefore be able to identify trends and end consumer preferences faster, enabling it to customize and channel its product range more effectively. The launch of the new benetton.com website in July 2016 represented an important development in support of the strategy to reinforce the positioning of the United Colors of Benetton brand: in fact, with a design compatible with tablets and smartphones, the new website is able to both fulfill business development requirements and communicate the brand's values. The benefits of this launch are supplemented by those deriving from the implementation during the year of an organic strategy to use the digital channels - from the social networks and newsletters to online advertising and the planning of multimedia content - together in a targeted and effective marketing campaign. The goal for 2017 is the strengthening of the integration of the digital channel with the logistics platform in terms of both technology and traditional distribution.

Benetton Group believes that highest product quality can only be achieved if said products are “sustainable”, i.e. safe and manufactured in ethical contexts with respect for the environment. One of the Group's main priorities is therefore that of offering its customers increasingly safe products. This pledge inspires workers on a daily basis and

involves encouraging and monitoring, in all products, the respect for the most stringent international product safety standards, through the application of specific procedures for controlling raw materials and garments aimed at ensuring their complete compliance with applicable standards. To this end, Benetton Group performs strict controls on its entire value chain - from the design of its garments and the procurement of raw materials to low environmental impact in the production and distribution processes and to transparent communications - and continuously updates the Company processes, in order to guarantee their complete alignment through the most accredited third-party institutions.

Specific internal tools have been adopted to define the product features required to ensure respect for the strict obligations the Company has voluntarily set itself through the “Dress Safely” project. In addition, Benetton Group has committed to the Detox program promoted by Greenpeace, underlining the Company’s commitment to eliminating even the potential risk of using harmful chemical substances in the supply chain. The purpose is to consolidate its relationship with consumers, through information on product safety, in the belief that transparency is one of its defining core values.

Benetton Group approach to sustainability also regards raw materials and their impact. For this reason, the Company has embarked on a process that will permit increasing use of the most sustainable raw materials. In line with this goal, to ensure that its garments are manufactured with the utmost respect for nature, people and animals, Benetton Group has made a series of commitments in recent years:

- The Company has a strict ban on the use of natural fur in its clothing and accessories;
- In 2016 Benetton began the process of compliance with the Responsible Down Standard;
- In 2016, 6.1% of cotton garments were made from organic cotton. Benetton Group also began a process that will make it possible to increase the amount of sustainable cotton used in its garments in the next few years.

Furthermore, in March 2017 Benetton Group joined the IWTO (International Wool Textile Organization) which seeks to represent the interests of the wool textile industry at global level, facilitate industry strategies, guarantee production standards and sustainability, and foster connections between the various stakeholders in the market. Membership of the IWTO will enable Benetton Group to consolidate its commitment to the sustainability and transparency of the supply chain, launching a permanent dialog with the main players in the wool production chain and participating, with an active role, in discussions on important topical issues such as the recycling of wool, the quest for quality yarn and the application of animal welfare principles to the wool textile production chain

The Company's focus on the environment also takes tangible form in its choice of packaging. Currently only 50% of the garments arriving at the central warehouse are packaged in cardboard boxes; these are later gathered together in special compacters and handed over to an external company for recovery. The other 50% of the garments are transported in reusable metal baskets allowing for an estimated reduction in cardboard consumption of around 1,340 t/year, the equivalent of around 20,000 trees.



**Figure 5.15** Cardboard Boxes. Source: Benetton Report 2017.

## CHAPTER 6

### CONCLUSIONS

The study was set out to explore the concepts of family firms and innovation and has identified the presence of a multitude of definitions: as a result, we may state that these topics are continuously under study, seen their relevance in today's economy.

Tradition and innovation appear to be contrasting concepts; however, if targets and plans are well established and shared, these two features can become compatible and complementary. In order to combine tradition with innovation, innovation-based targets are to be set in advance and homogenized with traditional traits. Furthermore, clear transitions plans have to be implemented: a gradual exit of predecessors and a likewise entry of successors in the management of the family business leads to a well-defined determination of roles and accountabilities. It is also imperative to start seeing the firm's goal as the focal point of the business, letting go of eventual family privileges given to some members.

Unfortunately, family firms rarely can be single players: the key for their success is partnering. Collaboration and synergies, objectives and resources' sharing are the most important tools to act as change agents in the environment, as well as to reach a firm's innovation targets by maintaining traditional values alive. By acting like change agents, family firms can introduce innovation and novelty in their business environment and

benefit from this; by partnering with other companies, they are able to share both “assets”, namely resources, knowledge, ideas, and “liabilities”, namely risks, costs and failure.

The study has offered a general overview on the main topics, followed by the definition of some key principles that have been analyzed afterwards. In conclusion the most important aspect of innovative family firms is the combination they execute of tradition and innovation, which is an element that only they can put it act. Innovation is possible for family firms and it is also vital to keep them competitive. It might be seen as very difficult given the businesses’ structural features, but incorporating new techniques and leaving bad habits, characteristics of the enterprise, in the past is the best way to create a business that will maintain its stability through time and society changes.

This thesis is sustained by the examples given in the fifth chapter, which enlighten the capability of family businesses to innovate and remain competitive even against big industrial colossus. The future of family enterprises seems bright as long as they continue to innovate and pursue a sustainable strategy. Doing so they won’t have problems in adjusting to the current economic scenario.



## **APPENDIX**

### **LITERATURE REVIEW**

Here are listed some of the most recent studies regarding the family business subject:

**Agarwal and Jaffe** (2000) states the empirical research findings on the success of post-acquisition performance have generated inconsistent results. This has been attributed to the choice of performance measurement indicators. This paper analysis and evaluates existing performance indicators that have been implied in the literature. It is argued that to overcome the limitations found in financial indicators of performance a need to pursue multiple measures of performance in post-acquisition research is needed. It also argues that the motives for the transaction should also be included as performance indicators. These hybrid approaches will researches and practitioners to measure the overall success of acquisition.

**Manikutty** (2000) use the resource based view of firms to understand the strategic responses of nine family groups to the more liberalized environment in India's emerging economy. Using the concepts and empirical finding in the resource-based view (RBV) stream of literature, this manuscript offers six hypotheses related to the restructure of business portfolios, structural changes within organization, and the induction of professional family and non-family members. The article also identifies five emerging trends in the responses and uses them to test the hypotheses. Data from published sources indicate a high degree of support for the hypotheses. The study show that resources based view of the firm provides an excellent theoretical framework for understanding and

interpreting these responses and suggests directions for further research.

**Veliyath and Ramaswamy** (2000) have examined that CEO compensation reflects two common bases: (a) the dominant use of the agency theory perspective and (b) the almost exclusive use of U.K and U.S. samples. Agency theory views compensation as a consequence of the incentive contracts and the processes to corporate governance. However, little is known about the determinants of CEO compensation in developing countries. Considering that foreign direct investment of U.S. multinational enterprises increased 10-fold over the past decade, mostly in developing economies, there is great need to understand the dynamics of pay setting in these foreign contexts. Overall, there is an imperative need to explore alternative theoretical perspectives as well as investigate nontraditional context to broaden existing theoretical premises. In an attempt to address this need, this study investigates the CEO'S social embeddedness and overt and covert power as determinants of the CEO pay in a sample of Indian family-controlled firms. Using a time series, cross sectional regression analysis, we find family shareholdings and the percentage of inside directors on the board (identified as bases of overt power for the CEO) to be predominant influences on CEO pay. By contrast some of the identified bases of covert power, such as CEO tenure, age, education, and firm diversification are not significant surprisingly; controls for firm size and performance also exhibit no influence of CEO pay. These findings offer a useful point of reference against which results from western studies can be compared to formulate more holistic theories CEO pay.

**Steier** (2001) states that the relationships and connectivity play an enhanced role in most models of the new economy. For many firms, strategic advantage resides in the social capital (or relational wealth) they are able to nourish and maintain. This important asset is

accumulated overtime and easily traded and transferred. For family firms with long term continuity goals, the transfer and management of his largely intangible asset are a most significant activity. This research is based on interviews of next-generation entrepreneurs in 18 different firms. It contributes to the family business and more general management literature by identifying different way in which relational wealth is transferred, created, and managed. Four different mode of transferring social capital emerged from the data: unplanned, sudden successions; rushed successions; natural immersion; and planned successions and deliberate transfer of social capital. Additionally, seven means of managing social capital emerged: deciphering existing network relationships, determining criticalities, attaining legitimacy, clarifying optimal role, managing ties through delegation and division of labor, and striving for optimal network configuration and reconstructing network structure and content. This paper concludes with a series of propositions for further research.

**Rutten** (2001) has examined major debates on entrepreneurship in south and Southeast Asia indicates an emphasis on collective forms of business organization. While earlier views argued that collectivism in business activity was one of the main causes of Asia's backwardness, more recent nations emphasize that family enterprises and business networks account for Asia's economic rise. This article compares the form of business organization of rural entrepreneurs in India, Malaysia and Indonesia. It is based on empirical research among Hindu small –scale industrialist in central Gujarat, Chinese and Malay owners of combine harvesters in the Muda region, and Muslim owners of iron foundries in Central Java. The findings are in line with studies on European entrepreneurs. There is therefore reason to reconsider the notion of significant differences in business organization between

Asian and European entrepreneurs.

**Astrachan et.al** (2002) have examined the alternative method for assessing the extent of family influence on any enterprise, enabling the measurement of the impact of family on outcomes such as success, failure, strategy, and operations. This proposed method, utilizing a standardized and valid instrument -the F-PEC- enables the assessment of family influence on continues scale rather than restrict its use as a categorical (e.g., yes/no)variable. The F-PEC comprises three scales: power, experiences, and culture. This article discusses these scales in detail.

**Bird et.al** (2002) state that the establishment of field of study or a discipline with academic or professional standing requires, among other things, a body of knowledge that expands understandings of that domain. This paper looks at the literature an establishing a unique field of study, reviews the foundational research in family business (1980s) and four recant years (1997-2001) of published family business research found in several outlets. We find that family research is becoming increasingly sophisticated and rigorous. This bodes well for the development of in independent field for family business. Recommendations or offered to further the professionalization of family business as an academic and professional domain.

**Mazzola and Marchisio** (2002) have suggested that going public affects the capacity of companies to pursue growth and profitability in the long run. Their study combines the result of transversal and longitudinal analyses of two databases of fast-growing Italian companies and IPOs and compares the result with nonfamily owned business that went public during the same period. Studies of companies' growth show two main reasons for growth: external causes due to evolution in progress in the competitive environment and

internal causes brought about by management ambitions. In either case, growth provides companies with three main advantages: the ability to increase value, higher market shares, and increased productivity. Italian empirical research shows the great difficulties that both small and large companies have growing. It is estimated that most companies, especially small ones, are family owned. The literature shows that family-owned companies face particular obstacle and that the IPO appears to provide them with some advantages.

**Chua et.al** (2003) has conducted a survey of the issue facing top executives in 272 Canadian family firms. Results show that succession is their No. 1 concern, thus supporting the predominant focus of family business researchers on successions issue. Results also show that concern about relationships with nonfamily managers is a close second in importance. They have used agency theory to explain why relationships with non-family managers are so important. Empirical results show that both the extent and the criticality of firms' dependence on nonfamily managers are statistically significant determinants of the importance. This study implies that relationships with nonfamily managers is neglect research topic and points to a new direction for research in family business management.

**Sharma et.al** (2003) have examined the theory of planned behavior to hypothesize the influence of the incumbent's desire to keep the business in the family, the family's commitment to the business, and the propensity of trusted successor to take over on the extent to which family firms engage in succession planning activities. To test these hypotheses using data collected from presidents in 118 family firms. The results show that the propensity of a trusted successor to take over significantly affects the incidence of all succession- planning related activities. Succession planning may, then, be the result of

push by the successor more than of pull by the incumbent. Such a view has negative implications for the successions process that the family firms in our sample follow.

**Auch and Lee** (2003) have examined the proponents and critics of Asian economic organization that have been preoccupied with the ideal-typical management model of family business and have rarely identified the change and continuity in these management structures through an analysis of family-controlled business groups in Singapore and South Korea before and after the Asian currency crisis. In their view, these business groups professionalized their management, but retained family control and corporate rule before crisis. The crisis, however, increased the pressure on such groups to relinquish family control and corporate rule. Singaporean Chinese business groups tended to loosen their tight grip on corporate rule by absorbing more professional managers into their upper echelons. The surviving Korean chaebol, however, intensified family control. Only a few chaebol, which were on the brink of bankruptcy, relinquished corporate rule to professional managers. We argue that the market, cultural and institutional factors as suggested in the existing literature, state capacities and strategies do matter in shaping the changing management structures of business groups. Drawing on their analysis, researchers will be able to conduct comparative studies of family businesses across East Asian societies, of organizational imitation, and of the role of the state in influencing management models.

**Zahra and Sharma** (2004) state that family business continues to grow. Six key trends have become evident. These trends include a continuing pursuit of a research topics such as succession, a strong preference for practice orient research methods, a tendency to borrow heavily from other disciplines without giving back to these fields, and a strong

preference to talk to other researchers conducting researches on family firms-failing to communicate with scholars from other disciplines. They have suggested strategies to expedite the growth of family business research towards better understanding the paradoxes faced by family business manager, deepen insights into the problem they encounter, improve rigor in reported research, find ways to promote a dialog with scholars in sister disciplines, and give back to the disciplines from which we borrow heavily.

**Craig and Moores** (2005) suggest that the research is the measurement and management tool known as the balanced scorecard (BSC) can be applied in the family business context. In this article they add families to the four BSC perspectives (financial, innovation and learning, customer internal process) and illustrate how this can assist business development, management and succession planning in family owned businesses. They use an action research project to highlight that how family business can professionalize their management by the adoption of a BEC strategy map that includes a family business focus and links the core essence of the family business with the values and the vision of the founder of the strategic initiatives of the family business. The F- PEC scale constructs of power, experience and culture are used to introduce a PEC statement that identifies and articulates the core essence of the family business.

**Dyer** (2006) has examined the performance of family- owned firms. He suggests that the most of the research fails to clearly describe the —family effectll on organizational performance. The —family effectll based on agency theory and the resource-based view of the firm, is described and propositions and generated that examine the relationship between families and organizational performance. Implication for theory and research are also discussed.

**Westhead and Howorth** (2006) state that the agency and stewardship theories are used to explore associations between ownership and management profiles and the performance and objectives of family firms. Using data from privately held family firms in the United Kingdom, a range of performance measures and objectives were examined. Multivariate regression analysis detect that closely held family firms did not report superior firms performance. The result show that the management rather than the ownership structure of a family firm was generally associated with selected firm-performance indicators and no financial Company objectives. Although family CEOs were associated with lower propensity to export, presented evidence generally fails to suggest that private family firms should avoid employing family members in management roles.

**Blumentritt** (2006) had examined the relationships between the existence of boards of directors and advisory boards and the use of planning in family business. It is argued that both of the primary roles of boards, the governance of a firm's management team for the firms stake-holder and the provision of valuable business resource of the firm's management team, are significantly related of the use of planning activities in family business. The empirical evidence, dawn for the survey of more than 130 family businesses, largely supports the hypotheses. Conclusions and suggestions for future research close the article.

**Auken and Verbal** (2006) state that the survival of a family business as partially dependent on spousal commitment. The discussion of launch a business should depend not only on analysis of the opportunity, but also on the degree to which one's spouse shares a common vision about the goals, risks, and rewards of the business. Models and testable hypotheses are devolved to guide empirical research on the antecedents and consequences



of spousal commitment to family business. The model can benefit individual considering the launch of a business, couples that currently own a business, business consultants, and university instructors teaching entrepreneurship courses.

**Venter et.al** (2006) state that the successor-related factors that can influence the succession process in small and medium-sized family business are empirically investigated. This study was undertaken in South Africa among 2,458 owner-managers and successors in 1,038 family businesses. These respondents were identified via a snowball-sampling technique. A total of 332 usable questionnaires were returned. The dependent variable in this study, namely. The perceived success of the succession process, is measured by two underlying dimensions: satisfaction with the process and continued profitability of the business the empirical results indicate that the successor-related factors that influence satisfaction with the process are, on the one hand, the willingness of the successor to take over and the relationship between the owner-manager and successor, on the other hand. The continued profitability of the business is influenced by the willingness of the successor to take over the business, the preparation level of the successor, and the relationship between successor and owner-manager. The relationship between owner-manager and successor is in turn influenced by the extent to which interpersonal relationships in the family can be described as harmonious. Based on these findings recommendation for successful succession are offered.

**Motwani et.al** (2006) have examined the results for a survey of 368 family-owned small to medium size enterprises (SMEs) with regard to importance, nature, and extent of succession planning. By categorizing SMEs according to their annual revenues, total number of employees, and number of family members employed within the firm,

significant differences were found between larger and smaller firms. Consistent with extent literature, the findings reveal that most family members join the firm for altruistic reasons. Issues related to family relationships were related as significantly more important in firms in which in more family members were employed within the firm. Moreover, for firms with less than US\$1m in revenues, a high priority is placed on selecting a successor who possess strong sales and marketing skills. The findings show that regardless of their size , it is important for family-owned business to developed a formal plan for succession, communicate the identity of the successor, and provide training/mentoring to the incumbent CEO.

**Chitoor and Das**(2007) state that the impact on succession performance on succession to a non-family professional manager as compared to family member, commonly referred to as professionalization of management. An important distinction is drawn between family owned and family managed business and family owned and professionally managed businesses. Then, drawing from case studies on succession process in three Indian family business groups. The article puts fourth five propositions pertaining to the impact of professionalization of management on succession performance. Several directions for further research are indicated.

**Sciascia and Mazzola** (2008) states that the performance of family firms is growing, but results are mixed, especially for non-listened companies. Thus on the bases of co presence of benefits and disadvantages of family involvement in ownership and management, they explored the presence of non-linear effects of these two variables on performance. We run regression analysis on data drawn from 6666 privately held family firms in Italy: a negative quadratic relationship between family involvement ion management and

performance was found, but we find association between family involvements in ownership and performance. Their results suggest that in privately held firms the positive effects that previous literature associates with the presence of family managers do not appear strong enough to compensate for the disadvantages deriving from a non-monetary orientation, nor do they compensate for the costs deriving from the need to solve conflicts between family managers and the impossibility of enlarging the companies social and intellectual capital through the employment of non-family managers. Moreover, the quadratic nature of the relationship cause for greater attention to be paid to these effects by family business owners, especially in those cases where family involvement in management.

**Massis et.al**(2008) states that research on management's succession is a dominant in the family business literature. Little systematic attention has been given to the factors that prevent intra-family Succession from occurring. Based on a review and analyses of the literature, this article presents a preliminary model on the factors that prevent intra-family succession.

**Allouche et.al**(2008) state that the family business have under gone rapid development in the past two decades. Broadly speaking, such companies perform better than non family businesses, as recent investigations in Japan support. To obtain a more precise result, this result has applied to the Japanese context a research methodology that has proven its worth in western cases. On the bases of data covering the years 1998 and 2003, we find better performance among family business in Japan.

**Hall and Nordquist** (2008) state that the purpose is to challenge the dominant meaning of professional management in family business research and to suggest an extend understand

of the concept. Based on a review of selected literature on professional management and with insights from culture theory and symbolic interactions, they draw on interpretive case research to argue that professional family business management rests on two competencies, formal and cultural, of which only the former is explicitly recognized in current family business literature. They have elaborated on the meanings and implications of cultural competence and argue that without it a CEO of a family business is likely to work less effectively, no matter how good the formal qualifications and irrespective of family membership.

**Mazzola et.al** (2008) has examined the issue of training next-generation family members once they have joined the management team in their family firm. The qualitative analysis of strategic planning process of 18 Italian family firms show that involving next generation family members in the planning process benefits their development process. The findings indicate that this involvement provides the next generation with crucial tacit business knowledge and skills, facilitating interpersonal work relationship between incumbents and next generation leaders and building credibility and legitimacy for the next generation. The comparative analyses of the cases allowed us to identify the five variables that seem to combine in explaining much of the observed differences in the amount and compositions of benefits experienced in the 18 firms. Their findings extend current understanding topics in family business: the post entry phase tanning of the next generation and strategic management in family firms.

**Royer et.al** (2008) state that the succession is a challenge to family business for a number of reasons, including the need to address the issue of intergenerational handover. This article focuses on one aspect of succession in family business by investigating when

family members are preferred as successor. Results from 860 family businesses indicate that specific (tacit) knowledge characteristics combined with a favorable transaction atmosphere, in certain context, make a family member the most suitable successor. A conceptual model is presented that outlines when inside family succession preferred.

**Dyer and Dyer (2009)** state that the recent research on family business has focused on how the family affects business performance. Their commentary suggests that researches should also consider how certain variables affect both the business and the family. Suggestions for how to do such research are presented.

**Basco and Rodriguez (2009)** state that the research contributes to the family business literature by empirically demonstrating that family enterprises that give more emphases to family and business as a whole have better family results and similar business results when compared to these enterprises that limit governance to only the businesses. The article includes a review of the literature, and it identifies a set of four basic dimensions that focus on different aspect of family enterprise. The study then combines measures of these dimensions to describe both the governance and the nature of the family and the business. A representative sample of 732 Spanish family enterprises enabled the research to reveal empirical support for the theory positing that balanced attention to governing the subsystems is an effective route to family enterprise management.

**Debicki et.al (2009)** state that the analysis of 291 family business articles published in 30 management journals between 2001 and 2007 reports the contributions of individual scholars and academic institution to family business research. To better understand the interrelationship among scholars who have contributed to family business research, a network analysis of coauthor relationship was conducted. The authors were providing a

content analysis of the articles and offer suggestion for future research. By analyzing the who, where, and what of family business research, the reasons why the developmental trends have occurred and how the fields momentum, can be maintained and directed towards productive ends become clearer.

**Distelberg and Sorenson** (2009) has extended and explained current system views of family business and provides a frame work for interpreting family business holistically. The framework extends the definition of family-fist that represented balanced system emphases. in addition this article discusses the goals, resource transfer, strengths, and limitations of each type of system and describes how firm adaptability and resource flows influence and change these family business systems; it argues that to understand family businesses health, one must understand the values and goals that guide the family business, business, and ownership systems, as well as the overfill family business system; and it presence an inclusive definition of family and business based on systems membership.

**Chrisman et. al** (2010) has examined the 25 articles that have been particularly influential in shaping the state of the art of research on family businesses. These works identified based on a citation analysis of family business article published ever the past 6 years in the four journals that publish most of the research. The authors summarize those influential studies and discuss their most important contributes to scholars' current understanding of family business. By identifying common Themes among those studies, the authors are able to provide directions for future research in the field.

**Hot et.al** (2010) state that the field of family business research is advanced by further examining the validity and reliability of Klein, astrakhan, and simonies' family influence

of power , experience, and cultural scale. Data from 831 family businesses are analyzed to assess the measures construct validity using exploratory and confirmatory techniques. The hypothesized three factors model emerged to include culture, power, and experience. Extending the previous effort, the measures convergent validity was tested by assessing differences between the measures score and the desires of the senior generation and the commitment of the next generation. Results support an initial level of convergent validity.

Casillas et.al (2010) has examined the present research to improve scholars understanding of the relationship between entrepreneurial orientations (EO) and the growth of family firms in two areas. The authors propose that the EO-growth relationship is contingent on different contextual variables- environmental dynamism and environmental hostility-and an internal variable-generational involvement. Also, they consider EO to be a composite construct integrated from and related to different independent dimensions. Using information from 317 Spanish family firms, results show that (a) EO positively influences growth only in second- generation family businesses; (b) the moderating influence of the generational involvement is related to the risk- taking.

**Lorna Collins, Nicholas O'Regan,** (2011) Family business has evolved significantly over the past decade and today it is a well-accepted and respected field of enquiry. In gaining academic acceptance, it has retained its practitioner roots. The paper argues that it is time for a re-think because the focus of previous family business research has become somewhat convoluted with small- and medium-scale enterprises research (at least in the UK) and with particular parts of the family business rather than the entire family business system. To continue its impressive upward trajectory, family business management and research needs to embrace new theoretical perspectives and approaches, particularly those

that come from disciplines such as psychology that at the moment have tenuous links to family business studies. It also needs to embrace learning that can be gained from practitioners and develop useful discourse between stakeholder groups in the family business community

**Alexandra Dawson** (2012) The main focuses on the construct of human capital in family businesses. It makes three key contributions. First, it furthers our understanding of human capital in family businesses by identifying the underlying dimensions of human capital, involving not only knowledge, skills and abilities but also individual attitudes and motivation. Second, the article puts forward the conditions under which family businesses can achieve and sustain over time an alignment of interests between individual human capital and organizational goals. These conditions will vary depending on whether the external environment is static or dynamic. Third, the article heeds the call, shared by strategic management scholars, to focus on the individual level as well as on the (predominant) group- and organizational-level constructs.



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