

Improving the Long-run Survival of Family Firms: Knowledge-Management and Resource-Shedding Processes

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*“If you read
only one business book this year,
make it Intellectual Capital”*

Thomas A. Stewart (1997)

Stewart, Thomas A. (1997). *Intellectual capital- The new wealth of organizations*. Nicholas Brealey Publishing London.

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- b. *Family Business Review* — Special Issue Editors, Franz Kellermanns and Sabine Klein;
- c. *International Small Business Journal* — Editor, Robert Blackburn.

International Conferences listed in alphabetical order:

- a. *Accademia Italiana di Economia Aziendale* 2007, Milano (Italy);
- b. *EIASM, Family Firm Management Research* 2007, Jönköping (Sweden);
- c. *Family Enterprise Research Conference* 2006, Niagara Falls (Canada);
- d. *Family Enterprise Research Conference* 2007, Monterrey (Mexico);
- e. *Family Enterprise Research Conference* 2008, Milwaukee (US);
- f. *International Family Enterprise Research Academy* 2006, Jyväskylä (Finland);
- g. *International Family Enterprise Research Academy* 2007, Wiesbaden (Germany).

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Lugano, Switzerland

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INTRODUCTION

To do research on family business is of great interest to academic researchers, business practitioners, consultants, firms and to the economic growth of a country. The family business is a predominant form of business organization which plays a crucial role in today's economy and social well-being. It is estimated that family organizations, in various nations around the world, account for 65% to 90% of all businesses and there is great evidence that this phenomenon will grow over time (Beckhard & Dyer, 1983). While the research area of family business was initially seen as being a subfield of entrepreneurship it has now established its own niche. Family business research has become much more prominent over the last decade, although there have been studies in the area for much longer (e.g. *Family Business Review* launched in 1988). To track the evolution of family business studies and develop a comprehensive list of key events shaping family business education, Sharma, Hoy, Astrachan and Koiranen (2007) reported the chronology of family business education studies and events from the 1953 to the 2007, as indicated in Table 1.

However, it is difficult to find consensus on the exact definition of a family business (see Handler, 1989; Chrisman et al., 2005; Miller et al., 2007). Table 2 reports the most relevant definitions that have been used in various studies from the 1964 to the 2007. Nevertheless, there is still no common agreement as to what the term family business actually means probably because of the difficulties associated with differentiating family from non-family organizations. A first attempt to solve the definitional family business problem was given by Astrachan, Klein, and Smyrnios (2002, p. 47) who argued that “a relevant issue, therefore, is not whether a business is family or nonfamily, but the extent and manner of the family involvement in and influence on the enterprise”. Accordingly, they proposed that the extent to which a firm is a

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family business should be determined by how family involvement is used to influence the business.

Family involvement is, indeed, the main characteristic of a family organization. It plays a crucial role for the family business' success and survival, thereby facilitating or hindering the development of hard-to-duplicate resources and capabilities (Habbershon and Williamms, 1999; Zahra et al., 2007). However, while much has been written about the survival of family organizations across generations (see e.g. Habbershon and Pistrui, 2002), its enhancers and inhibitors have been poorly researched. The field is currently lacking a systematic framework that allows us to answer the following question: *why are some family firms able to survive across generations while others are not?* Answering this question is important given that some studies indicate that only a third of family businesses successfully make the transition from each generation to the next, while only 5% of family firms are still creating value beyond the third generation (*The Economist*, 2004; Miller and Le Breton-Miller, 2005).

The present PhD Thesis seeks to explore the above topic from different perspectives related to the following four articles:

- 1) Knowledge Integration and Dynamic Organizational Adaptation in Family Firms;
- 2) Knowledge Accumulation in Family Firms;
- 3) Antecedents of Commitment Entrapment to the Failing Founder's Family Business;
- 4) From Business Exit to Business Regeneration in Family Firms.

- The first article seeks to understand *why* some family firms are more successful than others in dynamic markets —i.e., markets in which the competitive landscape shifts quickly and unexpectedly, and change must be promoted to survive. Knowledge integration, a dynamic capability through which family members' specialized knowledge is recombined, is crucial to

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enable organizational adaptation. - The second article investigates *how* knowledge —depicted as an enabler of longevity— can be accumulated, i.e. created, shared and transferred so as to allow a family organization to survive across generations. - Finally, the third and fourth article examine the topic of the survival of family organizations under a complete different perspective. Specifically, it is argued that, in failing situations, perpetuating the founder's business is only one of many possible opportunities and not necessarily the best one to survive across generations. Hence, for enterprising family firms desirous to be long-lived, it becomes important to understand *why* family organizations generally tend to persist with the failing founder's business —thereby leading to commitment entrapment— rather than seeking for new possible business opportunities to be exploited; and *what* factors influence exit from the failing founder's business and *how* to overcome the psychological deterrents and practical obstacles to successfully exit from it to re-generate into a growing industry.

The issues addressed and the contributions achieved in the four articles mentioned above are summarized here in more detail:

Knowledge Integration and Dynamic Organizational Adaptation in Family Firms

The first article has been initially developed during my stay at Wilfred Laurier University in Waterloo (Canada) under the supervision of Professor Pramodita Sharma. Then, the paper has been finalized jointly with Professor Carlo Salvato from Bocconi University (Italy) during the review process for a publication on a Special Issue of the '*Family Business Review*'. Professor Salvato joined me from the second round of review. Finally, the paper has been accepted for publication in February 2008 (*Chirico and Salvato, forthcoming in FBR*). The paper was presented at the Family Enterprise Research Conference (FERC) held in Monterrey (Mexico) in

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April 2007 and at the International Family Enterprise Research Academy (IFERA) held in Wiesbaden (Germany) in June 2007. The paper was also accepted for a full presentation at the Academy of Management held in Philadelphia (US) in 2007.

Moreover, the present work is part of a larger research through which my supervisor — Professor Gianluca Colombo— and I received a grant from the Swiss National Science Foundation in 2007 for a two years project (years 2008-2010) in order to empirically test the model presented in this paper on a large representative sample of family firms located in Europe.

In today's dynamic markets, recognizing enablers of dynamic organizational adaptation is essential to sustainable competitive advantage. The speed of change in the competitive environment has driven firms to develop processes directed at changing existing capabilities in order to adapt their organizations accordingly. This is captured by the concept of dynamic capabilities (DCs) which offers an explanation of the evolutionary nature of capabilities (e.g. Teece et al., 1997; Eisenhardt and Martin, 2000; Winter, 2003).

The present research is aimed at understanding *why* some family firms are more successful than others in dynamic markets —i.e. markets in which the competitive landscape shifts quickly and unexpectedly, and change must be promoted to survive (Eisenhardt and Martin, 2000).

Towards this end, the article focuses on knowledge integration (KI) as a DC through which different components of family members' specialized knowledge are recombined (Grant, 1996; Kogut and Zander, 1992; Tiwana and McLean, 2005; Enberg, 2007). Consequently, organizational capabilities can be changed to adapt the family organization to environmental shifts.

The family business is the only organization in which family members participate at the same time to the family and business life, hence influencing in both positive and negative ways

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knowledge-integration processes (Zahra et al., 2007). For this reason, it represents an interesting arena to study KI processes underlying the dynamic evolution of capabilities.

Strategic management literature combined with specific family business literature reveal that only those family firms characterized by high levels of internal social capital and affective commitment to change and low levels of relationship conflicts, will be able to successfully integrate family members' specialized knowledge to adapt to dynamic markets. The proposed model is presented in Figure 1 on page 39.

The present research fills the gap in the family business literature regarding the study of DCs. It sheds some light on family firms' ability to adapt capabilities when environments shift and on the micro-foundations of DCs in any type of firm. Unveiling some important antecedents of KI clarifies the nature of DCs as knowledge-access and knowledge-recombination processes.

Knowledge Accumulation in Family Firms

The second article has been developed within an international family-business research project named FITS project. The acronym FITS referred to the participating countries (Finland - University of Jyväskylä; Italy -Bocconi University; Switzerland -University of Lugano, USI) that jointly created a research partnership in 2004-2006. The present article has been accepted for publication in the '*International Small Business Journal*' in February 2008 (*Chirico, forthcoming in ISBJ*). The paper was presented at the International Family Enterprise Research Academy (IFERA) held in Jyväskylä (Finland) in March 2006 and at the Family Enterprise Research Conference (FERC) held in Niagara Falls (Canada) in April 2006. The paper was also accepted for a full presentation at the Academy of Management held in Philadelphia (US) in 2007.

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The knowledge-based theory identifies knowledge as the most fundamental asset of the firm which all other resources depend on (Grant, 1996; Spender, 1996). It is a significant source of competitive advantage, which enables an organization to be innovative and remain competitive in the market (Polany, 1958, 1967; Nonaka, 1991; Nonaka and Takeuchi, 1995; Grant, 1996). For the purpose of this study, knowledge is viewed as pure knowledge and skill which family members have gained and developed through education and experience within and outside the organization. The emphasis is on tacit knowledge because of its centrality within an organization (Nonaka and Takeuchi, 1995; Grant, 1996; Cabrera-Suarez et al., 2001).

The aim of this article is to investigate *how* knowledge can be accumulated, i.e. created, shared and transferred in family business so as to enable a family organization to survive across generations. This is a major challenge faced by any firm in everyday business life —especially by family firms when the new generation has to take over the business from a previous one (Cabrera-Suarez et al., 2001; Kellermanns et al., 2004). Four family firms from Switzerland and Italy are part of this study.

The analysis conducted reveals that knowledge is best accumulated when family members involved in the succession strongly value the following factors: - family relationships working within the family business —fueled by trust between family members; - commitment and psychological ownership to the family business; - academic courses and practical training courses outside the family business; - working outside the family business; - employing/using non-family members. The family-business knowledge model is presented in Figure 1 on page 86.

In particular, our sample shows that those family firms open to the external environment and, most importantly, characterized by intense family relationships and high levels of family

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members' emotional attachment to the business, are more likely to accumulate knowledge and survive across generations.

Since only a few works have been devoted to the study of knowledge in family firms (e.g. Cabrera-Suarez et al., 2001), this research attempts to fill the existing gap in the family business literature. Moreover, the literature on this topic is fragmented —both in the strategic management and family business literature— as it deals with different components of knowledge accumulation. The paper tries to put together all the pieces derived from existing literature and interviews made.

Antecedents of Commitment Entrapment to the Failing Founder's Family Business

The third article has been initially developed during my stay at Wilfred Laurier University in Waterloo (Canada). Then, the paper has been finalized jointly with Professor Carlo Salvato from Bocconi University (Italy). The paper was presented at the Family Enterprise Research Conference (FERC) held in Milwaukee (US) in April 2008 and won the *Best Paper Award*. The paper has been also accepted at the International Family Enterprise Research Academy (IFERA) to be held in Breukelen (The Netherlands) in July 2008 (*Chirico and Salvato*).

Existing research reveals that the core skills of an organization that made it successful in the past can also lead to rigidity and an inability to adapt to a changing environment (Miller, 1990). Firms can become trapped within their own business in which core capabilities can transform into core rigidities so as to prevent business exit (Staw, 1981; Brockner, Rubin, and Lang, 1981; Leonard-Barton, 1992; Levinthal and March, 1993; Argyris, 1999). Business exit is here defined as the divestment of a whole business unit, or part of it, resulting from the decision to withdraw from an existing business to re-generate into a new industry through resource

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reallocation (Duhaime and Schwenk, 1985; Yuen and Hamilton, 1993; Eisenhardt and Martin, 2000).

Strategic management and psychological literature offer several insights into the role played by de-commitment from failing courses of action in allowing long-term firm survival and prosperity (see e.g., Garland, 1990; Simonson, and Staw, 1992; Burgelman, 1994, 1996). However, little research has been devoted to understand the specific role resource shedding and exit can play in family firms (Sirmon and Hitt, 2003; Sharma and Manikuttu, 2005). There is, indeed, an implicit bias towards persistence in the founder's business, mainly explained by heavy emotional commitment to it (Davis and Harveston, 1999).

Specifically, it is argued that for family businesses eager to survive across generations, it becomes important to understand *why*, in failing situations, family organizations generally tend to persist with the failing founder's business —thereby leading to commitment entrapment— rather than seeking for new possible business opportunities to be exploited. The present research suggests that emotional attachment to, feeling of responsibility for, and amount of effort made for the business positively influence family members' psychological willingness to persist with the failing founder's business, thereby leading to commitment entrapment. However, a higher temporal distance from the founder's business weakens the above-mentioned relationships, thereby increasing family members' psychological willingness to recreate and reinvent themselves and their business to face crisis situations. In so doing, resources can be redirected towards more attractive business opportunities so as to sustain the survival of the family organization. The theoretical model is presented in Figure 1 on page 103.

To conclude, business exit is viewed as a precondition to enable a family organization to re-generate into a new industry. The research also suggests potential extensions of findings to

other types of organizations, especially those characterized by strong members' commitment to the business.

From Business Exit to Business Regeneration in Family Firms

The fourth article has been developed during my staying at Wilfred Laurier University in Waterloo (Canada) in collaboration with Professor Carlo Salvato and Professor Pramodita Sharma. The present work is actually under review process (second round of review) for a Special Issue on the '*Entrepreneurship & Regional Development: An International Journal*' (Salvato, Chirico and Sharma, submitted in ERD). The paper was presented at the 3rd EIASM, Family Firm Management Research, held in Jönköping (Sweden) in June 2007 and at the 'Accademia Italiana di Economia Aziendale' (AIDEA), held in Milan (Italy) in October 2007.

Exit strategies (Staw, 1981; Simonson and Staw, 1992; Burgelman, 1994; Hayward and Shimizu, 2006) that shed unproductive resources are critical for future entrepreneurial activities as markets undergo change (Eisenhardt and Martin, 2000). However, exit from long-established businesses is particularly difficult for family firms because of emotional reasons (Davis and Harveston, 1999; Sharma and Irving, 2005). As a result, family business research has long focused on determinants and implications of business continuity (Kaye, 1996; Drozdow, 1998), thereby not paying enough attention to business divestments (Sirmon and Hitt, 2003; Sharma and Manikuttu, 2005).

This article attempts to fill the existing gap in the family-business literature by investigating the role of family-specific factors that hinder or facilitate exit from the failing founder's business. It is an effort aimed at understanding *what* factors influence exit from the

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failing founder's business and *how* to overcome the psychological deterrents and practical obstacles to successfully exit from it to re-generate and transition into a growing industry.

Towards this end, the present work traces through an inductive approach the development of the Italian Falck Group from its inception as a steel company in 1906 - ascension as the largest privately owned steel producer in Italy - losses in the 1970s and 1980s leading to business exit from the steel industry in the 1990s - followed by successful entry in the renewable energy business. A combination of insights from literature and triangulation of data from multiple primary and secondary sources leads to the development of a model (Figure 1, page 144) describing facilitators and inhibitors of exit from the failing founder's business.

The paper highlights the critical importance of the overlooked topic of business exit in advancing the understanding of the determinants of family firms' long term prosperity. Second, it develops a framework of factors that influence exit from the founder's business and subsequent entry into a growing industry, while retaining family control. The study reveals the critical role of exiting a business from its current focus in declining industry as being essential to the pursuit of novel entrepreneurial opportunities, which in turn enable longevity and success of family firms. However, the most significant finding is the powerful role of the highly regarded family anchor —Alberto Falck— who championed the change process that enabled the successful exit and regeneration of the Falck group.

To conclude, four family-business models have been developed in the present PhD Thesis to better understand and improve the long-run survival of family firms. The first two family-business models focus on knowledge integration and accumulation (Figure 1, p. 39; p. 86). The last two models, rather, concentrate on business exit and regeneration (Figure 1, p. 103; p. 144). The research conducted reveals that:

Family firms eager to survive across generations need to accumulate and integrate knowledge over time. However, in failing situations, when the business is not profitable anymore, family firms need to be aware of the possibility of business exit, thereby redirecting resources towards more desirable business opportunities, rather than persisting with a failing business activity. The Falk case study is an excellent example of how business exit can lead to business regeneration. Hence, effective resource management, including knowledge management and resource shedding, is central to enable a family organization to have a sustainable competitive advantage over time. However, since feeling and emotions are very intense in family organizations, family involvement to the business will strongly influence in both positive and negative ways resource-management processes.

Future research is clearly needed to test and extend the Family-business Knowledge and Exit Models developed. In particular, future studies could be directed to combine the two streams of research in order to investigate how knowledge-development processes and exit strategies may simultaneously sustain the success and regeneration of a family organization across generations.

Table 1: Chronology of Family Business Education Studies and Events

1953	Grant H. Calder completes the first doctoral dissertation on family business studies in North America entitled: <i>Some management problems of the small family controlled manufacturing business</i> , School of Business, Indiana University.
	Roland Christensen's book: <i>Management succession in small and growing enterprises</i> published, Harvard University
1954	<i>Cases in the Management of Small, Family-Controlled Manufacturing Businesses</i> published at the Indiana University. (First family business-specific case book)
1958	English's book: <i>Financial problems of the family company</i> published, Sweet & Maxwell, London.
1961	Trow's article: <i>Executive Succession in Small Companies</i> , published in Administrative Science Quarterly, 6.
	Cambien's book: <i>Family Problems in the Business</i> . Published by the Council of Dutch Employers Association (First Family Business book in Dutch)
	Calder's article: The peculiar problems of family businesses, published in <i>Business Horizons</i> , 4(3).
1962	Léon and Katy Danco co-found 'The Center for Family Business' in Cleveland, Ohio. America's oldest national organization for business owners and their families.
1963	A. Kenneth Rice publishes, <i>The Enterprise and its Environment</i> , Tavistock Publications, London.
1964	Robert Donnelley's article entitled: <i>The family business</i> , published in Harvard Business Review, 42(3).
1965	David Ewing's article entitled: <i>Is Nepotism So Bad</i> , published in Harvard Business Review, 43(1).
1967	Eric Miller and A. Kenneth Rice publish <i>Systems of Organization</i> , Tavistock Publications, London.
1968	Churchman publishes <i>The systems approach</i> , Dell Publishers, NY.
	Alfred Lief's <i>Family Business: A century in the life and times of Strawbridge & Clothier</i> published by McGraw-Hill Book Company.
	Léon Danco holds first interdisciplinary seminar on family business
1969	Robert Cambreleng's article entitled: <i>The case of the nettlesome nepot</i> , Harvard Business Review, 48(2).
	R. Joseph Monsen's article entitled: <i>Ownership and Management: The Effect of Separation on Performance</i> , Business Horizons 12(4).
1971	Harry Levinson's article entitled: <i>Conflicts that plague family business</i> published in Harvard Business Review, 49(2).
1972	Ianni & Ianni's book entitled: <i>A family business</i> published by Russell Sage Foundation, New York.
1974	Harry Levinson's article entitled: <i>Don't choose your own successor</i> published in Harvard Business Review, 52(6).
1975	Léon Danco's <i>Beyond survival: a business owner's guide for success</i> published

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	by Reston Publishing.
	Bernard Barry's article entitled: <i>The development of organisation structure in the family firm</i> , Journal of General Management, 3(1).
	Simon A. Hershon completes his dissertation entitled: <i>The problem of management succession in family businesses</i> , Harvard University.
	First dedicated family business consulting firm established: Bernhoeft Consultoria in Brazil (Founder: Renato Bernhoeft).
	Ralph Marotta Chair of Private Enterprise established at Loyola University. <i>While the original purpose was to promote free enterprise education, an interest in family business emerged in 1978.</i>
1976	Barnes and Hershon's article entitled: <i>Transferring power in the family business</i> published in Harvard Business Review, 53(4).
	Dailey, Thomas, and DeMong's article entitled: <i>Uncertainty and the family corporation</i> , Journal of General Management 4(2).
1977	Dailey, Thomas, and DeMong's article entitled: <i>The family owned business: Capital funding</i> , American Journal of Small Business 2(2).
1978	Streich Chair in Family Business established at Baylor University
	Becker & Tillman's book entitled: <i>The family owned business</i> published by the Commerce Clearing House, Chicago.
	Longnecker & Schoen's article entitled: <i>Management succession in the family business</i> published in Journal of Small Business Management, 16(3)
1979	Armangué Joaquín de Arquer publishes the first family business text book in Spanish: <i>La empresa familiar</i> . Ediciones Universidad de Navarra, Spain.
1980	Yoram Ben-Porath's article entitled: <i>The F-Connection: Families, Friends and Firms and the Organization of Exchange</i> published in Population Development Review, 6(1).
	Miriam Tashakori publishes <i>Management Succession: From the Owner-Founder to the Professional President</i> , Praeger Press, New York.
1981	Chair of Private Enterprise established at Kennesaw State College (now University).
	Elaine Kepner presents a workshop on <i>Family dynamics and family owned organizations</i> at the Gestalt Institute of Cleveland conference.
	Nobel Laureate Gary Becker publishes his economic look at the family, <i>A Treatise on the Family</i> . Harvard University Press.
1982	Wharton Family Business Program launched at the Wharton Applied Research Center.
	M. Craig Brown's article entitled: <i>Administrative succession and organizational performance: The succession effect</i> . Administrative Science Quarterly 27(1).
	Pat Alcorn publishes <i>Success and Survival in the Family-Owned Business</i> , McGraw-Hill, New York.
	John A. Davis completes his dissertation entitled: <i>The influence of life stage on father-son work relationship in family companies</i> . Harvard University. First presentation of the three-circle model on pages 14-15.
	Leslie Hannah compiles proceedings of the Eleventh International Economic

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	History Congress entitled: <i>From Family Firm to Professional Management</i> , Akademiai Kiado, Budapest. (several articles focus on patterns in the role of family capitalism across various nations).
1983	<i>Organizational Dynamics</i> publishes a special issue on family business studies (Co-Editors: Richard Beckhard and Warner Burke).
	Barbara S. Hollander completes her dissertation entitled: <i>Family-Owned Business as a System: A Case Study of Family, Task, and Marketplace</i> . Unpublished document, University of Pittsburgh.
	Karen L. Vinton completes her dissertation entitled: <i>The Small, Family-Owned Business: A Unique Organizational Culture</i> . Unpublished document, University of Utah.
	Bechtle completes <i>Die Sicherung der Führungsnachfolge in der Familienunternehmung (How to secure leadership succession in the family firm)</i> , University of St. Gallen, Switzerland. First FB study in German.
	Canadian Association of Family Enterprise founded in Canada (a not-for-profit association of family business owners, 15 founding directors).
1984	W. Gibb Dyer Jr. completes his dissertation entitled: <i>Cultural evolution in organizations: The case of a family owned firm</i> , Sloan School of Management, Massachusetts Institute of Technology.
	Yale establishes program for the Study of Family Firms.
	First MBA elective course entitled: <i>Management of the Family Business</i> offered at the University of Southern California.
	Akio Okochi and Shigeaki Yasuoka edit proceedings of the Tenth International Fuji Conference entitled: <i>Family business in era of industrial growth</i> , University of Tokyo Press.
1985	The College of Business, Oregon State University starts the second university-based Family Business Program in the US.
	Rosenblatt & deMik publish <i>The family in business</i> , Jossey Bass Publishers
	First Family Business Research Conference, University of Southern California (Chair: John Davis; 30 attendees; At the end of the conference, Barbara Hollander Chairs the FFI Organizational meeting).
	Robert Pollack's article entitled: <i>A transaction cost approach to families and households</i> published in the Journal of Economic Literature, volume 33.
1986	Founding of the Family Firm Institute Inc. (FFI) (Founding President - Barbara Hollander).
	W. Gibb Dyer Jr.'s book: <i>Cultural change in family firms</i> published as part of the Jossey-Bass series on Management of Family Owned Businesses (Consulting Editors: Richard Beckhard, Peter Davis, Barbara Hollander).
	Kennesaw State College (now University) establishes the Family Business Center.
	Andrew Errington edits, <i>The Farm As a Family Business: An Annotated Bibliography</i> . Agricultural Manpower Society, University of Reading Farm Management Unit.
1987	First Family Business Chair established in Europe at IESE Business School, University of Navarra, Barcelona.

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	John Ward's book: <i>Keeping the family business healthy</i> published as part of the Jossey-Bass series on Management of Family Owned Businesses (Consulting Editors: Richard Beckhard, Peter Davis, Barbara Hollander)
	Institute for Family Enterprise established at Baylor University.
	First family business study group launched in Europe by Executive-in-Residence Frank Tilley, IMI, Geneva, Switzerland.
1988	<i>Family Business Review</i> launched (Editor: Ivan Lansberg). A Jossey-Bass publication.
	First FFI research conference hosted by Boston University School of Management, (Chair: Marion McCollom Hampton; 40 attendees).
	Carl R. Zwerner endowed professorship in Family Business established at Georgia State University in US.
	First international education seminar launched at IMI, Geneva (<i>now IMD</i>) entitled: Leading the Family Business (Founders: Alden Lank & Frank Tilley; Faculty: John Davis, Ivan Lansberg, & John Ward).
	Gerald Stempler completes his dissertation entitled: <i>A Study of Succession in Family Owned Businesses</i> . Unpublished disstertation, George Washington University, Washington, D.C.
	James Richard Legler completes his dissertation entitled: <i>An Integrated Systems Framework for Analyzing Family Business Planning</i> . Unpublished dissertation, Oregon State University.
1989	The outstanding outsider and the fumbling family, by Thomas A. Teal and Geraldine E. Willigan. First family business case published in <i>Harvard Business Review</i> .
	FFI established the Best Doctoral Dissertation Award (First award recipient: Colette Dumas) and the Best Unpublished Research Paper Award (First award recipient: Stewart Malone).
	Wendy Handler completes her dissertation entitled: <i>Managing the family firm succession process: The next generation family member's experience</i> . Boston University.
	Premier issue of <i>Family Business Magazine</i> . Published by Family Business Publishing Company, Philadelphia. Chairman: Milton L. Rock.
1990	Founding of the Family Business Network (FBN). First FBN World Conference held in Switzerland chaired by FBNs founding President: Albert Jan Thomassen; 50 attendees. FBNs founding director: Alden G. Lank.
	First FB for credit Master's course offered in Europe at the School of Management and Organization, Groningen University, Netherlands.
	<i>Leading the Family Business Executive</i> program launched at the Universidad Adolfo Ibanez in Santiago, Chile (Founded by Jon Martinez; 60 participants, Offered twice a year).
	Loyola Family Business Center established.
1991	John L. Ward's book: <i>Creating effective boards for private enterprises: Meeting the challenges of continuity and competition</i> published by Jossey-Bass Publishers.
1992	First FFI Educators Conference hosted by Northeastern University Center for Family Business, Boston.

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	IMD Business School in Lausanne, Switzerland establishes family business chair.
	<i>Journal of Family and Economic Issues</i> publishes two special issues entitled: At-home income generation (Editors: Mary Winter; Ramona K.Z.Heck).
1993	First Mass Mutual Annual Gallup survey of family businesses, the first large sample study of FBs in the United States (Chair: Craig Aronoff).
	FBN organizes its first research conference at the Annual World Conference, hosted by Bocconi University, Italy (Co-Chairs: Guido Corbetta and Daniela Montemerlo).
	<i>Business History</i> publishes a special issue on <i>Family Capitalism</i> (Co-Editors: Geoffrey Jones and Mary B. Rose)
1994	Family Business Division established at the USASBE.
	<i>Entrepreneurship Theory & Practice</i> publishes a special issue on family business studies (Co-Editors: Gibb W. Dyer Jr., and Wendy Handler).
	FFIs Case Series Project launched (Editor – Jane Hilburt-Davis).
	FAMILYBIZ listserv established by Scott Kunkel, University of San Diego.
	International Family Business Program Association (IFBPA) founded. Annual conferences held from 1994-1998.
	Australian Center for Family Business, Bond University commences operations. First FB Center in Australia.
	Max Wortman publishes first major review article of family business studies in <i>Family Business Review</i> .
	First dedicated magazine for family businesses in Europe: Familiebedrijf. Published in Netherlands.
	Ibrahim and Ellis publish <i>Family Business Management: Concepts and Practice</i> , Kendall / Hunt Publishers. First family business text book in English.
1995	The first annual Psychodynamics of Family Businesses (PDFB) conference hosted by the Northwestern University (Chair: Ken Kaye).
	FFIs Body of Knowledge (BOK) task force created.
	Reginald Litz receives best paper award from the Entrepreneurship division of the Academy of Management for his article entitled: <i>The family business: Toward definitional clarity</i> (first family business article to be honored at the Academy of Management meetings).
	National family business forum hosted by Australian Center for Family Business in Sydney. First FB forum in Australia.
1996	<i>A Review and Annotated Bibliography of Family Business Studies</i> by Sharma, Chrisman, and Chua published by Kluwer Academic Publishers (first major annotated bibliography of family business studies).
	First Family Business concentration in management offered at the Texas Tech University.
	Melissa Shanker and Joseph Astrachan publish the first comprehensive estimate of the size of the family business sector in the U.S. economy (FBR, 9(2)).
	Cornell University Conference on the Entrepreneurial Family Building Bridges, New York (Proceedings entitled: The entrepreneurial family, published in

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	1998. Family Business Resources Ltd. Editor: Ramona K.Z.Heck).
1997	First National Family Business survey (first large study using household sample). 25 researchers from 17 institutions involved in this study. Findings reported in FBR special issue 7(3).
	Gersick, Davis, Hampton, & Lansberg's book entitled: <i>Generation to Generation</i> published by Harvard Business School Press.
	Family business courses introduced at Graduate and Undergraduate levels in Bond University, Australia. First FB courses in Australia.
1998	Sharma's dissertation receives the NFIB Best Dissertation award (First FB dissertation recognized by the Entrepreneurship Division of the Academy of Management).
1999	First Family Business professorship established in Northern Europe at the University of Jyväskylä, Finland.
	Founding of GEEF, the European Group of Owner Managed and Family Enterprises dedicated to family business lobbying at European level.
	Stetson University Conference on the Role of University based family business centers, DeLand, Florida (Proceedings edited by Greg McCann and Nancy Upton). Second conference held in 2001.
	International Family Business Program Association (IFBPA) merged with Family Business Division of the United States Association for Small Business and Entrepreneurship (USASBE).
	Tim Habbershon & Mary Williams publish the first paper using the resource-based view to explain the behavior of family businesses (FBR, 12(1)).
2001	International Family Enterprise Research Academy (ifera) founded (Founding President: Albert Jan Thomassen). First ifera conference hosted by INSEAD Fountainebleau (co-organizers: Christine Blondel and Nicholas Rowell; 35 attendees).
	First Theories of Family Enterprise (ToFE) conference co-hosted in Edmonton by the Universities of Alberta and Calgary. (Conference co-organizers: Jim Chrisman, Jess Chua, & Lloyd Steier).
	Gomez-Mejia, Nuñez-Nickel & Gutierrez's article entitled: The role of family ties in agency contracts published in the <i>Academy of Management Journal</i> .
	Schulze, Lubatkin, Dino & Buchholtz's article entitled: Agency relationships in family firms: Theory and Evidence published in <i>Organization Science</i> . First article to incorporate altruism and agency theory in a study of family business.
2003	<i>Journal of Business Venturing</i> publishes two special issues on family business studies (Co-Editors for 18(4) issue - Jim Chrisman, Jess Chua, & Lloyd Steier; and for 18(5) issue Ed Rogoff and Ramona Heck)
	<i>Entrepreneurship Theory & Practice</i> publishes the first of a continuing series of special issues on family business linked to the ToFE Conference (ETP special issue editors: Jim Chrisman, Jess Chua, & Lloyd Steier).
	Anderson & Reeb's article entitled: Founding-family ownership and firm performance: Evidence from S&P500 published in <i>Journal of Finance</i> .
	European Ministers of Economic Affairs and Finance gather in Madrid for special family business seminar (hosted by Mariano Puig and Fernando Casado, IEF, Spain).

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	Andrea Colli's <i>The History of Family Business, 1850-2000</i> published by the Cambridge University Press.
2004	Petrina Faustine establishes family business center in Indonesia (first family business center in Asia).
	First major in family business at the undergraduate level launched at Stetson University. 8 courses, 5 required, 3 elective.
	First <i>Family Business Casebook Annual</i> published (Eds. Joseph Astrachan, Panikkos Poutziouris & Khaled Soufani. Published by Kennesaw State University).
2005	International Masters Programme for Family Business established at the University of Jyväskylä, Finland (lectured in English and Finnish) and at the EHSAL European University College, Brussels, Belgium.
	First Family Enterprise Research Conference (FERC) hosted by the Austin Family Business Program, Portland (co-organizers: Mark Green and Pramodita Sharma; 55 attendees).
	Miller & Le-Breton Miller's book entitled: <i>Managing for the long run</i> published by Harvard Business School Press.
	Randall Morck edits <i>A history of corporate governance around the world: Family Business Groups to Professional Managers</i> .
	<i>Family Business Review</i> is listed in Social Science Citation Index (SSCI) and Current Contents / Social & Behavioral Sciences (CCBS) (Editor: Joseph Astrachan).
2006	First cross disciplinary undergraduate major in family business studies launched by University of Alberta's School of Business.
	Kennesaw's State University's Cox Family Enterprise Center launches the Best Family Business Paper award at the Entrepreneurship Division of the Academy of Management. (First award recipients: Reddi Kotha and Gerard George).
2007	Special issue of <i>Journal of Business Research</i> on Family Business Studies linked to FERC 06 conference (Co-editors: Jim Chrisman, Pramodita Sharma, Simon Taggar).

Source: Sharma, Hoy, Astrachan and Koiranen (2007, p. 1015-1017)

Table 2: Definitions of Family Business

Donnelley ([1964], 1988, p. 428)	A company is considered a family business when it has been closely identified with at least two generations of a family and when this link has had a mutual influence on company policy and on the interests and objectives of the family.
Barnes and Hershon (1976, p. 106)	controlling ownership rested in the hands of an individual or of the members of a single family.
Tagiuri & Davis ([1982], 1996, p. 199)	Organizations where one or more extended family members influence the direction of the business through the exercise on kinship ties, management roles, or ownership rights.
Davis (1983, p. 47)	It is the interaction between the two sets of organization, family and business, that establishes the basic character of the family business and defines its uniqueness.
Churchill & Hatten (1987, p. 52)	What is usually meant by ‘family business’...is either the occurrence or the anticipation that a younger family member has or will assume control of the business from an elder.
Ward (1987, p. 252)	We define a family business as one that will be passed on for the family’ s next generation to manage and control.
Lansberg et al. (1988, p. 2)	A business in which the members of a family have legal control over ownership.
Handler (1989, p. 262)	A family business is defined here as an organization whose major operating decisions and plans for leadership succession are influenced by family members serving in management or on the board.
Donckels and Fröhlich (1991, p. 149)	firms in which one family holds the majority of the shares and controls management.
Gallo and Sveen (1991, p. 181).	A business where a single family owns the majority of stock and has total control. Family members also form part of the management and make the most important decisions concerning the business.
Litz (1995, p. 78)	A business firm may be considered a family business to the extent that its ownership and management are concentrated within a family unit, and to the extent its members strive to achieve, maintain, and/or increase intraorganizational family-based relatedness (see also Arregle et al., 2007).
Sharma et al. (1997, p. 2)	A business governed and/or managed on a sustainable, potentially cross-generational, basis to shape and perhaps pursue the formal or implicit vision of the business held by members of the same family or a small number of families.

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Neubauer and Lank (1998, p. 8)	A family enterprise is a proprietorship, partnership, corporation or any form of business association where the voting control is in the hands of a given family.
Chua, Chrisman and Sharma (1999, p. 25)	A business 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.
Ang, Cole and Lin (2000, p. 87)	A single family controls more than 50 percent of the firm's shares.
Astrachan, Klein and Smyrnios (2002, p. 47)	In our view, there are three important dimensions of family influence that should be considered: power, experience, and culture. These three dimensions, or subscales, comprise the F-PEC, an index of family influence.
Chrisman, Chua and Sharma (2005, p. 557).	Family firms exist because of the reciprocal economic and noneconomic value created through the combination of family and business systems. This RBV perspective implies that the confluence of the two systems leads to hard-to-duplicate capabilities or “familiness”.
Kellermanns and Eddleston (2006, p. 816)	We defined family businesses for the purpose of this study as firms where ownership lies within the family and at least two family members are employed in the firm.
Zahra et al. (2007, p. 1074)	Companies where one family owned 51% or more of equity were classified as family firms.
Miller et al. (2007, p. 836)	We define a family firm as one in which multiple members of the same family are involved as major owners or managers, either contemporaneously or over time.

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KNOWLEDGE INTEGRATION AND DYNAMIC ORGANIZATIONAL ADAPTATION IN FAMILY FIRMS*

ABSTRACT

The speed of change in competitive environments has prompted firms to develop processes directed at enabling organizational adaptation. This is captured by the concept of dynamic capabilities. We focus on a particular form of business organization that is the family firm. Specifically, we argue that knowledge integration—a dynamic capability through which family members’ specialized knowledge is recombined—guides the evolution of capabilities. We present a general framework illustrating factors which affect knowledge integration in family firms. We conclude that only those family firms which are able to effectively integrate individual family members’ specialized knowledge will be successful in dynamic markets by changing their capabilities over time.

Keywords: Dynamic Capabilities, Knowledge Integration, Organizational Adaptation

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INTRODUCTION

In today's high-velocity environments, recognizing enablers of dynamic organizational adaptation is essential to sustainable competitive advantage. This is especially relevant in family firms, whose specific threats to trans-generational success and survival have long been discerned. The speed of change in competitive environments has driven firms to develop processes directed at changing existing capabilities —their idiosyncratic, path dependent ways of doing business— to increase their strategic adaptiveness and competitive fit. This is captured by the notion of dynamic capabilities (DCs), which offers an explanation of the evolutionary nature of capabilities (e.g., Teece et al., 1997; Eisenhardt and Martin, 2000; Winter, 2003).

The bedrock of the DCs concept lies deep in notions of organizational knowledge and knowledge recombination. As Penrose (1959) first noted, the cumulative knowledge of the firm provides options to expand in new markets and businesses in the future, hence matching, if not creating, environmental dynamism. Building on this premise, the DCs perspective suggests that firms learn new skills at increasingly higher levels, by recombining knowledge embodied in capabilities (e.g., Kogut and Zander, 1992; Teece et al., 1997).

Despite the intuitive appeal of this approach, it has been a task of considerable complexity to identify the knowledge-related units of analysis driving organizational adaptation, the underlying causal mechanisms, and the outcomes at the level of competitive advantage. The fundamental explanatory notions of the knowledge-based approach to organizational adaptation —notions such as routines, capabilities, competencies and DCs— are aggregate concepts that may be located in teams, firms, among firms, and even in industrial districts and industries (Foss, 2005). As a result, the micro-foundations of the DCs approach are still unclear, hence hampering the value of this concept for both theory and practice.

- Knowledge Integration and Dynamic Organizational Adaptation in Family Firms -

In this paper we advance a conceptual model of dynamic knowledge recombination in family firms, by exploring the family-specific antecedents of knowledge integration (KI) among members of the controlling family contemporaneously active within the controlled business. KI empowers the recombination of family members' specialized knowledge, whereby the ensuing sum is greater than its components. Since KI requires the co-presence of multiple agents in the organization (Grant, 1996a; Tiwana and McLean, 2005), our model is valid for family firms in which multiple members of the same family are actively involved in the controlled business (Miller et al., 2007, p. 836). We believe that a focus on family firms may both advance knowledge on the micro-foundations of DCs in any type of firm, and help us understand *why* some family firms are more successful than others in dynamic markets —i.e., markets in which the competitive landscape shifts quickly and unexpectedly, and change must be promoted to survive (Eisenhardt and Martin, 2000).

The potential insights that can be gained by addressing DCs from a family-firm perspective result from the unique features of capabilities in family firms. Capabilities are unique in family business since they result from the interactions between the family, its individual members and the business (Sirmon and Hitt, 2003). Family firms are depicted as emotionally committed organizations characterized by intense interactions among family members within the family and the business. For these reasons, they represent an interesting arena to study KI processes underlying the dynamic evolution of capabilities. The family business is the only organization in which family members are simultaneously active in the family and the business, hence significantly influencing —in both positive and negative ways— knowledge-integration processes. The density of social interactions typical of family firms may hence shed light on the underlying mechanisms through which DCs are formed and knowledge consequently

recombined. Although family business research has addressed the importance of knowledge (e.g., Cabrera-Suarez et al., 2001), little attention has been paid to KI and to the antecedents of such integration. This paper is hence focused on KI as a DC characterized by peculiar forms in family firms, which allows illuminating its functioning in any type of organization.

The paper is organized as follows. We first present a concise review of the literature on DCs, illustrating why a focus on KI in family firms may significantly advance our knowledge. We then propose a model of relevant family-specific antecedents of KI and resulting capabilities evolution in family firms, and we develop corresponding propositions. In the concluding section we discuss our main contributions and present their implications for research and practice. Our work contributes to unveiling the mechanisms behind the evolution of capabilities in family firms. Exploring family-specific antecedents of KI offers valuable contributions to both our understanding of sustainable competitive advantage in family firms, and of the causal mechanisms underlying dynamic adaptation within any kind of organization.

MICROFOUNDATIONS OF DYNAMIC CAPABILITIES IN FAMILY FIRMS

Although the construct of DCs has received considerable attention in the strategic management literature (e.g., Teece et al., 1997; Eisenhardt and Martin, 2000; Zollo and Winter, 2002; Winter, 2003), little research has been devoted to studying DCs in family firms. This omission may result in a considerable weakness of the field, as family firms are usually depicted as thriving on heavily path-dependent abilities, which are hence difficult to adapt to changing environments (Salvato and Melin, forthcoming; Koiranen and Chirico, 2006).

An organizational capability is a routine, or assemblage of routines, allowing an organization to perform a specific task or activity (Nelson and Winter, 1982). For instance,

organizations grow capabilities in product-development, distribution or marketing. Strategic management literature distinguishes ordinary capabilities from DCs. DCs are connoted by change. They are defined as higher-level routines which govern the rate of change of ordinary capabilities. Zahra et al. (2006) note that the use of DCs keeps capabilities fresh and becomes imperative to avoid that capabilities become ‘core rigidities’ (Leonard-Barton, 1992) when the environment is dynamic. Ordinary capabilities enable an organization to ‘make a living’ in the short term (Winter, 2003). Rather, DCs allow a firm to extend, modify or create ordinary capabilities by accessing and recombining knowledge, hence enabling success over time (Collis, 1994; Teece et al., 1997; Eisenhardt and Martin, 2000; Zollo and Winter, 2002). Existing literature (see Table 1) is hence conceptualizing DCs as those higher-level capabilities through which an organization changes (i.e., modifies or builds) its capabilities to match high-velocity environments. For instance, Zahra et al. (2006) distinguish a capability, the ability to develop new products, from a DC, the ability to change the way new products are developed.

How do DCs confer a competitive edge over rivals? Although DCs are idiosyncratic in their details, they exhibit commonalities across firms. In other words, DCs show equifinality, which denotes that they may engender similar outcomes (e.g., product development) across different types of organizations (Eisenhardt and Martin, 2000). What truly differentiates DCs across firms, hence conferring superior competitive features, are the mechanisms through which they are generated and sustained. In the original conceptualization proposed by Teece et al. (1997, p. 518), the ability shown by some firms to dynamically adapt their competitive advantage lies with their organizational processes, that is, their “patterns of current practice and learning”. These patterns of interaction are resident in group behavior, and significantly shaped

by path-dependencies. As learning tends to be local, ‘history matters’ heavily in determining the attributes of a firm’s capabilities and their adaptive potential.

Family firms are hence ideal settings to explore the micro-foundations of DCs, allowing a vivid understanding of the social interactions and cognitive attitudes which deeply influence KI. As any organizational capability, DCs yield a sustainable competitive advantage only if they are rare, valuable to the market, difficult or costly to imitate by rivals, and nonsubstitutable (Barney, 1991). In family firms they are rendered that way by the family-specific factors spawned by idiosyncratic knowledge-recombination and knowledge-manipulation practices and their subtle configuration (Miller and Le Breton-Miller, 2005). In the next section, family-specific antecedents of KI and their impact on the dynamic evolution of capabilities is hence discussed within the context of family organizations.

Table 1: Definitions of Dynamic Capabilities

Collis (1994, p. 148)	These capabilities supersede any static organizational capabilities very quickly, and if they are themselves hard to imitate, can therefore be a better source of sustainable competitive advantage
Teece, et al. (1997, p. 515, 516)	The firm’s ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments...The term “dynamic” refers to the capacity to renew competences
Helfat (1997, p. 339)	Dynamic capabilities enable firms to create new products and processes and respond to changing market conditions
Eisenhardt and Martin (2000, p. 1107)	The firm's processes that use resources-specifically the processes to integrate, reconfigure, gain and release resources to match and even create market change. Dynamic capabilities thus are the organizational and strategic routines by which firms achieve new resource configurations as markets emerge, collide, split, evolve, and die
Lee et al. (2002, p. 734)	A newer source of competitive advantage...in conceptualizing how firms are able to cope with environmental changes
Zahra and George (2002)	Dynamic capabilities are essentially change-oriented capabilities (see Zahra et al., 2006, p. 922)

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Zollo and Winter (2002, p. 340)	A dynamic capability is a learned and stable pattern of collective activity through which the organization systematically generates and modifies its operating routines in pursuit of improved effectiveness
Zott (2003, p. 98)	The ability to generate alternative resource configurations by way of imitation and experimentation
Winter (2003, p. 991)	Those that operate to extend, modify or create ordinary capabilities
Marsh and Stock (2003, p. 138)	“Dynamic capabilities” that enable the firm to adapt, to integrate, and to reconfigure the firm’s capabilities to succeed in the changing business environment
Nielsen (2006, p. 59-60)	Dynamic capabilities enable the firm to react to changing market conditions by developing and renewing its organizational capabilities thereby achieving and sustaining competitive advantage
Zahra et al. (2006, p. 921)	The dynamic ability to change or reconfigure existing substantive capabilities
Wang and Ahmed (2007, p. 35)	A firm’s behavioral orientation constantly to integrate, reconfigure, renew and recreate its resources and capabilities and, most importantly, upgrade and reconstruct its core capabilities in response to the changing environment to attain and sustain competitive advantage
Schreyögg and Kliesch-Eberl (2007, p. 914)	The notion of ‘dynamic’ is developed to addressing the continuous renewal of organizational capabilities, thereby matching the demands of (rapidly) changing environments

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The DCs approach has been explicitly developed to overcome the excessive focus of the resource-based view (RBV) on exploiting existing firm-specific assets. Although RBV invites consideration for managerial value-creating strategies for developing new capabilities (e.g., Barney, 1991), issues such as skill acquisition, the management of knowledge and know-how, and learning are fundamental strategic phenomena kept by RBV in the background. In contrast, the DCs approach sees the greatest potential for contributions to strategy in the knowledge

dimension, “encompassing skill acquisition, learning, and accumulation of organizational and intangible or ‘invisible’ assets” (Teece et al., 1997, p. 514).

The DCs approach is hence essentially a knowledge-based approach (Foss, 2005). Knowledge is the organizational asset most likely leading to enduring success. It is socially complex and difficult to imitate (Polany, 1967; Barney, 1991; Nonaka and Takeuchi, 1995; Grant, 1996a). Knowledge is viewed as the relevant and actionable information based on experience and education (Nonaka and Takeuchi, 1995; Cabrera-Suarez et al., 2001) which shapes a firm’s capabilities (Eisenhardt and Martin, 2000; Zollo and Winter, 2002). For this reason, DCs rely extensively on a firm’s existing and new knowledge, and on the organization’s ability to integrate both explicit and tacitly held knowledge. Their main outcome is hence knowledge recombination (Grant, 1996a; Kogut and Zander, 1992; Kusunoki et al., 1998).

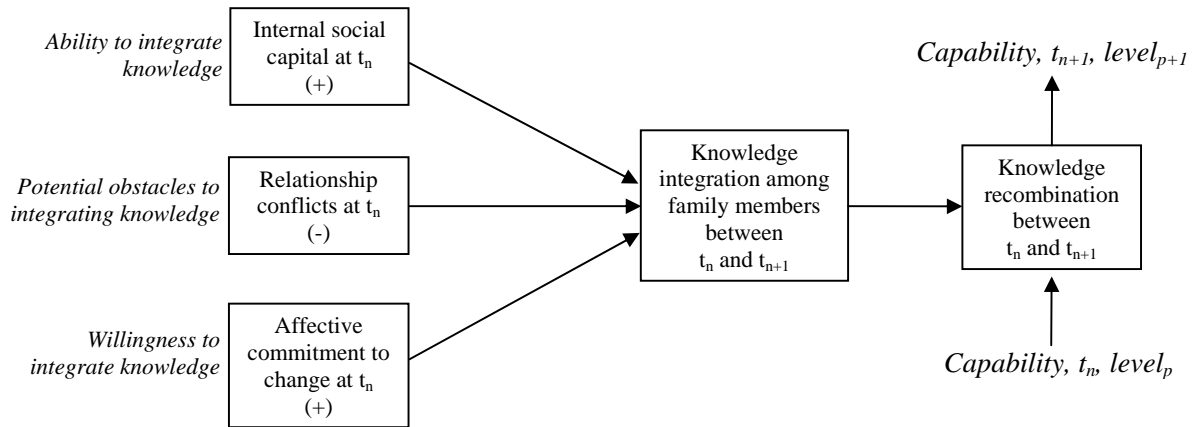
A stylized representation of our line of thought is depicted in Figure 1. Capabilities exist at different levels of relevance to a firm’s survival and competitive success (Collis, 1994; Winter, 2003). In Figure 1, Capability t_n , level_p, and Capability t_{n+1} , level_{p+1} represent a family firm’s capabilities at time n , and at time $n+1$, respectively. Between n and $n+1$ recombination of new and existing knowledge allows the family firm to enhance the capability from level p to level $p+1$ in response to environmental dynamism. Our main argument is that KI occurring among family members between n and $n+1$ enables this process, hence representing an instance of the firm’s DC. The model should display several orders of capabilities, constantly updated and improved to match environmental changes (Collis, 1994; Winter, 2003). However, to simplify the explanation Figure 1 only considers two periods, t_n and t_{n+1} .

Figure 1 illustrates those factors which are consistently indicated by extant literature as the main antecedents of KI among family members (Grant, 1996a; Tiwana and McLean, 2005;

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Enberg, 2007). These are: i) the stock of internal social capital available to the controlling family at time n , which determines the *ability* to integrate existing and newly accessed knowledge; ii) family members' affective commitment to change at time n , which reflects their *willingness* to integrate knowledge; iii) the degree of relationship conflicts at time n , resulting from previous interactions among family members, which embodies potential *obstacles* to KI. The theoretical explanations are presented in the next sections.

Figure 1: Knowledge Integration and Dynamic Organizational Adaptation in Family Firms



Knowledge integration

Focusing on KI among family members bears a significant potential in illuminating the micro-foundations of DCs and of organizational adaptation. Processes of knowledge accumulation and integration take vivid forms in family firms, in particular when tacit knowledge is involved. Living within the family and working within the business from an early age allows family members to develop deep levels of firm-specific tacit knowledge (Zahra et al., 2007). It is, certainly, also of vital importance to absorb knowledge from outside, since family members cannot be expected to develop all relevant knowledge within a family business. Knowledge must hence be also updated to avoid obsolescence (Cohen and Levinthal, 1990;

Zahra and George, 2002). However, since the manipulation of knowledge is particularly important in environments of rapid change (Grant, 1996a, b; Spender, 1996), knowledge accumulation and acquisition processes are crucial, but unable to sustain the evolution of capabilities when the environment changes. Hence, we focus our attention on KI, assuming given endowments of existing or accessible knowledge, and given levels of managerial awareness about the need to upgrade the firm's knowledge stock (Chen, 1996; Ferrier, 2001).

Knowledge usually resides within individuals (Nonaka, 1994). Postrel (2002) describes individual specialized knowledge as the specific expertise possessed by an individual in a given domain to perform a specific task or activity in that specific domain. This implies that KI is a fundamental process through which firms gain the benefits of knowledge. Enberg (2007, p. 10) defines KI as a collective process through which different pieces of specialized knowledge from different individuals are recombined "with the purpose of benefiting from knowledge complementarities existing between individuals with differentiated knowledge bases". In the long run, organizations cannot be distinguished by how much they know but by how well they use what they differently know through the integration of organizational members' knowledge.

Since KI emerges from repeated interactions between individuals and can be better developed by close-knit groups who identify themselves with a larger collective (Kogut and Zander, 1992), family firms are an interesting organizational form to study KI. The interaction of two social systems —the family and the business— enables family members to act simultaneously within the family and the business. This creates a specific context for KI, which can be conducive of both positive and negative outcomes (Sirmon and Hitt, 2003; Zahra et al., 2007).

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Strategy theorists label KI as the cornerstone of DCs (e.g., Eisenhardt and Martin, 2000; Alavi and Tiwana, 2002). Specifically, given that an organizational capability resides in knowledge embodied within individuals (Grant, 1996a), we argue that the evolution of capabilities in family businesses is guided by the integration of knowledge, especially tacit knowledge, among family members active in the firm, rather than by knowledge itself. Accordingly, the integration of family members' specialized knowledge, viewed as a DC, may enable a family business to adapt its capabilities to environmental changes (see Figure 1) (Kogut and Zander, 1992; Zollo and Winter, 2002; Zahra et al., 2007).

There are countless situations in which organizational members need to integrate their knowledge with each other to realize its value. Examples include product development groups working on a common product. A family firm may have specific capabilities in product making. But these capabilities may not be sufficient to be successful in dynamic markets while the demand of customers changes continually. Accordingly, family members need to integrate their individual specialized knowledge in order to change the family organization's product-making capabilities and create new products according to the changing demand of customers. Consequently, new capabilities in product-making will be developed.

Hence, the successful execution of a product development process highly depends on how individual knowledge bases are integrated. Nonaka and Takeuchi (1995, p. 242) observe that "the product development process emerges from the constant interaction of a multidisciplinary team whose members work together from start to finish". Hence, it would not be reasonable for each family member to learn all the knowledge possessed by the other family members. Rather, it is more efficient to integrate individual family members' specialized knowledge while reducing the time spent transferring knowledge between them. For instance, Alavi and Tiwana

(2002, p. 1031) posit that “the time demand of knowledge acquisition and transfer might lead to the inability of the organization to respond in a timely manner ... integration of existing and new knowledge is by definition a more efficient response mechanism” to high-velocity environments.

In so doing, each family member contributes to KI and capabilities’ change through his/her specific expertise. Although higher-order capabilities [Capability t_{n+1} in Figure 1] involve the integration of lower-level capabilities [Capability t_n], such integration can only be achieved through integrating individual knowledge (Grant, 1996a). Similar arguments are developed by Henderson and Cockburn (1994) through the concept of ‘architectural competence’ and by Kogut and Zander (1992) through the concept of ‘combinative capabilities’. In formal terms:

Proposition 1: *KI among family members will be positively associated with dynamic adaptation of capabilities in family business.*

Antecedents of knowledge integration

In this section we illustrate those factors which are systematically described by extant literature as more likely to affect the integration of individual family members’ specialized knowledge and the ensuing evolution of family firm capabilities (Grant, 1996a; Tiwana and McLean, 2005; Enberg, 2007): internal social capital, affective commitment to change and relationship conflicts (see Figure 1).

Internal social capital

Social capital is defined by Arregle et al. (2007, p. 75) as “the relationships between individuals ... that facilitate action”. It involves both relationships between organizational members (internal social capital) and external parties (external social capital; Adler and Kwon, 2002). In this paper, focus is on internal family-business social capital. Prior studies indicate the

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positive influence of social capital on KI. Dynamic KI largely depends on the social context within an organization (Kusunoki et al., 1998). By increasing understanding between actors and reducing the time and effort associated with developing an agreement in the network (e.g., Tiwana and McLean, 2005; Bhandar et al., 2007), KI is greatly facilitated.

Family firms are characterized by socially intense relations between family members, which also occur informally outside the work context. These relations are developed through a history of interactions and mutual trust which make it less likely to discredit each other's ideas and perspectives (e.g., Sirmon and Hitt, 2003). The family business structure, based on close interaction of kinship ties and reciprocal trust, encourages the existence of strong family relations, which in turn enable family members to easily integrate their individual specialized knowledge to promote action. Arregle et al. (2007, p. 77) suggest that "social capital developed in the family is probably one of the most enduring and powerful forms of social capital". The reason is that the four factors proposed by Nahapiet and Ghoshal (1998) as most conducive of social capital (i.e., stability, interdependence, interaction and closure) take particularly strong forms in family firms. The following descriptions highlight the most salient features of these dimensions of social capital in family firms.

Stability: Social capital constitutes a form of accumulated history in which time allows organizational members to build stable relations in the long run (Nahapiet and Ghoshal, 1998). Given that family members live within the family and work within the business from an early age, stable relations exist in family organizations (Arregle et al., 2007).

Interdependence: Social relations are eroded when organizational members become less dependent upon each other. On the opposite, mutual interdependence fosters social capital (Nahapiet and Ghoshal, 1998). According to the family business literature, kinship relationships

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make family members dependent on each other (e.g., Arregle et al., 2007), hence strengthening their mutual bonds.

Interaction: Since social capital increases with use, repeated interactions between actors enhance social relationships (Nahapiet and Ghoshal, 1998). Family members have the opportunity to interact with each other very often in formal and informal meetings within the family and the business (see Zahra et al., 2007). In particular, family meetings facilitate social interactions by developing shared beliefs based on consensus after discussion and debate among participants, hence leading to renewed collective actions (Sorenson, 1999).

Closure: Strong communities based on dense social relationships which distinguish members from non-members enhance interconnections among organizational members (Etzioni, 1996). In family firms, closure is enhanced by the family, which develops internal relations through kinship (Arregle et al., 2007). This facilitates the emergence of norms and maintains the trustworthiness among family actors, thereby increasing familial social relations. Indeed, family firms are depicted as organizations with a high sense of community, in which family members experience shared realities (Miller and Le Breton-Miller, 2005).

In addition, Nahapiet and Ghoshal (1998) stress the importance of those social relations based on a *common system of meanings* (e.g., in terms of language, words, expressions or even body movements), which facilitates the common understanding of collective goals and proper ways of acting in concert. A common system of meanings is usually strongly developed between family members, thereby allowing them to discuss and exchange information easily and to perform specific tasks or activities efficiently and rapidly through predictable patterns of collective behavior. For instance, Tagiuri and Davis (1996, p. 204-205) notice that “over the many years of shared experiences between relatives special words, phrases, expressions, and

body movements evolve that have agreed upon meanings. Private languages, ‘family languages,’ allow family members to communicate more efficiently than is generally possible among nonrelatives, even among close friends. This can permit relatives to exchange more information with greater privacy and arrive at decisions more rapidly than can two nonrelatives”. Similarly, Grant (1996a) refers to common knowledge in terms of common vocabulary, conceptual knowledge, shared experience and behavioral norms as an essential prerequisite for the integration of different knowledge components.

Therefore, although KI is not achieved by transferring knowledge —so that each individual involved in the collective action knows the same things— it requires at least that knowledge can be effectively communicated between individuals through close and stable social relations (Grant, 1996b). This allows family members to rapidly build on each other’s knowledge, hence changing organizational capabilities when needed.

According to this logic, high levels of internal social capital based on stability, interdependence, interaction, closure and a common system of meanings, allow family members to efficiently integrate their individual specialized knowledge. This promotes the evolution of capabilities and the family firm’s ability to respond appropriately to environmental dynamism and, at times, to generate change (see Figure 1). In formal terms:

Proposition 2: *Internal social capital among family members will be positively associated with KI in family business, hence sustaining dynamic adaptation of capabilities over time.*

Affective commitment to change

Commitment is a multidimensional construct. It is defined by Meyer and Herscovitch (2001; see also Meyer and Allen, 1991) as a frame of mind that binds an individual to a course of action of relevance to a target. They distinguish between affective commitment (i.e., desire to

follow a course of action), normative commitment (i.e., perceived obligation to follow a course of action) and continuance commitment (i.e., perceived cost of not following a course of action). Since Meyer and Herscovitch (2001) specify that, among the three forms of commitment, affective commitment is able to predict a wider range of behaviors and given that Sharma and Irving (2005, p. 16) recognize that “the typical usage of the term commitment in the family business literature is consistent with the definition of affective commitment”, we refer to this type of commitment in our research.

Affective commitment is associated with a strong positive emotion toward a specific target. In particular, family members are depicted as being strongly committed to the family business and to its continuity across generations. The empirical analysis performed by Randall et al. (1990) revealed that affective commitment contributes significantly to KI between organizational members. Herscovitch and Meyer (2002) found that higher levels of affective commitment are associated with successful organizational changes. Affective commitment to change in a family business context can hence be seen as an emotional force binding family members to a course of action conducive of change initiatives aimed at remaining competitive in a dynamic market (see Figure 1).

Therefore, affective commitment stems from the desire to provide support to change. In this sense it is strongly related with family members’ willingness to make changes, which may differentiate successful family firms from their less successful counterparts during environmental shifts. Family members with a strong affective commitment to a change initiative may be willing to go above and beyond the call of responsibility and exert extra efforts on behalf of the organization to find a way to make capabilities’ change possible (see Meyer and Herscovitch, 2001; Sharma and Irving, 2005). In other terms, family members who are affectively committed

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to change will adapt their behavior to be consistent with the spirit of change. Their mindset will direct attention to the intended capabilities' change outcome, thereby allowing them to do their best to integrate knowledge and achieve that outcome. As reported by Herscovitch and Meyer (2002), collective interaction is influenced by affective commitment. Such commitment encourages individuals to work cooperatively and to perform assigned tasks and needed changes (see Beckhard and Dyer, 1983; Herscovitch and Meyer, 2002) to the best of their ability, in order to accomplish organizational goals (Sharma and Irving, 2005). In so doing, family members feel satisfied since they know they are contributing to the success of their own business and to its continuity over time. Hence, affective commitment is viewed as one of the most important factors in supporting change, as it promotes KI between organizational members (Beckhard and Dyer, 1983; Nonaka, 1994; Grant, 1996a, Hersovitch and Meyer, 2002).

However, commitment can also be a source of resistance to change. Research reveals that family organizations are often reluctant to change even when change is needed. Founders and their heirs are often focused and emotionally attached to the traditional way of doing business and may hence resist transformation (Beckhard and Dyer, 1983; Kellermanns and Eddleston, 2006). They tend to consider the historical business as part of their identity, if not an extension of self. This attitude may give rise to inappropriate strategies. According to Dyer (1994, p. 125), "feeling and emotions related to change are likely to be deeper and more intense" in family than in non-family firms, hence making capabilities change more difficult. This rigidity may prevent a family organization to adapt to environmental shifts. For instance, if some family members are not emotionally committed to a change initiative, they may not integrate their knowledge deliberately (deliberate sabotage; see Coetsee, 1999). On the opposite, highly committed family members are likely to provide emotional support to change, hence making KI more timely and

efficient. Hence:

Proposition 3: *Family members' affective commitment to change will be positively associated with KI in family business, hence sustaining dynamic adaptation of capabilities over time.*

Relationship conflicts

Family involvement in the business may also hamper KI. Family firms are “fertile environment for conflict”, which results “from the dominant presence of the family, setting the rules and having ultimate power, the lack of formalized systems and structures to deal with conflict ... and the commingling of business and family roles” (Harvey and Evans, 1994, p. 345). There are different forms of conflict in organizations. However, since interpersonal relationships tend to be the most prominent source of familial conflicts (Kellermanns and Eddleston, 2004), in this paper focus is on *relationship conflicts*, rather than on *task conflicts* —disagreements about the content of the task being performed— and *process conflicts*, which involve disagreement “about how task accomplishment should proceed in the work unit, who’s responsible for what, and how things should be delegated” (Jehn, 1995, p. 540).

Family firms are prone to marital discord, sibling rivalry and children’s desire to differentiate themselves from their parents. Hence, to some extent the family itself makes conflict a prominent characteristic of family firms (Sorenson, 1999). This may be conducive of resistance to KI and change (Beckhard and Dyer, 1983; Eddleston and Kellermanns, 2007; Zahra et al., 2007). Emotional or relationship conflicts may result from interpersonal emotional incompatibilities among actors within a group (Jehn, 1995; 1997). Such conflicts are viewed as unproductive since they generate tension, irritation, suspicion and resentment among organizational members. Relationship conflicts undermine the potential advantages of group

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interaction and reduce the effectiveness and efficiency of an organization, thereby preventing the integration of different individual knowledge (Jehn, 1995).

Kellermanns and Eddleston (2004, p. 213) view relationship conflicts within a family organization as familial “feelings leading to suspicion and resentment”, as they are based on family members’ emotions which are usually amplified in this type of organization. They may be particularly detrimental to family firms given that they are continually fuelled by the repetitive interactions occurring within and outside the business. For instance, Jehn (1995) recognizes that conflicts have greater negative effects in highly closed and interdependent communities than in other groups.

Interpersonal family conflicts enhance negative reactions and make family members displeased with the family group in which they work. Accordingly, relationship conflicts limit information exchange and prevent change even when needed by decreasing mutual understanding among individuals which is essential for KI (Beckhard and Dyer, 1983; Kellermanns and Eddleston, 2004; Eddleston and Kellermanns, 2007; Zahra et al., 2007). In addition, social interactions outside the business environment may increase relationship conflicts between family members with negative consequences on their ability to work effectively together as a team. Consequently, assessing and accepting new ideas provided by other family members may become more difficult. Jehn (1995) identifies protracted conflicts as costly in time and effort since they deter members’ ability to integrate valuable individual knowledge.

Relationship conflicts lead family members to fight each other rather than take advantages from the joint utilization of their knowledge. Time and energy are devoted to resolve conflicts rather than acting to adapt the organization to the changing environment. Conflicts result in an unwillingness of family members to share business information with others, which in

turn restricts a family firm's growth and performance. In contrast, family firms that encourage knowledge sharing about firm specific processes tend to be more innovative and efficient (Eddleston and Kellermanns, 2007, p. 559). To sum up, relationship conflicts prevent family members from integrating each other's knowledge and may hence turn the family firm's core capabilities into core rigidities, hence preventing organizational adaptation (see Figure 1). In formal terms:

Proposition 4: *Relationship conflicts among family members will be negatively associated with KI in family business, hence hampering dynamic adaptation of capabilities over time.*

DISCUSSION AND CONCLUSIONS

Our objective in this article was to shed light on factors shaping the evolution of capabilities through a focus on the family-specific micro-foundations of DCs in family firms. We argue that the critical source for success in dynamic markets is KI, through which different components of family members' specialized knowledge are recombined. Consequently, organizational capabilities can be modeled to adapt the family organization to environmental shifts. Strategic management literature combined with specific family business literature helped us identify factors which influence KI and consequently the evolution of capabilities in family business. The proposed model incorporating our propositions is presented in Figure 1.

Our conceptual analysis highlights the role played by internal social capital and affective commitment to change on KI in family business. Internal social capital increases mutual understanding between family members, while family members' affective commitment to change provides emotional support to KI. On the opposite, relationship conflicts based on strong,

often negative, familial emotions are depicted as detrimental to KI by leading family members to fight with each other rather than benefiting from the joint utilization of their knowledge.

Based on the review of the existing literature, our analysis suggests that only those family firms characterized by high levels of internal social capital and affective commitment to change, and low levels of relationship conflicts, will be able to successfully adapt to dynamic markets.

Limitations

The approach we proposed to the interpretation of dynamic organizational adaptation in family firms may be limited by its exclusive focus on family firms operating in dynamic markets. Although several studies suggest that DCs are key within dynamic environments (e.g., Teece et al., 1997), other studies challenge this view. For instance, Zollo and Winter (2002, p. 340) note that “firms obviously do integrate, build, and reconfigure their competences even in environments subject to lower rates of change”. Similarly, Zahra et al. (2006, p. 922) notice that “Dynamic capabilities *may* be most valuable when the external environment is changing” but a dynamic environment “is not a necessary component of a dynamic capability”. Thus, it is important for researchers to focus also on family firms operating in static environments where they may spontaneously create dynamism through KI.

Moreover, our article assumes that family firm members have sufficient knowledge internally about external factors to adapt to a dynamic environment. Thus, even though it was not our purpose, the process by which these members have access to external critical environmental knowledge (*awareness*; Chen, 1996) is not currently addressed in the paper. For instance, this knowledge may be obtained by hiring an outsider.

Additionally, the theoretical model currently includes the negative effect of relationship conflict on KI. However, it does not consider other forms of conflict that may be valuable, particularly in a changing environment. For example, Kellermanns and Eddleston (2004, p. 211) posit that “without task conflict, family firms may have difficulty adapting their strategies and goals to new environments”. Moderate levels of task conflict which entails disagreements about goals and strategies to be pursued (see Jehn, 1995; Kellermanns and Eddleston, 2004) may enable group members to identify diverse perspectives by openly discussing the course of action to pursue so as to improve decision-making outcomes.

Contributions

Despite these limitations, two main contributions emerge. First, the present research contributes to filling the gap in the family business literature regarding the study of DCs. Our paper is an effort directed to studying the evolutionary nature of capabilities through KI in a family business context. Specifying factors which affect the integration of family members’ specialized knowledge allowed us to expand existing research on family firms’ ability to adapt capabilities when environments shift. To achieve this goal, we have combined the strategic management literature on DC and KI, and applied it to the family business.

Second, our findings shed some light on the micro-foundations of DCs in any type of firm. Unveiling some important antecedents of KI clarifies the nature of DCs as knowledge-access and knowledge-recombination processes. This awareness opens up new avenues for both further research into other determinants of DCs, and managerial manipulation of these variables aimed at improving the adaptive chances of organizations active in dynamic environments.

Research implications

The present work suggests some areas for future research. First, empirical studies are needed to test the relationships suggested in this paper and, in particular, the degree to which internal social capital, affective commitment to change and relationship conflicts influence the level of KI among family members and the resulting evolution of capabilities. Given the presence of endogenous variables and possible feedback loops, empirical research may adopt a structural equation modeling approach. However, future empirical work should also assess whether or not the independent variables directly affect knowledge recombination, without the mediation of KI. Moreover, inter-relationships among the three constructs (i.e., internal social capital, affective commitment to change and relationship conflicts) may be also taken into consideration by looking at the moderating effects of those constructs over KI. To perform these tests, existing measures of the main constructs will need to be adapted to the family business context.

Second, our model may be extended by taking into consideration additional factors affecting the stock of knowledge available to the family firm for integration. It may hence be interesting to explore how relevant knowledge is sometimes accessed from outside the family before being integrated among family members (Cohen and Levinthal, 1990; Zahra and George, 2002). The model could also be significantly enhanced by considering the relevance of KI not only among family members, but also between family and non-family members. Moreover, since resource shedding can also be interpreted as a precondition for resource access and recombination (Sharma and Manikutty, 2005), future studies may explore its impact on knowledge recombination.

Finally, further time and process dimensions may also enrich our model. In this respect, additional studies may be directed at investigating the process through which family members' specialized knowledge is accumulated within the organization. Our understanding of processual issues in KI may also be furthered by an investigation of the role played by strategic consensus among family members in facilitating KI. The negative effects of some specific familial behaviors, such as nepotism on a family firm's opportunity to integrate outsiders' knowledge may also be worth being explored (Zahra et al., 2007). Finally, further research could be directed to studying how the specific constructs of our model evolve across generations (see Astrachan et al., 2002) and, in particular, how 'generational involvement' may affect the overall process described in Figure 1.

Implications for practice

Ideas presented in this article provide some suggestions for family business managers and advisors. First, it is essential to understand that effective KI is important for sustaining the evolution of capabilities. To achieve this goal, family members need to be open, that is, support initiatives, new challenging ideas, radical thoughts and actions or simple suggestions even when they contrast beliefs of the dominant coalition. But as feelings and emotions related to change are intense in family business, managers should expect high levels of resistance to change.

This problem can be addressed by supporting open and collaborative exchanges of information at all levels. Participation is one of the most favored methods of overcoming resistance to changes in organizations (Dirks et al., 1996). Accordingly, social relations which are essential for KI need to be "multifaceted so that there is always room for revision or negation" and "participants in the dialogue should be able to express their own ideas freely and

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candidly” (Nonaka, 1994, p. 25). For instance, when the incumbent generation does not allow the new generation to participate in decision-making, change is prevented. Accordingly, the previous generation must have the flexibility to explore and accept the new knowledge and the new way of doing things of the new generation. At the same time, the new generation must appreciate the previous generation’s knowledge and contribution to the firm (see e.g., Kellermanns and Eddleston, 2004). Certainly, such mutual respect and interaction should also exist between family members belonging to the same generation.

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KNOWLEDGE ACCUMULATION IN FAMILY FIRMS*

ABSTRACT

The aim of the present study is to make a contribution to the understanding of how knowledge can be accumulated in family business. Four family firms from Switzerland and Italy are part of this research. Existing literature combined with the case studies analyzed lead to the development of a knowledge model which outlines factors responsible for knowledge accumulation viewed as an ‘enabler of longevity’ in family business. The relationships depicted in the model can be read by researchers as hypotheses and suggestions for further research, and by managers as possible factors needed to accumulate knowledge in order to be successful across generations.

Keywords: knowledge Accumulation, Education, Experience

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INTRODUCTION

Knowledge that is viewed as relevant and actionable information based on experience and education (Nonaka and Takeuchi, 1995; Cabrera-Suarez et al., 2001), is a significant source of competitive advantage, which enables an organisation to be innovative and remain competitive in the market. It originates in the heads of individuals and builds on information that is transformed and developed through personal beliefs, values, education and experience (Polany, 1958, 1967; Nonaka, 1991; Nonaka, 1994; Nonaka and Takeuchi, 1995; Grant, 1996a).

The literature clearly distinguishes between *pure knowledge* (i.e. explicit knowledge) regarding the information and understanding of fundamental principles acquired through education; and *skills* (i.e. tacit knowledge) which is, instead, the ability to apply the accumulated pure knowledge through the experience gained. Hence, skill is the ability to carry out a particular task or activity, especially because it has been practiced, whereas pure knowledge is the information behind that skill (Nonaka and Takeuchi, 1995; Berman et al., 2002). In this respect, Krogh et al. (1995, p. 63) underline that “a person may have acquired a good theoretical understanding of carpentry, but the building of a house requires yet another knowledge, namely the skill of moving a hammer”. Our research mostly emphasizes tacit knowledge because of its centrality within an organization (see Grant, 1996a; Cabrera-Suarez et al., 2001).

In contrast to the strategic management literature, there is a lack of systematic research on the construct of knowledge in family business¹. We focus our attention on this particular form of business organization characterized by multiple family members who participate at the same time to the family and business life, hence influencing in both positive and negative ways knowledge accumulation (KA) (see Cabrera-Suarez et al., 2001; Zahra et al., 2007). For the

¹ A family business is here defined as a company in which a family controls the largest block of shares, has one or more of its members in key management positions, and members of more than one generation actively involved within the business (see Westhead and Cowling, 1998; Miller and Le Breton-Miller, 2005; Zahra et al 2007).

purpose of our research, knowledge is defined here as pure knowledge and skill which family members have gained and developed through education and experience within and outside the organization. Specifically, our study is aimed at investigating *how* knowledge can be accumulated, i.e. created, shared and transferred so as to enable a family organization to survive across generations. Towards this end, we analyze four family firms from Italy (Alfa and Beta) and Switzerland (Gamma and Delta).

The paper is organized as follows. After introducing knowledge as an enabler of longevity in family business, the methodology of the qualitative research conducted is presented. This is followed by a section which reports factors influencing KA. In this section we also transcribe the most significant quotations from the family-business members interviewed. The paper concludes with the main findings and contributions of the study. Limitations and directions for future research are shared in the concluding section.

KNOWLEDGE AS AN ENABLER OF LONGEVITY IN FAMILY BUSINESS

The knowledge-based theory identifies knowledge as the most fundamental asset of the firm which all other resources depend on (Grant, 1996a; Spender, 1996). Consequently, knowledge needs to be accumulated to generate value over time. This is a major challenge faced by any firm in everyday business life —especially by family firms when the new generation has to take over the business from a previous one (Cabrera-Suarez et al., 2001; Kellermanns et al., 2004). Succession is described as “the lengthiest strategic process for family firms” (Barach and Ganitsky, 1995, p. 131). It is considered to be a slow multistage process that involves an increasing participation of the successor and a decreasing involvement of the predecessor until the real transfer takes place (Churchill and Hatten, 1987; Cabrera-Suarez et al., 2001; Motwani et

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al., 2006). Succession is so central and crucial to the existence of the family firm that Ward (1987) defines a family business as a business that will be passed on from generation to generation. We argue that family firms can perform well over time when the new generation is integrated into the family business and the transfer of knowledge from the previous generation to the next takes place. At the same time the new generation has to add new knowledge and offer new perspectives for the sustainability of the family firm across generations. Certainly, knowledge also needs to be shared between family members belonging to the same generation (Handler, 1992; Cabrera-Suarez, et al., 2001; Kellermanns et al., 2004; Zahra et al., 2007).

However, while succession has attracted considerable attention in the family-business literature (e.g. Barach and Ganitsky, 1995), the process through which knowledge is created, shared and transferred across generations has not been extensively studied. Understanding how knowledge is accumulated is important given that some studies indicate that only a third of family businesses successfully make the transition from each generation to the next, while only 5% of family firms are still creating value beyond the third generation (*The Economist*, 2004; Miller and Le Breton-Miller, 2005). A survey in the UK shows that only 30 per cent of family businesses reach the second generation; less than two-thirds of those survive through the second generation; and only 13 per cent of family businesses survive through the third generation (Bridge et al., 2003).

Researchers argue that recurring causes of small business failure fall under the general category of 'business incompetence' caused by lack of knowledge (see e.g. Gibb and Webb, 1980; Carter and Van Auken, 2006). Dun and Bradstreet (1991) reported that the main cause of business failure in the US is 'management incompetence of the business owner'. Likewise, Gibb and Webb (1980) concluded that the primary failure determinants of over 200 bankrupt firms

were lack of knowledge and ‘inattention’ by the management. Carroll (1983) also confirmed in a ‘summary of empirical research on organization mortality’ that the main cause of failure falls under the general categories of managerial incompetence and lack of experience.

Therefore, the statistics showing the failure of family firms after the second generation may be partially explained by the lack of capacity or willingness of family members involved in the succession to create, share and transfer knowledge from generation to generation (Cabrera-Suarez, et al., 2001; Le Breton-Miller et al., 2004; Zahra et al., 2007). Cabrera-Suarez et al. (2001, p. 39) remark that “family firm’s specific knowledge, as well as the ability to create and transfer it, are considered a key strategic asset that may be positively associated with higher level of performance”.

Hence, knowledge can be seen as an ‘enabler of longevity’, i.e., as contributing to the survival of the family organization. Given its recognized importance, this paper seeks to fill the existing gap in the family-business literature —related to the study of KA— through the development of a family-business knowledge model based on existing literature and four family-business case studies.

METHODS

Research design

McCollom (1990) posits that qualitative research is particularly appropriate to the study of family business. The research design of our qualitative research is multiple-case, embedded study. Multiple cases permit a replication logic where each case is viewed as an independent experiment which either confirms or does not the theoretical background and the new emerging insights. A replication logic yields more precise and generalisable results compared to single

case studies (Eisenhardt, 1989; Brown et al., 1997; Yin, 2003). We relied on informants at two levels of the generational hierarchy to yield a more accurate analysis. Moreover, the study conducted was improved by using several levels of analysis, i.e. an embedded design, including family, business and industry (Yin, 2003).

For the reasons explained below, we analyzed two small private Italian family firms from Apulia (Alfa SPA) and Tuscany (Beta SA) respectively, and two small private Swiss family firms from canton 'A'² (Gamma SA and Delta SA). Firstly, the four companies had the potential of yielding interesting insights based on commonalities and differences emerging from comparison amongst them (see Appendix 1). Secondly, they all belong to the beverage industry; in particular, the Alfa family firm belongs to the spirits industry, and the Beta, Gamma and Delta family firms belong to the wine industry. In those manufacturing sectors, which are dominant businesses both in Italy and Switzerland, the family-business knowledge and traditions have been especially important through generations. Finally, in each generation, family members of at least two generations have been always involved. Hence, this dataset is ideal for our study. Names given to firms and some other information have been disguised for confidentiality reasons. Appendix 1 reports the case studies used in this paper and Appendix 2 the family-business trees.

Data collection

Data were collected through personal interviews, questionnaires, secondary sources (newspapers, articles from magazines, company's internal documents, company's slide presentations, company's press releases, company's web sites and company's balance sheets),

² Some information has been disguised for confidentiality reasons.

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conversations and observations in 2005 and 2006. Semi-structured interviews were conducted separately with two respondents from each firm, an active family member of the latest generation—Generation 3 (G3)— and another one of the previous generation—Generation 2 (G2)— chosen on the basis of their central role within the organization. Interviews were conducted during several formal and informal meetings with an average length of three hours. During informal meetings, we also had the opportunity to talk extensively with other several family and non-family members. After each interview the research team discussed its impressions and observations taking notes to crystallize ideas (see Bryman and Bell, 2007). The interviews were always taped and transcribed word for word within six hours after the interviews. Following Bryman and Bell, (2007)’s suggestions for the internal reliability of a study—i.e. whether or not, when there is more than one observer, members of the research team agree about what they see and hear— interviews were listened to by two or three members of the research team in order to check for consistency of interpretation.

The interviews were conducted in two parts. In the first part, open-ended questions were asked without telling respondents about the constructs of interest in the study in order not to influence them (e.g. family firm’s history, crucial and critical events). They had the opportunity to relate their stories of how knowledge has been accumulated over time. During this phase, probing questions were asked to obtain more details related to the stories discussed by respondents. In the second part, closed-ended questions were asked about the accumulation process of knowledge across generations and the role played by specific factors (e.g. family relationships, working outside the family business, academic and practical training courses and so forth) on the process as a whole (Bryman and Bell, 2007). After interviews, telephone calls

were made to confirm our understanding of the answers given by the respondents. We recognize that the anonymity for companies and respondents encouraged sincerity and openness.

Data analysis

Four separate extensive case studies were built from data gathered from primary and secondary sources. First of all, we created an electronic database where we entered all transcribed responses given by informants. Following this, interview data were integrated with information from secondary sources to provide further background and help triangulate the data. Using two respondents from each firm and secondary sources, we built a case study for each site. According to Bryman and Bell (2007, p. 413)'s recommendations, we "used each source of data, and each informant, as a check against the others". Specifically, the use of two respondents from each firm allowed us to compare the answers given by them; and the use of secondary sources enabled us to confirm the information obtained by respondents. For instance, existing literature positively relates KA to product development and value creation (see e.g. Tsai, 2001). Thus, having access to companies' internal documents and companies' balance sheets helped us to assess KA also through the firms' product development and value creation (see Appendix 1).

Case descriptions were written independently of each other, to maintain the independence of the replication logic. Guided by a theoretical framework based on existing literature (see e.g. Nonaka and Takeuchi, 1995), we built the conceptual insights emerging from the case studies. Whenever an insight emerged, we went back to the theoretical framework —thereby reading more relevant related literature— and back to the new insights. Results were consistent with the initial theoretical framework and they also helped us to integrate it. Hence, data analysis was undertaken using a combination of deductive and inductive methods. The whole process took

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about six months to complete. The approach was integrated with a growing body of methodological literature on case study research and cross-case analysis in order to perform cross-case comparisons looking for similarities and differences (see e.g. Eisenhardt, 1989; Miles and Huberman, 1994).

Finally, to ensure that there was a good match between our observations and the theoretical ideas developed (i.e. internal validity), we relied on two techniques: respondent validation and triangulation (credibility, see Bryman and Bell, 2007, p. 411). Accordingly, we submitted research findings to the respondents to ensure that there was a good correspondence between findings and the perspectives and experiences of the research participants (i.e. respondent validation). Moreover, as mentioned before, we triangulated multiple sources of evidence (primary and secondary sources) so as to improve the quality of the study conducted (see Eisenhardt, 1989; Stake, 1995; Miles and Huberman, 1994, Yin, 2003).

FACTORS INFLUENCING KNOWLEDGE ACCUMULATION IN FAMILY BUSINESS

Knowledge, especially tacit knowledge, is hard to transfer; it is fragile and subject to decay or loss if it is not shared and passed on from generation to generation, primarily in the form of apprenticeship and mentoring. Pure knowledge can be more easily shared and transferred within a family firm through courses, manuals, procedures and so on. Instead, skill is invisible and highly personal: it needs more complex and longer processes to be shared and transferred (observation, face-to-face interaction, extensive personal contacts between family members and so on). Nonaka and Takeuchi (1995) point out that knowledge is created and then expanded through social interactions between tacit and explicit knowledge and individual and collective knowledge. Individual knowledge becomes part of the collective wisdom of the firm —i.e.

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organizational knowledge embedded in routines and processes— once it is shared and transferred over time (Nonaka, 1991; Nonaka and Takeuchi, 1995).

In a family business context, successors need to acquire knowledge from the previous generation but also add new knowledge gained through education and personal experience within and outside the family firm (Cabrera-Suarez et al., 2001; Kellermanns et al., 2004). An interesting comment has been made by Valeria Alfa from the Alfa family firm: *“our success depends on the ‘knowledge’ gathered and handed down through the generations and acquired from outside”*.

As explained in the data analysis section, the iterative process —that is, one in which there is a movement backwards and forwards between theory and case studies— allowed us to infer that knowledge is best created, shared and transferred when family members involved in the succession strongly value the following factors: - family relationships working within the family business; - commitment and psychological ownership to the family business; - academic courses and practical training courses outside the family business; - working outside the family business; - employing/using non-family members.

The text that follows can be read by researchers as hypotheses and suggestions for further research, and by managers as possible factors needed to accumulate knowledge across generations. We will quote the most significant answers given by the interviewees in order to enable the reader to gain a clear understanding of the issues discussed.

Family relationships working within the family business

Working within the family business is important in order to acquire experience and develop skills day by day. People make mistakes and learn how to solve problems. Intense

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kinship ties facilitate face-to-face interactions —within the family and the business— and more generations to work together before and during the transition process. Hence, KA may start at home within the family and continue through a career within the business (see Gersick et al., 1997; Zahra et al., 2007). Coleman (1988) analyses social capital as creator of human capital and Kusunoki et al. (1998) posit that the dynamic interaction of knowledge, as processes of KA, depends largely on the social context within the organisation.

Tagiuri and Davis (1996) argue that the emotional involvement, the lifelong common history and the use of a private language in family businesses enhance communication between family members. First, this allows them to exchange knowledge —especially tacit knowledge— more efficiently and with greater privacy compared to non-family businesses (Tagiuri and Davis, 1996; Cabrera-Suarez et al., 2001). Indeed, shared understanding between actors facilitate the sharing and transfer of knowledge tacitly held in their minds which is usually hard to exchange since it can “only be observed through its application and acquired through practice” (Grant 1996b, p. 111). In particular, strong relationships between two generations positively contribute to the stage ‘training and development of the successors’ described by Churchill and Hatten (1987) in their four-stage model of succession (Chrisman et al., 1998). Second, family social relations allow family members to develop idiosyncratic knowledge which remains within the family and the business across generations (Bjuggren et al., 2001; Kellermanns et al., 2004).

In successful multigenerational family firms, hence, the previous and following generation exchange ideas and encourage mutual learning. Goldberg (1996) demonstrated the importance of ‘appropriate experience working together’ in his study of 63 family business CEOs. Effective successors had many more years of experience working in the family business than did the less effective group of his study.

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This view is consistent with the comments from interviewees reported in Table 1.

Table 1: Family Relationships Working within the Family Business

<u>Family business</u>	<u>Quotations from interviewees</u>
Alfa SPA	<p>Giuseppina Alfa (G3; Alfa S.p.A., Apulia, Italy): <i>“I have learned almost everything working within our family business, acquiring knowledge from the previous generation and developing and sharing it with the present generation. ‘Overall Knowledge’ has been acquired through experience working together across generations and within the same generation. My cousins and I worked for about 25-30 years in the family firm with the previous generation until 1997. We started with simple tasks, very boring sometimes but important in enabling us to understand better from the bottom-up how to run the business and how to make it work. Every generation brings something more which creates value in the business. Our overall level of knowledge has increased through generations. We have grown up in the family firm as persons, managers and now owners. The second generation was able to teach us directly and indirectly all the tricks of the trade in production, administration and distribution. Our parents also taught us how to communicate and cooperate with each other and solve problems”.</i></p> <p>Valeria Alfa (G2; Alfa S.p.A., Apulia, Italy): <i>“The previous generation used to invite us to the meetings of the Board of Directors to teach us how to run the business. We govern our business with the same behavioral ethics of honesty and respect learned from the previous generation”.</i></p>
Beta SA	<p>Daniela Beta (G3; Beta SA, Tuscany, Italy): <i>“I have developed and acquired knowledge since I entered in 19xx. I have learnt a lot from the previous generation (including how to keep good family relationships within and outside the business) working close to them. I am also giving them back new knowledge and new approaches of how to do business in a market which changes quickly”.</i></p> <p>Filippo Beta (G2; Beta SA, Tuscany, Italy): <i>“Working closely within the organization and living within the family allowed us to develop strong relations between us. I personally view social interactions as enablers of knowledge accumulation which has increased across generations. We often talk about the importance of social capital and we built up our company with this sentence in mind: the more we talk, the more we know...forever”.</i></p>
Gamma SA	<p>Mattia Gamma (G3; Gamma SA, Switzerland): <i>“I am acquiring and adding new knowledge working in the family firm day by day, in a learning-by-doing process. My uncle, Claudio is helping me a lot to achieve this goal and I know I am also giving him back my knowledge in business administration”.</i></p> <p>Claudio Gamma (G2; Gamma SA, Switzerland.): <i>“The firm was small and not well developed in G1. I remember how I started working and now I know where I am. A lot of work has been done to achieve such results. I learned from my mistakes how to produce wine of high quality...My nephew, Mattia is giving me great help. He is a very knowledgeable person who works hard for the business. We are learning a lot from each other and increasing the value of our company. Intense family relationships are essential to build, share and transfer knowledge in the long run”.</i></p>
Delta SA	<p>Carlo Delta (G3; Delta SA, Switzerland.): <i>“My father had been working with my grandfather for 15 years learning all the ‘tricks of the trade’ from him... I joined the business when I was 22 years old... I have learned and I am still learning a lot from my father. The basis of my knowledge was learned at school but, of course working in the family firm allowed me to learn day by day how the business works and how to make it work better”.</i></p> <p>Stefano Delta (G2; Delta SA, Switzerland.): <i>“Working efficiently together within the organization has always been our great power through knowledge sharing across generations. I am afraid that today the third generation is not well-organized anymore. Conflicts arise too often”.</i></p>

Hence, having face-to-face family interactions and more generations which work well together help family members to create, share and transfer their knowledge. Offspring have the opportunity to learn directly from the old generation in a ‘learning-by-doing process’ how to run

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the family firm, and, specifically, all the tricks of the trade related to the business. Hence, such interaction between generations should begin when offspring are growing up in order to ensure sufficient training and not when they are about to take over the firm (Chrisman et al., 1998; Motwani et al., 2006). In doing so, each succession adds considerable new experience to the family firm.

Furthermore, family firms are often depicted as being high in trust which is an important issue for social interactions. The greater the level of trust, the greater the level of openness (i.e. free flow of truthful information between family-business members) and the better the opportunities especially for tacit knowledge to be created, shared and transferred over time (Dyer, 1986; Lehman, 1992; Mayer et al., 1995; Tagiuri and Davis, 1996; LaChapelle and Barnes, 1998; Steier, 2001).

Quotations from interviewees provide insights as indicated in Table 2.

Table 2: Trust between Family Members

<u>Family business</u>	<u>Quotations from interviewees</u>
Alfa SPA	Giuseppina Alfa (G3): <i>“The previous generation knew that relations among cousins are not easy sometimes. This is why they gave us some rules and we just respect them in order to avoid problems between us. We respect and trust each other (G3) thanks to the effort put in by the previous generation. Trust was, and still is, essential to work well together”.</i>
Beta SA	Filippo Beta (G2): <i>“We have always acted as a community. Trust among us is very high, that’s why collaboration works very well. We do not fight but we discuss with each other, so that we manage to soothe disagreements”.</i>
Gamma SA	Claudio Gamma (G2): <i>“Trust is considered an important value enabler of cooperation and collaboration. We trust each other and work for the success of the firm”.</i>
Delta SA	Carlo Delta (G3): <i>“My father and my uncles (G2) were able to build a solid firm which has been growing since the 1960s. Trust was a key factor for their success. Nowadays, the business is divided into three parts: administration, production, and distribution. Each member of the third generation works with his father in a specific area of business. Our relations [i.e. between Carlo and his cousins] are not very good”.</i> <i>Researchers’ note:</i> Contrary to the Alfa, Beta and Gamma family firm, in the Delta family firm it seems that relations between family members (in particular, between Carlo and his cousins, G3) — needed for KA— are not strong. They do not trust each other so much: conflicts arise too often.

Commitment to the family business

A recipient or a source's lack of commitment to the family business may negatively affect the accumulation process of knowledge within the organization (see e.g. Nonaka and Takeuchi, 1995; Barach and Gantisky, 1995; Sharma et al., 2001, 2003; Le Breton-Miller et al., 2004). Commitment is "a frame of mind...that compels an individual towards a course of action of relevance to one or more targets" (Sharma and Irving, 2005, p. 14). In organizational terms, it encompasses personal belief and support of organizational goals and visions; willingness to contribute to the organisation; and desire for good relations with the organisation (Carlock and Ward, 2001).

Particularly, a family's affective commitment to the business concern refers to the extent to which family members desire the prosperity of the business and its perpetuation within the family (Sharma et al., 2001; Sharma and Irving, 2005). This may strongly have an impact on their behavior so as to be willing to go above and beyond the call of responsibility and exert extra efforts on behalf of the family and the business to find a way to make KA possible. Thomas (2001) argues that not every family member can have the same degree of commitment and interest in the family business over time. Hence, although family members are depicted as being very emotionally committed to the family business, family's commitment tends to decrease after the second or third generation when business problems usually arise (Tagiuri and Davis, 1996; Astrachan et al., 2002).

Excerpts from interviews are given in Table 3 (see in particular Carlo and Stefano Delta's speech).

Table 3: Commitment to the Family Business

<u>Family business</u>	<u>Quotations from interviewees</u>
Alfa SPA	<p>Giuseppina Alfa (G3): <i>“Commitment has always been very high. We work for the wealth of our business within the family”.</i></p> <p>Valeria Alfa (G2): <i>“There is an easy flow of knowledge within and between generations as it was in the past. The reason is that our family was and still is very committed to the business...and it is happy within it”.</i></p>
Beta SA	<p>Daniela Beta (G3): <i>“I am very committed to the family business, I have been working within our organization since I was a child. The previous generation has shown me how important our business is and how many sacrifices are needed to keep it alive”.</i></p> <p>Filippo Beta (G2): <i>“We have been always very focused on our business and the third generation behaves the same. We communicate and exchange ideas with each other very easily because we are all very committed to the business and most importantly to keep it as a family business”.</i></p>
Gamma SA	<p>Mattia Gamma (G3): <i>“I need to work and learn more and more to make our business even bigger than it is today”.</i></p> <p>Claudio Gamma (G2): <i>“As for me...the business is my life. I am very committed to it, as well as, my nephew, Mattia (G3)”.</i></p>
Delta SA	<p>Carlo Delta (G3): <i>“Commitment to the business is one of the first things that family members must have. When I retire, I will need a successor (my cousin(s)) very committed to the business. I feel part of G2 and I do my best to share and transfer all my know-how to my cousins (G3) even though sometimes it is not easy because young people are more disorganized, less concentrated, and have a lot of interests”.</i></p> <p>Stefano Delta (G2): <i>“It appears to me that the third generation, except for Carlo, is not so committed to the business as we are”.</i></p>

Psychological ownership to the family business

Pierce et al. (2001, 2003) refer to psychological ownership as a cognitive-affective condition which generates a psychological state of possessive feelings for an object which may also exist without legal ownership (Furby, 1980; Dittmar, 1992). The above-concept has been applied in a family business context as the family members’ possessive emotional feelings and attachment over the family organization with a strong sense of identity, belonging, responsibility and control over it (see Koiranen, 2006, 2007). Examples of psychological ownership are family members’ strength of identifying themselves with the family business, a sense of belonging to the family business and a strong feeling of responsibility and control over the family business. In particular, investing a lot of energy, time, money, and emotions to the family business is part of family members’ identity and culture which increase their feeling of possession over the

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organization. The business becomes an extension of themselves with all family members acting in concert to sustain the continuity of the organization through the accumulation of knowledge across generations. The hope is that future generations will feel the same strong emotional attachment to the family business, which will make the creation, sharing and transfer process of knowledge easier (Reagans et al. 2003).

Comments from interviewees offer insights as shown in Table 4.

Table 4: Psychological Ownership to the Family Business

<u>Family business</u>	<u>Quotations from interviewees</u>
Alfa SPA	<p>Giuseppina Alfa (G3): <i>"The business has always been a big part of family members' life. I remember my father and uncles who used to spend 15 hours a day in the firm. Their life was the Alfa family firm. Nowadays, we still work hard and we are very emotionally attached to the family firm (product-line-extension, diversification, acquisition of Astrelino, etc.) but we also have time to enjoy our life. In addition, we are more specialized in our area and we are able to better control the business"</i>.</p> <p>Valeria Alfa (G2): <i>"The business is an extension of ourselves. We are the business and the business is part of us. For this reason, we put all our efforts into transferring all our knowledge to the third generation"</i>.</p>
Beta SA	<p>Daniela Beta (G3): <i>"The company life has been the main family members' interest across generations. I began visiting the company when I was around 12 years old...entering the company was something gradual and natural"</i>.</p> <p>Filippo Beta (G2): <i>"I feel personally responsible for my organization and I transmitted the same values to my sons and to my nephew. We and the business are the same things and we work hard for our and its success through knowledge accumulation across generations"</i>.</p>
Gamma SA	<p>Mattia Gamma (G3): <i>"I feel responsible for the family firm and I work hard for its success"</i>.</p> <p>Claudio Gamma (G2): <i>"I have been working all my life in the family firm, thereby acquiring and adding new knowledge - since 1968. I identify myself with the family firm. I feel part of it and a strong responsibility to it...I follow the production of wine from the land to the label in order to guarantee the final product consumed by the customer"</i>.</p>
Delta SA	<p>Carlo Delta (G3): <i>"I have been working for more than 30 years in the family firm. I do not have anything else than my business and I have given all my life to the business, I made a lot of sacrifices for it ... I feel this is my own place. I am glad when I go on holidays but I miss my place. It was the same in the second generation, with my father and uncles, and in the first generation with my grandfather. My father is 81 years old and he is still active in the business. The same is true of my uncles. I do not know about the future...when I retire and my father and my uncles die... 'we will see' if the Delta firm will go on. Moreover, I am not married, I do not have children, and my cousins and their sons are not interested in the firm...maybe the business will shut down after this generation"</i>.</p> <p>Stefano Delta (G2): <i>"Our main interest has always been the wine business. This is the only thing we are able to do. We identify ourselves with the business. Carlo is a good example. Unfortunately, I cannot say the same about the third generation"</i>.</p> <p><i>Researchers' note:</i> Contrary to the Alfa, Beta and Gamma family firm, in the Delta family firm it appears that family members of G3 are not emotionally attached to the business (in particular, Carlo Delta's cousins). This negatively affects KA.</p>

Academic courses and practical training courses outside the family business

Academic courses and practical training courses are a form of learning activity by which people, in this case the members of the family firm, can re-experience what others previously learned and have the opportunity to create new knowledge by combining their existing tacit knowledge with the knowledge of others (Nonaka and Takeuchi, 1995).

Particularly, *academic courses and practical training courses outside the family business* in schools, universities, firms, institutions, and so on, allow people to acquire ‘pure knowledge’ and develop ‘skills’ respectively which, once brought into the family firm, must be shared with and transferred to the other members of the firm. Conversely, *practical training courses within the family business* allow people to acquire, share and transfer knowledge across generations (Dyer, 1986; Ward, 1987; Barach and Gantisky, 1995; Goldberg, 1996; Le Breton-Miller et al., 2004). In small-to-medium family businesses, practical training courses within a family firm can be simply translated into ‘activities of working together’ (Le Breton-Miller et al., 2004) by which members of the firm create, share and transfer knowledge —especially tacit knowledge— day by day often unconsciously (e.g. apprenticeship). For this reason, practical training courses within the family firm will be included in the box ‘family relationships working within the family business’ in figure 1. Internal apprenticeship can be viewed as an excellent training in traditional industries which do not operate in environments of rapid change. Outside training is, instead, essential when the market changes very quickly.

Quotations from interviewees reflecting the importance of academic and practical training courses for KA in family business are reported in Table 5.

Table 5: Academic Courses and Practical Training Courses outside the Family Business

<u>Family business</u>	<u>Quotations from interviewees</u>
Alfa SA Beta SA Gamma SA Delta SA	<i>Researchers' note:</i> The managers of the family firms interviewed recognize that the basis of their knowledge has been developed at school. Dyer (1986, p. 27) believes that “the college or technical degree is the first hurdle that potential successor must overcome”. For instance, Valeria Alfa, Giuseppina Alfa and Filippo Beta have followed several specializations in Business Economics and Oenology. Daniela Beta has a degree in Economics and Communication and a Master in Business Administration. Claudio Gamma has a Diploma in Economics (Lugano) and a Diploma in Oenology (Lausanne). He has also followed several courses in continuing education at the University of Bordeaux (1989/90 - 2000). Carlo Delta has a Diploma in Economics (School of Geneva: École Supérieure de Commerce) and a Diploma in Viticulture and Enology (School of Lausanne: École Supérieure de viticulture et oénologie).
Alfa SPA	Giuseppina Alfa (G3): “ <i>Knowledge is also acquired through training courses within and outside the firm (in production, management, and so on) provided for family and non-family members, for managers and shop-floor workers</i> ”.
Beta SA	Filippo Beta (G2): “ <i>We have acquired our basic knowledge at school but training courses have been crucial to develop specific abilities, for instance in management and product-making. For instance, Daniela Beta followed three specific training courses in the last five years. Two courses in management and marketing and another one in product-making</i> ”.
Gamma SA	Claudio Gamma (G2): “ <i>My nephew (Mattia) did several internships in wine firms and will do another one abroad soon. Moreover, Mattia will attend a School of Oenology for two years (2007/2008) in order to improve his competencies and add new value to the family firm</i> ”.
Delta SA	Carlo Delta (G3): “ <i>We do not have training courses at the moment, even though I admit that they are important and especially needed in our firm since we operate in a dynamic market</i> ”.

Working outside the family business

Working outside the family firm gives a more detached perspective over how to run and how to introduce changes and innovation in the business. Once it is acquired, knowledge needs to be shared and transferred over time. As reported by Brockhaus (2004), many consultants recommend spending at least three to five years in another business. Experience outside the family firm helps the successor to develop a knowledge-base and a sense of identity. It prepares him/her for a wider range of problems that can occur later in the family business (Barach et al., 1988; Correll, 1989; Barach and Gantisky, 1995; Le Breton-Miller et al., 2004). Ward (1987) adds that working outside the family firm is crucial because it gives offspring experience in developing new strategies, adding formal management systems and building new management teams in the business. He concludes that “gaining experience outside the business is one of the

strongest recommendations that can be made for successors. In all our interviews, no one who worked outside the family business regretted doing so” (Ward, 1987, p. 60).

This view is consistent with the comments indicated in Table 6.

Table 6: Working outside the Family Business

<u>Family business</u>	<u>Quotations from interviewees</u>
Alfa SPA	Giuseppina Alfa (G3): <i>“We have learned and we are still learning a lot from outside working experience. For instance, my nephew, Roberto, worked for other companies in order to acquire more experience before joining the Alfa family firm”</i> . Valeria Alfa (G2): <i>“I remember my father who used to say that within the family you can learn a lot but it is never enough. You need to learn things also from outside so as to make your family even more knowledgeable”</i> .
Beta SA	Daniela Beta (G3): <i>“I have worked in three different companies before entering in the family business. I have learnt things that I could not easily learn within our family organization. Sometimes, the family business over protects its ‘children’ and this is not always a good thing”</i> . Filippo Beta (G2): <i>“We believe that working outside the family firm opens up new horizons and new ways of doing business. We always promote and encourage the new generation to have working experience outside the family business, especially before joining our business”</i> .
Gamma SA	Mattia Gamma (G3): <i>“I have worked in several other firms before joining the family business. My uncle advised me to do this and today I can just thank him. It was great advice”</i> . Claudio Gamma (G2): <i>“I worked for six months in a wine firm in Germany and for six months in a wine firm in Switzerland before starting the business. Such experiences have also taught me how to run my business”</i> .
Delta SA	Carlo Delta (G3): <i>“If you want to learn something more, you have to leave home for a while. You need to go outside, have a different view of your business and of how to do business. I worked for nine months in a wine firm in South Africa and six months in a wine firm in Germany. Unfortunately, my cousins (G3) do not have work experiences outside the family firm”</i> . Stefano Delta (G2): <i>“The dynamic market in which we compete forces us to acquire new knowledge from outside. Working outside the family business for a specific period is a good option to achieve this goal”</i> .

Employing/using non-family members

Knowledge can be also acquired by employing/using non-family members who work for or have relations with the family firm. Hence, a family organization has to behave as an ‘open system’ which finds, exploits and organizes external resources not available within the family business in order to increase its opportunity advantages (Lansberg, 1988; Kaye, 1999; Le Breton-Miller et al., 2004). Employing/using external members is an indication of the flexibility of the family firm (Ward, 1987; Malone, 1989).

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This view is also suggested by the comments reported in Table 7.

Table 7: Employing/using non-family Members

<u>Family business</u>	<u>Quotations from interviewees</u>
Alfa SPA	<p>Giuseppina Alfa (G3): <i>"We have learned a lot from external experts who joined our business. I have personally acquired knowledge working with the new sales manager employed in the 1970s (Mr. Franco Rovida, from the company Ramazzotti). Today, the sales director and managing director are non-family members. They are really an important asset...Knowledge in creating blends of liqueurs (product-line-extension and diversification) and in management improved with the third generation and with the new, skilled non-family members employed in the 1970s. Our family firm also resorts to, and benefits from, consultants. The family firm has always been open to acquiring skills from outside, but never more than today"</i>.</p> <p>Valeria Alfa (G2): <i>"Some entrepreneurs from the South of Italy think they know everything; but it is not possible. External assistance is needed. We continually invest money in acquiring knowledge from outside. Research was and still is important. The best place in which research can develop is the university. We have good relations with some universities and we draw advantage from their studies and surveys into our sector, into what we produce. For instance, we are cooperating with a Professor on the creation of new products"</i>.</p>
Beta SA	<p>Daniela Beta (G3): <i>"I have personally learned a lot from external experts hired within our organization. They are a valuable contribution to our success"</i>.</p> <p>Filippo Beta (G2): <i>"The previous generation taught us that it is not possible to develop all the relevant knowledge within an organization. My father was convinced that capable people are the key for sustainable success... he hired young and brilliant professionals to bring in new energy and ideas. We do the same today"</i>.</p>
Gamma SA	<p>Mattia Gamma (G3): <i>"Strong relations are established with research centres, universities (a professor of the University of Bordeaux follows the tasting of wines every two years. Research has been conducted in order to learn how to produce high-quality young wine and white wine from red grapes) and specialists in management (e.g. an Italian specialist of sales and marketing every week helps us to increase sales. We are acquiring new competences in management through this kind of cooperation. The cost was about 30,000 Swiss francs)"</i>.</p> <p>Claudio Gamma (G2): <i>"Knowledge is also acquired from outside the family. We have an engineer who is responsible for the vineyards and an expert oenologist who is responsible for the cellar"</i>.</p>
Delta SA	<p>Carlo Delta (G3): <i>"More external help would be helpful for our organization"</i>.</p> <p>Stefano Delta (G2): <i>"Today, we rely more on internal human resources"</i>.</p> <p><i>Researchers' note:</i> Contrary to the Alfa, Beta and Gamma family firm, in the Delta family firm although it is recognized the importance of training courses, working outside the family business and employing/using non-family members for KA, these factors are not taken into great consideration.</p>

DISCUSSION

From a practical point of view, our study — through the review of the literature and the case studies analyzed— highlights the importance of some factors whose combination enables a family organization to accumulate knowledge across generations.

Some excerpts from interviews which highlight the role played by specific factors on KA are here indicated: - *“Intense family relationships are essential to build, share and transfer knowledge in the long run”* (Claudio Gamma, G2; Table 1: family relationships working within the family business); - *“There is an easy flow of knowledge within and between generations as it was in the past. The reason is that our family was and still is very committed to the business...and it is happy within it”* (Valeria Alfa, G2; Table 3: commitment to the family business); - *The business is an extension of ourselves. We are the business and the business is part of us. For this reason, we put all our efforts into transferring all our knowledge to the third generation”* (Valeria Alfa, G2; Table 4: psychological ownership to the family business); - *“We have acquired our basic knowledge at school but training courses have been crucial to develop specific abilities, for instance in management and product-making”* (Filippo Beta, G2; Table 5: academic courses and practical training courses outside the family business); - *“If you want to learn something more, you have to leave home for a while. You need to go outside, have a different view of your business and of how to do business”* (Carlo Delta, G3; Table 6: working outside the family business); - *“I have personally learned a lot from external experts hired within our organization. They are a valuable contribution to our success”* (Daniela Beta, G3; Table 7: employing/using non-family members).

In particular, the Alfa and Beta family firms are in the third generation and they are both growing well (see Appendix 1). Family relationships and trust are still very high as well as

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commitment and psychological ownership to the family business (see Table 1-4). As noted by Giuseppina Alfa, *“the second generation did a great job of building and maintaining a positive and friendly environment within the family and the business. There is (and was) an easy flow of information within and between generations”*. Daniela Beta also recalls the suggestions given by the previous generation about how to interact to each other to guarantee the family business’ success. In addition, both the Alfa and Beta family firms also pay great attention to training courses, working outside the family firm and employing/using external family members (see Table 5-7). Indeed, respondents highlight the increase of knowledge across generations.

The Gamma family firm is in the third generation and it, too, is growing well (see Appendix 1). All factors influencing the creation, sharing and transfer process of knowledge are very high, as can be interpreted through the comments recorded in this paper (see Table 1-7). Power is centralized under Claudio Gamma who appears to be good at directing and controlling the family firm and at distributing rights and responsibilities to family members. According to Claudio Gamma’s comments, knowledge has been increasing in the third generation. For instance, Claudio Gamma recognizes that his nephew, Mattia, is acquiring and adding new knowledge by working in the family firm day by day, in a learning-by-doing process. Mattia seems to be very committed to the family firm and works hard for it. He did several internships in wine firms and will attend a School of Oenology for two years in order to improve his competencies and add new value to the family firm.

In contrast with Astrachan et al. (2002), the Alfa, Beta and Gamma family firms are still very committed and proactive for the wealth of the family business although they passed the second generation. For instance, Giuseppina Alfa underlines that *“the history of Alfa entrepreneurs is continuing. After the second generation family businesses usually start to*

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maintain what they already have. We did the opposite by starting the product line-extension and the diversification of our products (which are both knowledge-based), and by acquiring a new company, the Astrello Maestri di Cioccolato, S.p.A.”.

Finally, the Delta family firm is in the third generation and problems are growing mainly because of - the low degree of commitment and psychological ownership of third generation family members, and - the weak relationships between them (in particular, between Carlo Delta and his cousins, G3; see Table 1-4). In addition, although the Delta family firm is aware of the importance of training courses, working outside the family business and employing/using non-family members for KA, these factors are not taken into great consideration (see Table 5-7).

Carlo Delta, who considers himself part of the second rather than the third generation, remarks that *“most of the knowledge is in the hands of the second generation”*. He also adds that *“I am committed to the wine business; I have acquired new knowledge in business and wine making... I have participated in different conferences related to the wine market in the last twenty years... It is important to know how the grapes grow and how to take the best from them in wine making”*. However, Carlo, as well as Stefano Delta, does not believe that his cousins (G3) are emotionally attached to the family business (see Table 3 and 4). He underlines: *“My cousins do not own the business but simply work for it”*. The ownership of the family firm is, indeed, in the hands of the second generation including Carlo Delta.

Further, each member of the third generation works with his father in a specific area of the business. It appears that trust and relations between Carlo and his cousins are not strong (see Table 1 and 2) and, as a result, the sharing and transfer process of knowledge is not easy to realize.

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The future appears to be very uncertain and knowledge is likely to be lost with Carlo Delta's retirement. Indeed, Carlo Delta seems to be quite sceptical about the continuity of the family firm after his retirement. He underlines that he usually does his best to share and transfer his know-how to his cousins (G3). But he also admits that this is not an easy task to accomplish because his cousins are not committed enough to the family business. He concludes that: *"I am not married, I do not have children, and my cousins and their sons are not interested in the firm...maybe the business will shut down after this generation"*. Stefano Delta seems to have the same preoccupations about the future of the company.

Additionally, we noted that while few family members belong to G3 in the Alfa, Beta and Gamma family firms, seven family members belong to G3 in the Delta family firm (see Appendix 2). Consistent with existing literature, potential relationship conflicts (Kellermanns et al., 2004) between family members may easily arise especially when a lot of family members work in the business (see Motwani et al., 2006). In other words, relationships between individuals are difficult and may become even more complicated when a lot of members are involved. Hence, the high number of family members belonging to G3 in the Delta family firm may have facilitated the emergence of relationship conflicts between them, thereby weakening their family relationships and their emotional attachment to the business.

Conflicts make family members unhappy with the family group in which they work, thereby tending not to take advantages from the joint utilization of their knowledge (see Kellermanns et al., 2004). In this respect, Eisenhardt and Zbaracki (1992) note that emotional disagreements between organizational members prevent KA over time. The comments reported on this paper (e.g. Stefano Delta remarks that in G3 *"conflicts arise too often"*). See Table 1) show that conflicts between Carlo Delta and his cousins (G3) —most likely driven by Carlo's

power and his long presence within the firm compared to his cousins— have generated tension, irritation and resentment between them, thereby negatively affecting KA. Additionally, contrary to the Alfa, Beta and Gamma family firms, the second generation of the Delta family firm has not been able to soothe disagreements and teach the third generations how to cooperate with each other to solve problems.

CONCLUSIONS

The purpose of the present research was to make a contribution to the understanding of how knowledge can be accumulated in family business. Towards this end, we relied on a case study approach which “has been shown to be a worthwhile method that is gaining increasing acceptance” (Perren and Ram, 2004, p. 94).

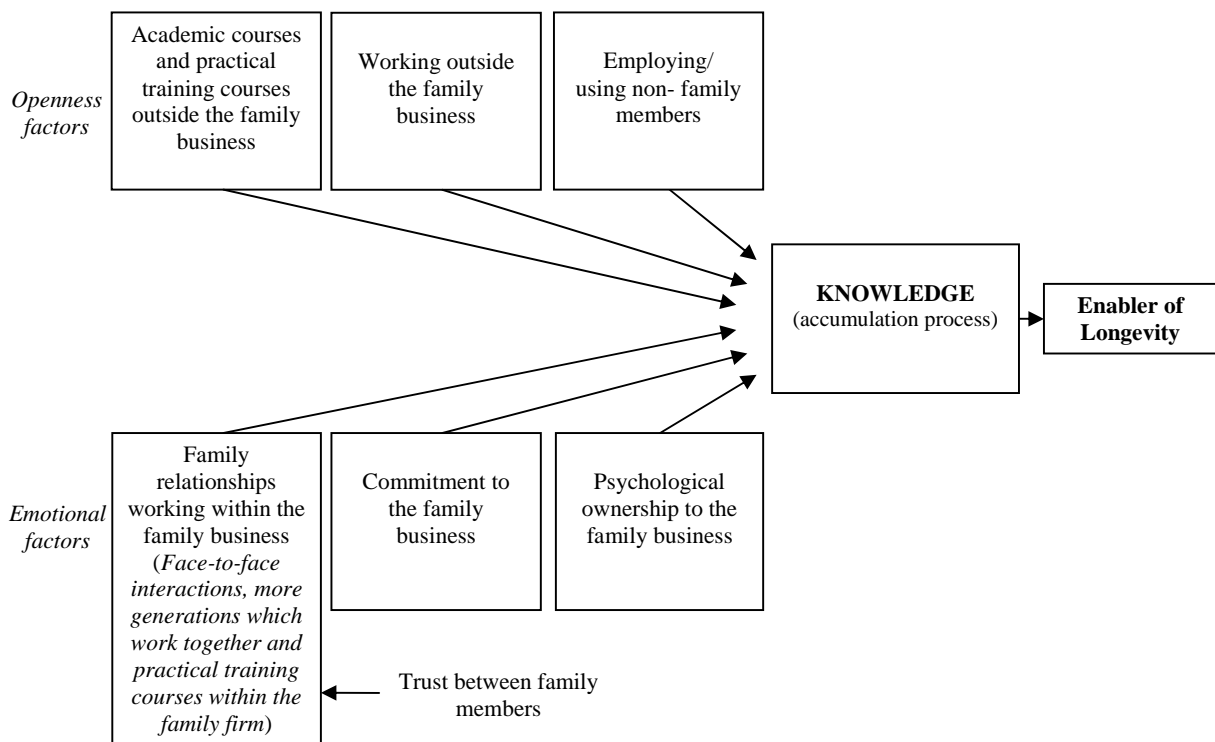
Existing literature combined with the words of the respondents reported in this paper and the secondary sources on which we relied, lead to the development of the family-business knowledge model as depicted in Figure 1. It summarizes concepts and relationships presented in this research. KA is viewed as an ‘enabler of longevity’ in family business in which learning emerges through an evolutionary process that begins in the family and continues within and outside the business. Accordingly, the family involvement makes KA distinctive in this type of organization. At the bottom of the model are the *emotional factors* which positively influence the accumulation process of knowledge within the organisation: family relationships working within the family business —fueled by trust between family members— and commitment and psychological ownership to the family business. At the top of the model lie the *openness factors* which positively influence the acquisition of knowledge from outside the organisation: academic courses and practical training courses outside the family business; working outside the family

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business; and employing/using non-family members.

To sum up, the four case studies highlight the importance of specific factors whose combination enhances knowledge across generations even though it does not imply that all of them are essential or have the same amount of importance. For instance, Valeria Alfa says: *“Learning-by-doing is (and was) more important than academic courses in our company”*. In particular, our sample shows that those family firms open to the external environment and, most importantly, characterized by intense family relationships and high levels of family members’ emotional attachment to the business, are more likely to accumulate knowledge and survive across generations.

Figure 1: The Family-Business Knowledge Model



Limitations

We recognize that our study inevitably has some limitations. First of all, although we have chosen our respondents on the basis of their central role within the organization and we did our best to triangulate interview data with secondary sources, part of our results may be biased by respondents' subjective perception and retrospective rationalization.

Second, the study did not take into consideration the possible reluctance of the previous generation to accept new knowledge and management approaches (Lansberg, 1988) and the possible reluctance of the new generation to recognize the previous work and knowledge brought by the previous generation (Kellermanns et al., 2004). Successful multigenerational family firms are those in which the previous and following generation communicate to each other, exchange ideas, offer feedback and support mutual learning.

Finally, because of the small size of our sample, the model represented in figure 1 cannot be generalized to all family businesses, although its external validity can be improved by introducing other case studies to the research. Through our convenience sample (see Bryman and Bell, 2007), the intent was to focus the attention of family-business researchers and practitioners on the knowledge issue, which appears to be of great importance to family firms.

Contributions

Despite these limitations, some preliminary contributions emerge. First of all, our research is an endeavor directed to studying how knowledge can be accumulated in family business over time. While the construct of knowledge has received considerable research attention in the strategic management literature (e.g. Nonaka, 1994; Berman et al., 2002), surprisingly only a few works have been devoted to the study of knowledge in family firms (e.g. Cabrera-Suarez et al.,

2001). Consequently, specifying factors which affect KA allowed us to expand existing research on family business and provide new insights for future research. In particular, our study underlines the importance of family relationships for KA. In this respect, Sharma (2004, p. 13) remarks that “a supportive relationship characterised by mutual respect enables the smooth transition of knowledge” across generations. Genuine family relations create a sense of belonging to the business in which the business is a part of the individual and the individual is a part of the business. Thus, all members act in concert to sustain the continuity of the family organization through KA.

However, the literature on the topic is fragmented —both in the strategic management and family-business literature— as it deals with different components of KA. Our efforts tried to put together all the pieces derived from existing literature and interviews made.

Directions for future research

Empirical studies are clearly needed to test, on a large representative sample, the model in figure 1 so as to measure the effect and weight of each factor on the accumulation process of knowledge as well as their effect on trans-generational value creation. Non-family firms might be also analyzed so as to compare if, definitively, the model presented is exclusive to family firms or not.

We strongly invite others to propose ways in which our model may be advanced to better account for research findings. For instance, future studies could focus on the importance of different forms of knowledge —e.g. knowledge in product-making, management, governance— and how KA changes on the basis of the market in which a firm operates. Inter-relationships among the six factors influencing KA in figure 1 may be also worth being explored.

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Additionally, KA is likely to be influenced by more than the six factors researched in this study. Accordingly, other relevant dimensions —such as relationship conflicts or entrepreneurial orientation— could be also included in the study. In particular, the phenomenon of nepotism hampering a family firm's opportunity to employ outsiders' knowledge may be also taken into account.

Additional studies may be also directed at investigating the role of the family-business culture on KA (Dyer, 1986). This can confirm or not the general assumption that an organization's ability to implement and achieve the best benefits from KA depends in part on how well it creates and maintains a culture that minimizes resistance behavior and encourages acceptance and support during the accumulation process of knowledge. In particular, future research could investigate the impact of different national cultures on the mechanisms illustrated in our model.

Finally, further research can also focus on the specific aspect of knowledge creation or sharing or transfer and build a more detailed model accordingly.

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APPENDIX 1: Case Studies

FAMILY BUSINESS	HISTORY
<p><u>ALFA SPA</u></p> <p>Founded: 1840</p> <p>Latest active generation: 3rd*</p> <p>Industry: Beverage-Spirits</p> <p>Country: Italy</p>	<p>1840 was a milestone in the history of the Alfa family. It was in 1840 that Giuseppe Alfa, as a herbalist, improved the recipe for a liqueur inherited from his ancestors, creating an Elixir that has remained unchanged to this day. He called it <i>Elisir San Marzano</i>, taken from the name of the family's hometown, San Marzano (Taranto, Apulia, Italy). At the end of the nineteenth century, Giuseppe Alfa's son, Antonio, took over the artisan activity and turned it into an industrial business by starting a new factory in San Marzano. Hence, in this study we conventionally consider Antonio's generation as the first one (G1) in the history of the Alfas. In 1950, Antonio Alfa's sons, Attilio, Giuseppe, Valeria e Pietro (G2), took over the business. In 1964 they established a larger and more efficient factory, moving from San Marzano to Taranto. In the 1970s the company was incorporated into a new company (from SNC to SPA) and skilled non-family members were employed. The family firm's capital was, and still is, entirely owned by the four Alfa brothers (G3). Their sons have been working since the 1970s in the family firm and legally took over the business in 1997. They all sit on the Board of Directors. In 2005, Alfa had 40 employees and annual revenues of 11 million Euros. New products related and not related to the core business have been constantly conceived (with positive effects on the net income) according to customers' demand. Alfa produces or commercializes several kinds of liqueurs and several related products such as Bon Alfa, Baba of Elisir San Marzano and Astrelino chocolate (the company 'Astrelino Maestri di Cioccolato S.p.A' was acquired in 2005). Alfa's main market is Italy, but company products are also exported to the US, Germany, Ireland, Australia and Japan.</p>
<p><u>BETA SA</u></p> <p>Founded: 19xx**</p> <p>Latest active generation: 3rd</p> <p>Industry: Beverage-Wine</p> <p>Country: Italy</p>	<p>From 19xx the involvement in agriculture and viticulture has been the predominant activity of the Beta family. Carlo Beta (G1) was the first to introduce in Tuscany the specialized cultivation of grapes such as chardonnay, pinot blanc, gris and noir, cabernet and merlot. Carlo's sons (G2), ran the business when he took over. They focused the company entirely on wine and found the best vineyard sites in Tuscany. The latest generation of Beta (G3) has been gradually taking increasing responsibility since the late 1990s. The product-line extension and diversification remarkably increased from G2 to G3. Net income has increased considerably in G3. Beta products are also exported abroad.</p>
<p><u>GAMMA SA</u></p> <p>Founded: 1944</p> <p>Latest active generation: 3rd</p> <p>Industry: Beverage-Wine</p> <p>Country: Switzerland</p>	<p>In 1944, Carlo Gamma (G1) founded the wine firm "Carlo Gamma" in Switzerland. Since his sudden death in 1969, the firm has been run by his son, Claudio (G2). In 1975, Claudio bought the share of his sister, Milena. Claudio is currently CEO and Chairman of the Board. 70% of the capital is owned by him and 30% by his mother, Bice Gamma, who carries out managerial tasks (debt management) on a part-time basis. In 1997, Milena Gamma started working for the family firm as a part-time employee, managing Gamma Aziende Agricole SA. The latest generation (G3) is represented by Milena's son, Mattia, who was put in charge of Lucchini Giovanni SA and Tenuta Vallombrosa in 2003. The family firm is staffed with forty employees in production, administration, sales and vineyards. It owns 30 hectares of vineyards from which high quality wines are obtained. Cellars are located in the village of Lamone near Lugano, whereas vineyards are located in Comano (Vigneto ai Bruggi), in Lamone (Tenuta San Zeno), in Vico Morcote (Castello di Morcote), in Gudo (Tenuta Terre di Gudo), in Neggio (San Domenico), and in Castelrotto (Tenuta Vallombrosa). The firm also produces olive oil, grappa and honey (product-line extension and diversification). The group is made up of two companies: Gamma Aziende</p>

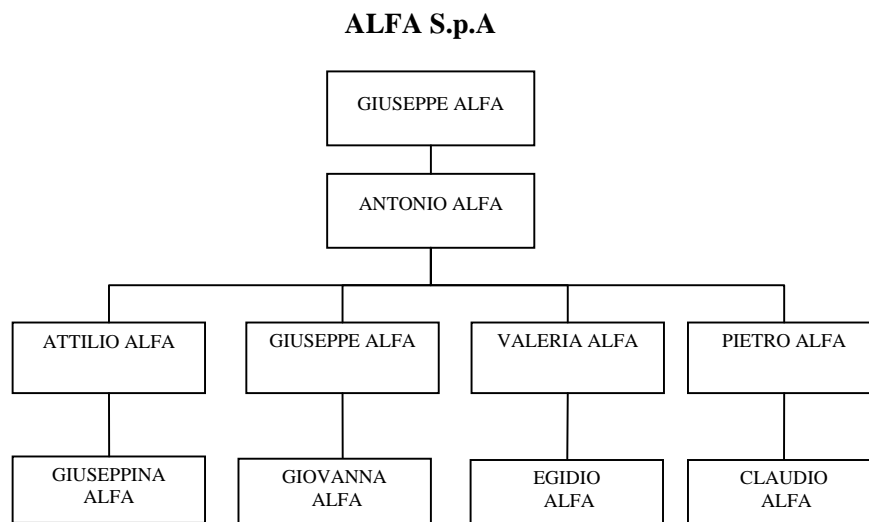
- Knowledge Accumulation in Family Firms -

	Agricole SA, which is in charge of the agricultural side and Gamma Carlo Eredi SA, which deals with the commercial distribution of the products through a wine shop and a commercial network across Switzerland. Net income has increased across generations. Gamma products are also exported to Germany, the United Kingdom, Sweden, Russia, and the US.
<u>DELTA SA</u> Founded: 19xx** Latest active generation: 3 rd Industry: Beverage- Wine Country: Switzerland	Mario Delta and Antonio Y founded the wine firm Delta& Y in 19xx in Switzerland. Their activity was initially limited to purchasing wine from local producers, blending and re-selling it to restaurants and tourists. Mario died in 19xx and Antonio retired a year later. Mario's sons, Fabio, Luigi and Stefano Delta took over the business. The company is currently owned by the three brothers and by Fabio's son, Carlo. The third generation is represented by Fabio, Luigi and Stefano Delta's sons. New products are slightly conceived. An in-depth analysis of the firm's balance sheet shows that the net income has decreased in the last years. The commercial distribution of products is carried out through a wine shop and a commercial network in Switzerland. Delta products are not exported.

(*) We consider only the last three generations of the Alfa family firm starting from the point when the artisan activity turned into an industrial business.

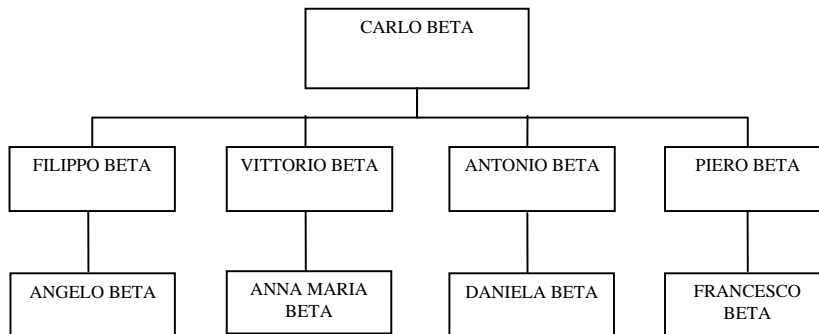
(**) Some information is not available for confidentiality reasons.

APPENDIX 2: Family-Business Trees

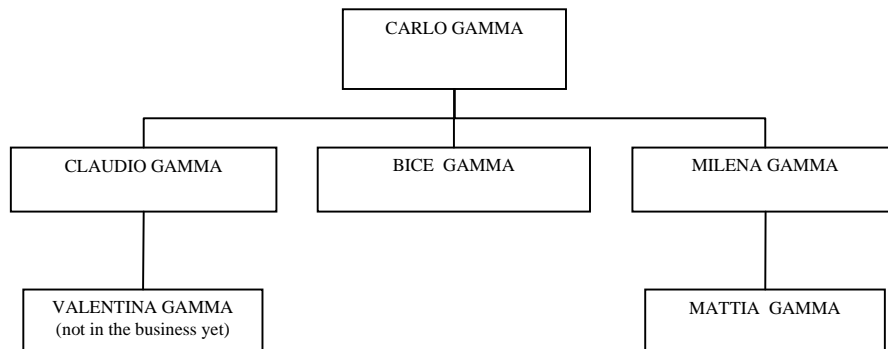


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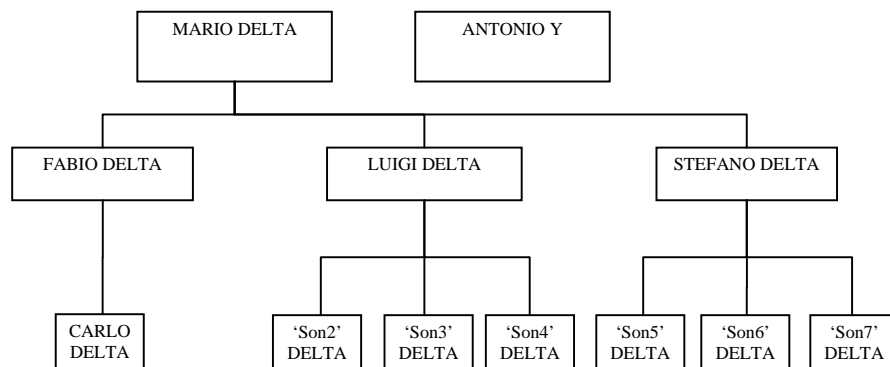
BETA SA



GAMMA SA



DELTA SA



ANTECEDENTS OF COMMITMENT ENTRAPMENT TO THE FAILING FOUNDER'S FAMILY BUSINESS*

ABSTRACT

The present research is aimed at studying the antecedents of commitment entrapment to the failing founder's family business. Strategic management and psychological literature combined with family-business literature helped us identify specific family factors which prevent exit from a declining family organization. In particular, our analysis suggests that emotional attachment to, feeling of responsibility for, and amount of effort made for the business positively influence family members' psychological willingness to persist with the failing founder's business, thereby leading to commitment entrapment. However, a higher temporal distance from the founder's business increases family members' psychological willingness to recreate and reinvent themselves and their business to face crisis situations. Finally, we suggest these insights are generalizable to other forms of business organizations.

Keywords: Business Exit, Commitment Entrapment, Emotional Attachment

(*)The paper won the *Best Paper Award* at FERC 2008 (Chirico and Salvato).

INTRODUCTION

Miller (1990) has described how the core skills of an organization that made it successful in the past can also lead to rigidity and an inability to adapt to a changing environment. Hence, it has been argued that firms can become trapped within their own business in which core capabilities can transform into core rigidities so as to prevent business exit (Staw, 1981; Leonard-Barton, 1992; Levinthal and March, 1993; Argyris, 1999).

Business exit is here defined as the divestment of a whole business unit, or part of it, resulting from the decision to withdraw from an existing business to re-generate into a new industry through resource reallocation (Duhaime and Schwenk, 1985; Yuen and Hamilton, 1993; Eisenhardt and Martin, 2000). The resource-reallocation process, including shedding resources, can be seen as a dynamic capability that all firms should learn and practice so as to foster change and redirect resources towards more desirable business activities when needed (see Teece et al., 1997; Eisenhardt and Martin, 2000; Salvato, 2003; Zahra et al., 2006).

We focus on a specific predominant form of business organization which plays a crucial role in today's economy and social well-being, that is the family business. It is estimated that family organizations, in various nations around the world, account for 65% to 90% of all businesses and there is great evidence that this phenomenon will grow over time (Beckhard & Dyer, 1983; Arregle et al., 2007). Business exit is particularly difficult to be accepted and implemented within a family organization since family members are simultaneously active in the family —i.e. the emotional arena— and the business —i.e. the rational arena— hence significantly influencing their strategic decisions (Olson et al., 2003). Accordingly, we define a family business as an organization in which the ownership and management are concentrated within a family unit and family members strive to maintain intra-organizational family-based

- Antecedents of Commitment Entrapment to the Failing Founder's Family Business -

relatedness (see Litz, 1995; Arregle et al., 2007). This definition is effective for this research because it considers family emotional involvement in the firm and family members' intention to retain such an involvement.

In particular, family firms are characterized by long-term orientation, strong family values, extraordinary commitment and the desire to keep the family business alive across generations (Arregle et al., 2007). Statements like 'this family business shall last forever' are often included in family firms' mission reports, as if failure can never happen (Danco, 1975, Harris et al., 1994). Accordingly, the family tends not to exit from the founder's business in troubled economic times, "not necessarily because it is a 'good business' but because of the family" (Winter et al., 1998: 239) who is willing to make personal sacrifices (Rosenblatt, 1991, Haynes et al., 1999; Stewart, 2003).

Most family business research has actually focused on business continuity (e.g. Dreux, 1990; Drozdow, 1998) and a small amount of research has been devoted to business divestments (Sirmon and Hitt, 2003; Sharma and Manikutti, 2005). There is, indeed, an implicit bias towards persistence in the founder's business, mainly explained by heavy emotional commitment to it. Rather, little attention has been paid to the question of whether continuity of a family business is always a good thing, especially in failing situations, i.e. when the business is not profitable anymore (see Kaye, 1996; 1998).

Thus, herein we attempt to fill the existing gap in the family-business literature by studying the antecedents of commitment entrapment to the failing founder's business. Harrigan (1980, p. 602) suggests that "early exit may become imperative if the firm hopes to recover much of its assets' values...and release it to other uses yielding better returns". Guided by this general assumption, we argue that for family businesses eager to survive across generations, it becomes

important to understand *why*, in failing situations, family organizations generally tend to persist with the failing founder's business —thereby leading to commitment entrapment— rather than seeking for new possible business opportunities to be exploited. Accordingly, we present a theoretical framework of those psychological family factors which lead to commitment entrapment to the failing business and suggest its potential extensions to other types of organizations.

The paper is organized as follows. After a review of the literature related to the concept of escalation of commitment, we present factors influencing commitment entrapment to the failing founder's family business. Accordingly, our propositions are formulated. Research and practical implications are shared in the concluding section.

COMMITMENT ENTRAPMENT TO THE FAILING FOUNDER'S FAMILY BUSINESS

De-commitment involves drastic strategic choices such as exiting capital-intensive projects (Keil, 1995; Montealegre and Keil, 2000), closing a plant (Deily, 1991), withdrawing from unsatisfactory joint ventures (Ghemawat and Nalebuff, 1985), acquisitions (Chang, 1996), or even exiting from the firm's core business (Burgelman, 1994, 1996).

There is considerable evidence in the empirical literature that managers are reluctant to de-commit even to a losing course of action so that commitment persists despite evidence of negative results. Existing strategic management and psychological literature refer to this situation as 'escalation of commitment' in which different factors —history of success (Keil, 1995; Staw, 1997), emotional attachment (Staw, 1976; 1981; Duhaime and Grant, 1984; Burgelman, 1994, 1996; Keil, 1995; Staw, 1997), feeling of personal responsibility (Staw, 1981; Brockner, Rubin and Lang, 1981; Bazerman, Beekun and Schoorman, 1982; Harrison and Harrell, 1993;

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Brockner, 1992; Simonson and Staw, 1992; Bobocel, and Meyer, 1994; Schoorman, 1998), illusion of control (Taylor and Brown, 1988; Staw, 1997), sunk cost effect (Brockner et al., 1979; Staw, 1981; Staw and Hoang, 1995; Arkes and Blumer, 1985; MacDonald, 1986; Garland, 1990) and institutional inertia (Brockner et al., 1981; Staw, 1997) reduce, or even eliminate, the likelihood of strategic change, thereby leading to commitment entrapment to a failing course of action (Lopes, 1987; Brockner and Rubin, 1985). Hence, decision makers act as if they are entrapped in a failing action without recognizing it is time to implement a new strategy, i.e. exit or move to another business.

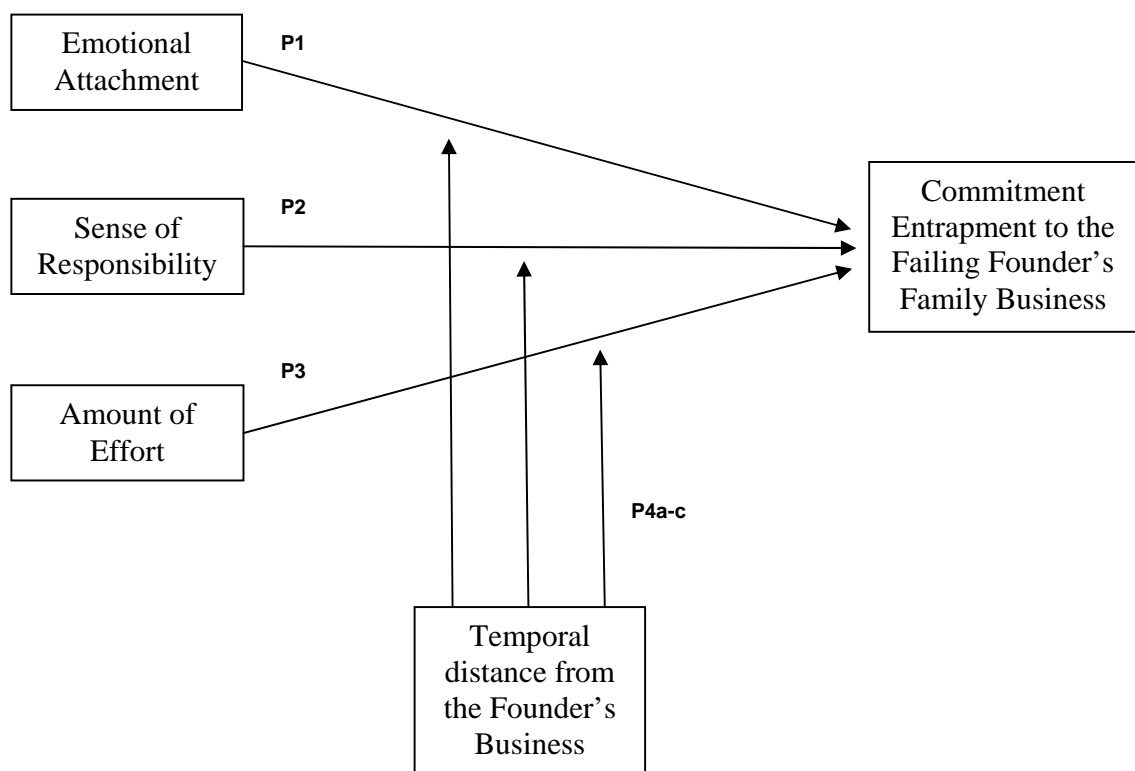
Family firms are often described as potentially having specific difficulties in terms of psychological barriers in recognizing failing courses of action, and in deciding to de-commit because of family members' strong dedication to the family organization. Indeed, family firms are emotionally committed organizations. Sharma and Irving (2005), for instance, find Meyer and Herscovitch's (2001) definition of commitment as particularly suitable to family firms. According to these authors, commitment is a frame of mind or psychological state that compels an individual towards a course of action of relevance to one or more targets. In other words, the focal behavior followed by the family business makes family members feel psychologically compelled with it. This is in line with previous psychological studies (e.g., Furby, 1980; 1991) that recognize the existence of a 'psychology of mine, property, responsibility and control' that attaches an individual to a particular object or behavior.

Factors that may anchor a family firm into the past, inhibiting exit from a declining business are reported below.

Antecedents of commitment entrapment

In this section we illustrate those factors which are described by existing literature as more likely to affect commitment entrapment to the failing founder's family business: emotional attachment to the business, feeling of responsibility for the business, amount of effort made for the business and temporal distance from the founder's business (see Figure 1).

Figure 1: Antecedents of Commitment Entrapment to the Failing Founder's Family Business



Emotional attachment to the family business

A first family-specific psychological factor influencing commitment entrapment in family business is the strong *emotional attachment* that family members have to their business, and their related identification with it. These are some of the most peculiar characteristics of family firms which affect their entrepreneurial action, and their business strategies (Collins and Porras, 1994;

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Habbershon and Pistrui, 2002; Sharma and Irving, 2005). Duhaime and Grant (1984, p. 303) report that “the fact that so many divested units deteriorated to unprofitability before divestment suggests that personal attachments to units may influence divestment decision-making, preventing earlier, more timely decisions” (see also Staw, 1976, 1981; Burgelman, 1994; Keil, 1995).

In particular, founders and their heirs consider the family business as part of their identity and their most significant creation. They view it as an extension of themselves so that their commitment to the business is very high (Handler and Kram, 1988; Miller et al., 2003). Sharma and Irving (2005) argue that family members who are affectively committed to the family business have a strong emotional attachment to, identification with, and desire to remain in the family business. However, when facing failing courses of action, strong emotional attachment to the business may give rise to inappropriate strategies (Miller et al., 2003). Harris, Martinez and Ward (1994) note that emotional attachment and ties between individuals may force the family firm to ‘hang on’ to a business just because it was created and run by ancestors during the past generations. Similarly, Jaffe and Lane (2004) posit that the significant family members’ emotional attachment to the organization may impede the selling of the core family business even though is not profitable anymore.

Hence, emotional familial forces govern the decision-making process in family firms, thereby preventing divestments even when needed and justified by the environment (Olson et al., 2003; Sirmon and Hitt, 2003; Sharma and Manikutty, 2005). These forces may become psychological barriers against exit and make family members able to tolerate negative results in a continuous escalation of commitment (Staw, 1981; Kaye, 1996). Indeed, family members often prefer to avoid, delay or deny emotionally issues (Lansberg, 1988) and keep running the failing

activity more for affective than profit reasons (Jaffe and Lane, 2004). Tagiuri and Devis (1996) refer to 'bivalent attributes' as some family-business emotional characteristics (e.g. lifelong common history, emotional involvement, private language) which can be a source of both advantages and disadvantages. For instance, the strong emotional attachment of the founder to the business can induce him or her to fight to maintain control over it and not to understand when and if it is time to exit from it. The business itself may "become the drug of choice [illness], with the whole family addicted" to keep it alive and guarantee its progression (Kaye, 1996, p. 350).

Thereby, the strong family members' emotional attachment to the organization makes the business itself a trap against exit. The business appears institutionalized and, hence, hard to change or exit from (Staw, 1981; Davis and Harveston, 1999). Accordingly, we propose:

Proposition 1: *Higher levels of family members' emotional attachment to the business are positively associated with commitment entrapment in failing family firms.*

Feeling of responsibility for the family business

A second family-specific psychological factor having an impact on commitment entrapment is the family members' *feeling of responsibility* for the business and the related illusion of control. Individuals who feel emotionally tied to a business have a strong feeling of responsibility for it – protection and caring – and need to affect and control it in order to fulfill individual needs and to induce perception of personal efficacy and competence (Pierce et al., 2001, 2003; Van Dyne and Pierce, 2004). Family members typically have a strong sense of responsibility over the business and the desire to control it as part of themselves (Malone, 1989; Kaye, 1996; Drozdow and Carroll, 1997; Miller et al., 2003).

However when facing failing courses of action, family members often feel personally responsible for the failure of the founder's business, tend not to accept that they are not able to

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revitalize it, and are ashamed to sell or to exit (Kenyon-Rouvinez, 2001). Indeed, exit from the founder's business would negatively influence family power, visibility, status and reputation within and outside the family (Sirmon and Hitt, 2003; Jaffe and Lane, 2004).

This is strongly related to self and external justification motives, which have been analyzed, among others, by Staw (1981) and Brockner (1992) to explain causes of escalation of commitment to a failing course of action. Staw (1981) demonstrated that people are more committed to decisions for which they feel personally responsible. They need to demonstrate the rationality of their original decision, protect their initial idea and their image and reputation within (self-justification), but also outside (external justification) the company (Brockner, Rubin and Lang, 1981; Bazerman, Beekun and Schoorman, 1982; Brockner, 1992; Bobocel, and Meyer, 1994). For instance, Harrison and Harrell's (1993) study shows that managers do not recognize a failing course of action when their external reputation is at risk. Being or feeling responsible for negative results affects the decision process for the allocation of resources and the evaluation of the available information about the courses of action taken or to be taken. There is a tendency to overestimate the likelihood of positive events, and an illusion of control which increases confidence that previous negative results will be turned around (Taylor and Brown, 1988; Staw, 1997).

Similarly, family members because of their family status, tend not to take into consideration information regarding the decline of their family organization. They have a strong feeling of controlling it with an optimistic vision or better 'tunnel vision' —i.e., a narrow view of the problem— to be able to manage their fate and the one of their business (Malone, 1989; Kaye, 1996). Consequently, family members are likely to postpone divestment decisions without looking for new possible opportunities to be exploited. In other words, there is an illusion of

control to be able to save the familial historical business in which losses are viewed as merely temporary and not taken seriously into consideration —a phenomenon called the ‘deaf effect’ by Keil and Robey (1999). Accordingly, we propose:

Proposition 2: *Higher levels of family members’ feeling of responsibility for the business are positively associated with commitment entrapment in failing family firms.*

Amount of effort performed by the controlling family for the family firm

A third family-specific psychological factor influencing commitment entrapment is the *amount of effort* performed by the controlling family for the family firm. Individuals become attached or entrapped to the founder’s business when they invest significant effort in it —money, energy, time and personal sacrifices. Individual and family effort in the business activity is part of family members’ identity and culture, which in turn increases their feeling of possession over the organization. It is a state of mind, feelings and attitudes deriving from their sense of attachment to and responsibility for the family business (Dreux, 1990; Rosenblatt, 1991, Haynes et al., 1999; Olson et al., 2003). Rogoff and Heck (2003) recognize the family as the oxygen that feeds the fire of the business. For instance, Rosenblatt (1991) reports the case of some family firms which have benefited from family help when the economic recession in agriculture had threatened their business.

However when facing crisis situations, since family firms have a long-term orientation, family members are well-disposed towards investing ‘patient financial capital’ (Sirmon and Hitt, 2003) with the hope that the business will recover (Sharma and Manikutty, 2005). Hence, in economic downturns family members are induced by their strong commitment and their strong sense of trust and altruism, to supply extra-capital in the form of free labor, monetary loans, use of savings and so forth (Dreux, 1990; Olson et al., 2003). Indeed, Haynes et al. (1999, p. 238)

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confirm that “small businesses actively intermingle business and family resources” to guarantee the continuity of the business. However, the same substantial monetary and not monetary capital invested may dissuade family members from releasing resources related to their organization to be reinvested in more profitable businesses (Brockner et al., 1979). This especially happens if those resources contributed to prior success (history of success; see Keil, 1995; Sirmon and Hitt, 2003; Jaffe and Lane, 2004).

This is related with the sunk cost effect viewed as a psychological obstacle to exit by continuing to influence individuals' decisions and behaviors over time (Teger, 1980; Staw, 1981; Arkes and Blumer, 1985; Garland, 1990; Staw and Hoang, 1995). This tendency to ‘throw good money after bad’ (see Garland, 1990) can be explained by prospect theory which assumes that decision-makers, in negatively framed situations, simply act in a risk-seeking manner to convert failing situations into positive ones. In other words, they tend to view the upcoming decision as a choice between the sure loss which already occurred —i.e., choosing to exit from the business and avoid investing more money— and a future loss that is less certain —i.e., risking more funds in the hope of positive returns (see Kahneman and Tversky, 1979; Schneider, 1992). Sharma and Irving (2005) refer to ‘successor calculative commitment’ associated with leaving the firm. To some extent, family members perceive that an alternative course of action will lead to a loss of valued investments so as to choose to remain within the founder's business although problems occurred. Accordingly, we propose:

Proposition 3: *higher levels of amount of effort performed by family members are positively associated with commitment entrapment in failing family firms.*

The moderating role of temporal distance from the founders' business

We have underlined that family organizations are often reluctant to change even when it is

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needed and justified by the environment. Basically, family members are often focused and emotionally attached to their historical business considered as part of themselves. In failing situations, this attitude may lead them to take improper decisions directed to persist with failing courses of action. This is particularly true when family members tend to run the business in a way which reflects the existing family traditions and values, thereby losing their strategic flexibility (Dyer, 1988). In this respect, Davis and Harveston (1999) refer to 'generational shadow', as the enduring effect of previous strategic paths and practices on a family firm's subsequent evolution.

Hence, when family members are tied psychologically to the founder and to his/her heirs' goal and vision, it is hard to challenge that vision which often becomes the family business' vision (Drozdow and Carroll, 1997). Even during subsequent generations, strong feelings may shape and limit family members' choices, as if they are locked in the past (Drozdow and Carroll, 1997; Miller et al., 2003). According to Dyer (1994, p. 125), "feeling and emotions related to change are likely to be deeper and more intense" in family than in non-family firms, hence making business exit more difficult.

However, we argue that the relation between the three constructs —emotional attachment, feeling of responsibility and amount of effort— and commitment entrapment to the failing business is moderated by the temporal distance from the founders' business. Distance from the founders' business has an obvious impact on exit: the more family members perceive themselves distanced from the founding roots of their firm, the less they will be likely to hinder or to delay exit. For instance, Kellermanns and Eddleston (2006, p. 813) explain that "while first generation family firms tend to want to maintain the status quo, later generations tend to push for new ways of doing things" to implement change and adapt the organization to the shifting environment.

Indeed, many founders are conservative and unwilling to exit from the existing business. However, a family firm's survival through generations often depends on the business' ability to revitalize existing operations so as to enter into new markets (Ward, 1987).

Accordingly, there may be differences in the willingness to introduce drastic changes among family firms of different generations (see Kellermanns and Eddleston, 2006). Particularly, in contrast with subsequent generations, first generation family firms may have the least amount of willingness to make changes so as to increase commitment entrapment to the failing course of action. Indeed, their emotional attachment to the historical business, feeling of responsibility over it and amount of effort made for it are very strong and vivid in their memory to exit from the established business. Subsequent generations, instead, may be more willing to recreate and reinvent themselves and their business over time with new and fresh ideas to sustain the same level of growth of the previous generations (Jaffe & Lane, 2004; Salvato, 2004). Accordingly, we propose:

Proposition 4: *The relationships between (a) emotional attachment, (b) feeling of responsibility, (c) amount of effort, and commitment entrapment are moderated by the temporal distance from the founders' business. Specifically, the higher the temporal distance from the founders' business, the weaker the positive relationships between the independent variables and commitment entrapment in failing family firms.*

DISCUSSION AND CONCLUSIONS

Our aim in this paper was to shed light on the antecedents of commitment entrapment to the failing founder's family business. This is an important stream of research for many domains, including entrepreneurship, strategic management and family business. Existing research offers several insights into the role played by de-commitment from failing courses of action in allowing long-term firm survival and prosperity (see e.g., Burgelman, 1994, 1996). However, little research has been devoted to understand the specific role exit can play in family firms.

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Strategic management and psychological literature combined with family-business literature helped us identify specific family factors which prevent exit from a declining family organization. In particular, our analysis suggests that emotional attachment to, feeling of responsibility for, and amount of effort made for the business positively influence family members' psychological willingness to persist with the failing founder's business, thereby leading to commitment entrapment. However, a higher temporal distance from the founder's business weakens the above-mentioned relationships, thereby increasing family members' psychological willingness to recreate and reinvent themselves and their business to face crisis situations. In so doing, resources can be redirected towards more attractive business opportunities so as to sustain the survival of the family organization. The proposed model incorporating our propositions is presented in Figure 1.

Limitations

Although an important first step in underling the importance of business exit in family firms, we are aware of the limitations of our research. First of all, the present work did not take a detailed look at the possible conflicts and different points of view that family members belonging to the same or different generations may have about the future direction to give to the company (Lansberg, 1988; Kellermanns et al., 2004). This may affect their desire to remain to or exit from the failing founder's business.

Second, our research does not consider the role that non-family members or even external parties (e.g. a non-family member CEO) could play to persuade or force family members to exit from a failing activity and redirect resources to more profitable businesses (see Duhaime and Schwenk, 1985; Ross and Staw 1993).

Finally, although our aim was to understand why, in failing situation, family firms tend to persist with the failing founder's business, we did not take into consideration the possible internal and external factors (e.g. dynamic markets, internal family and business problems, lack of knowledge etc.) which can make the business not profitable anymore, thereby causing its failure. We also did not consider possible alternatives to improve execution of the current business, such as bring in a consultant or new management.

Contributions

Despite these limitations, some contributions clearly emerge. First of all, we began our research by challenging most family-business literature which assumes that continuing the family business is desirable and that there are always other alternatives to divest the business (Dreux, 1990; Drozdow, 1998). We argued that perpetuating the founders' business is only one of many possible opportunities, and not necessarily the best one to survive across generations. In this respect, Kaye (1996, p. 280) remarks that "in family business terms, it is a successful ending when the whole family survives with their capital free to create new opportunities for all". Hence, we present business exit as a precondition to enable a family organization to re-generate into a new industry. Neustadt and May (1986) suggest to develop the habit of seeing time as a stream, viewing issues in the present with a sense of historical currents as well as an eye to the future.

Moreover, while business exit has received considerable research attention in the strategic management literature (e.g. Burgelman, 1994), surprisingly only a few scholastic works have been devoted to the study of resource shedding and exit in family firms (Kaye, 1996; Sirmon and Hitt, 2003; Sharma and Manikutty, 2005). Consequently, specifying those factors which affect

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commitment entrapment to the failing founder's family business allowed us to expand existing research on family business and offer some new insights for future research. To achieve this goal, we have combined the strategic management and psychological literature on divestment decisions, and applied it into family business studies.

Finally, it is reasonable to ask whether our research can be generalized to other forms of business organizations. We believe that our findings shed some light on business exit and commitment entrapment in any type of company since exit processes are likely to share some commonalities across any firm. Accordingly, we suggest potential extensions of our findings to other forms of organizations, especially those characterized by strong members' commitment to the business. Hence, in the presence of strong environmental pressures towards exit, a history of success may induce both family and non-family organizations strongly committed to their business to insist with failing investment decisions (Keil, 1995; Sirmon and Hitt, 2003).

To conclude, using the context of family firms to unveil some important antecedents of commitment entrapment clarified their negative effect on business exit and regeneration for both failing family and non-family companies.

Research implications

We see our research efforts as a point of departure for guiding and pushing forward further theoretical and empirical research. We address a few paths of investigation here that are directly relevant to our model. First of all, empirical studies are clearly needed to test, on a large representative sample, the model in figure 1 so as to measure the effect and weight of each factor on commitment entrapment as well as their possible effect on business regeneration. Given the presence of variables at different levels of analysis, empirical research may adopt a heretical

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linear modeling approach (see Bryke and Raudenbush, 1992; Chrisman, Sharma, and Taggar, 2007) which consists of a two level approach to multilevel data. Existing measures of the main constructs will need to be adapted to a specific family business context. Non-family firms may be also taken into consideration to explore whether or not the model presented is exclusive to family organizations.

Moreover, commitment entrapment is likely to be influenced by more than the constructs researched in this paper. Hence, our theoretical framework could be advanced by considering more relevant dimensions such as the entrepreneurial orientation needed to seek for new business opportunities (Lumpkin and Dess, 1996); the social capital needed to foster strategic consensus among family members (Nees, 1981; Arregle et al., 2007); and the family culture as facilitator or inhibitor of resource shedding (Sharma and Manikutty, 2005). Inter-relationships among the four constructs (i.e. emotional attachment to the business, feeling of responsibility for the business, amount of effort made for the business, and temporal distance from the founder's business) may be also worth being explored.

Finally, relevant de-commitment strategies to facilitate exit from the failing founder's family business need to be investigated, thereby understanding how to overcome resistance to change in family firms. Towards this end, we present in Table 1 a series of de-commitment strategies extracted from the strategic management and psychological literature which may be applied in family business studies in future research.

Implications for practice

Our results may have practical implications for family business management. First, it is crucial to understand that effective resource management, including shedding resources, is

essential to sustain competitive advantage across generations in family firms (Sirmon and Hitt, 2003). Hence, family members have to be aware of the possibility of business exit when the organization is not profitable anymore and look at the divestment process as a way to enable the renewal of the business, i.e., a way to free up resources for the strategic regeneration of the firm and the identification and exploitation of new opportunities in which to reallocate them. In fact, business exit needs to be interpreted as an intended strategic choice, i.e. a real investment decision to improve performance or, at least, to remain profitable.

To achieve this goal, traditional ways of thinking and acting will not be of much help to the organization. To foster radical change, it is essential to question old patterns of strategic action and to explore new ones in a process of continuous learning (Hall et al, 2001; Zahra et al., 2004). But because of affective reasons, family firms are often inflexible and based on path-dependent traditions and culture hostile to new proactive entrepreneurial strategies.

However, since being entrepreneurial exists in the social relations of the organization, this problem could be addressed by supporting collaborative exchanges of information, free from bureaucratic constraints. Decision-makers need to openly discuss problems and build consensus towards the possible alternative courses of action. This may enable resource shedding and business regeneration. Otherwise, even when the need for radical change is acknowledged, change may not occur.

Table 1: De-commitment Strategies

De-commitment strategies	Reference(s)
Hiring outsiders (CEO, consultants, external experts).	Duhaime and Schwenk (1985); Deily, (1991)
Propose/find alternative investments/opportunities.	Keil et al. (1995)
Make visible and transparent the costs related with the failing business within the organization.	Brockner et al. (1979)
Separation of responsibility for initiating and evaluating projects/initiatives/business.	Keil and Robey (1999)
Regular evaluation of projects/business.	Keil and Robey (1999)
Deinstitutionalize the unit, i.e., separating it from the core of the business and raise other central activities.	Ross and Staw (1993)
Threats to persevere in a failing business until external parties are willing to support the withdrawal. Poor business performance is made evident to external parties.	Ross and Staw (1993); Duhaime and Schwenk (1985)
Appeals to organizational constituencies to help the firm to make the economics of withdrawal more favorable through new loans and other forms of financial support.	Ross and Staw (1993)
Setting specific minimum target levels below which failure would be recognized and lead to a change in action or policy. If the target levels are publicly stated is even better.	Brockner, Shaw and Rubin, (1979); Brockner and Rubin, (1985); Garland et al., (1990); Simonson and Staw (1992)
Value decision-makers on the basis of their decision strategies (process) and not for their initial investment decision (outcome).	Simonson and Staw (1992)
Make negative outcomes less threatening so as to reduce concerns about both self (results of decision-makers not reflective of their true abilities) and external (assurance of confidentiality) justification motives.	Simonson and Staw (1992)

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FROM BUSINESS EXIT TO BUSINESS REGENERATION IN FAMILY FIRMS*

ABSTRACT

In this paper we investigate the role of family-specific factors in facilitating or inhibiting business exit in family firms. The issues of business exit have attracted increasing attention in strategic management research. However, family business research has long focused on determinants and implications of business continuity, thereby not paying enough attention to resource shedding and exit. Our aim is to offer a more balanced perspective, whereby exit from the failing founder's business may be beneficial to the family firm's survival. We address this issue through the study of the Italian Falck Group's exit from the steel industry in the 1990s, followed by successful entry in the renewable energy business. A combination of insights from literature and triangulation of data from multiple primary and secondary sources leads to the development of a model describing facilitators and inhibitors of exit from the founder's business to regeneration into a growing industry.

Keywords: Business Exit, Business Regeneration, Champion of Change

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INTRODUCTION

Business exit is the divestment of a whole business unit, or part of it, resulting from the decision to withdraw from an existing business (see Duhaime and Schwenk, 1985). Exit from long-established businesses is difficult for any firm. However, abandoning a traditional business can be particularly demanding for family firms³. Family firms are characterized by long-term commitments to businesses and resource combinations (Collins and Porras, 1994; Sharma and Irving, 2005) and a significant influence of founders on firm culture, decisions and performance even beyond their tenure. While history matters in any kind of organization, research has shown a strong tendency of even dynamic family firms towards replicating inherited organizational routines and strategic perspectives for the family firm's subsequent evolution (Davis, 1968; Drozdow and Carroll, 1997; Davis and Harveston, 1999).

As a result, family business research has long focused on determinants and implications of business continuity (Kaye, 1996; Drozdow, 1998), thereby not paying enough attention to business divestments (Sirmon and Hitt, 2003; Sharma and Manikuttu, 2005). Although often neglected, exit strategies (Simonson and Staw, 1992; Burgelman, 1994; Hayward and Shimizu, 2006) that shed unproductive resources are critical for future entrepreneurial activities as markets undergo change (Eisenhardt and Martin, 2000). Jettisoning unproductive businesses will often liberate resources including managerial attention in pursuit of novel and prospectively more valuable entrepreneurial opportunities (Schumpeter, 1934; Sirmon and Hitt, 2003). As it liberates scarce resources, business exit may hence be a precondition to business regeneration, i.e. new entrepreneurial activities by the entrepreneurial family.

³ According to Lits (1995, p 78), "a business firm may be considered a family business to the extent that its ownership and management are concentrated within a family unit, and to the extent its members strive to achieve, maintain, and/or increase intraorganizational family-based relatedness". This definition is effective for this study because it considers family emotional involvement in the firm and family members' intention to retain such an involvement.

Hence, for enterprising family firms desirous of continuity in creating value across generations (Habbershon and Pistrui, 2002), it becomes important to understand *what* factors influence exit from the failing founder's business and *how* to overcome the psychological deterrents and practical obstacles to successfully exit from it to re-generate and transition into a growing industry.

The purpose of our research is hence twofold. First, we highlight the critical importance of the overlooked topic of business exit in advancing our understanding of the determinants of family firms' long term prosperity. Second, we aim to develop a framework of factors that influence exit from the founder's business and subsequent entry into a growing industry, while retaining family control. Our focus is on the need for business exit prompted by external environmental factors such as changed industry environment, technological changes etc., rather than internal organizational triggers such as family conflicts or changes in management or ownership structures (see Kauffman, 1973).

To begin our investigation, we sought guidance related to business exits from the literature. While some insights were gleaned from the organizational decline literature, this research is largely focused on non-family firms (e.g., Kimberly and Miles, 1980; Simonson and Staw, 1992). Theorizing on business divestments in the context of family firms is at its very early stages (e.g., Sirmon and Hitt, 2003; Sharma and Manikutti, 2005). We pursued our investigation inductively, relying on a qualitative, interpretive approach. This approach focuses on building an emergent theory from a perspective that gives voice to the interpretations of those living an experience (Corley and Gioia, 2004) —in this case business exit as experienced by both family and non-family members. To aid in understanding this process, we identified an organizational context —Falck Group— in which business exit has been successfully completed, making it

possible for insiders to openly acknowledge and discuss experienced problems and solutions (Burgelman, 1994).

Established in 1906, Falck Group became the largest privately held steel producer in Italy in the sixties. In the first half of the 1990s, after nearly two decades of almost uninterrupted losses, it moved away from steel production and later entered the renewable energy business, which is currently the family's main entrepreneurial activity. We selected Falck for our investigation as an 'extreme case', whereby the distinctive features of this remarkable family firm may illuminate behavior of a much broader set of family-controlled organizations (Yin, 1998). Multiple interviews with family and non-family members who were directly involved in the exit from the founder's business and subsequent entry into a markedly different industry were conducted. This data was triangulated with multiple secondary sources.

The study makes several contributions. It reveals the critical role of exiting a business from its current focus in declining industry as being essential to the pursuit of novel entrepreneurial opportunities, which in turn enable longevity and success of family firms. The most significant finding is the powerful role of the highly regarded family anchor —Alberto Falck— who championed the change process that enabled the successful exit and regeneration of the Falck Group (see Burgelman, 1994). With the help of carefully chosen and able non-family executives, finding pathways of support amongst various family, industry, community, and governmental stakeholders, he was able to de-commit the family from its strong emotional anchoring in the founder's steel business, towards the future-focused renewable energy business. It is interesting to note the modifications to the definition of 'continuity of a family firm' over the century long history of the Falck Group that we traced.

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

GUIDING THEORY

Available literature on organizational decline and resource divestment broadly suggests two factors that may anchor a family firm into the past, inhibiting exit from a declining business: Past performance – financial and family dimensions; and Commitment to continue the founder's business. Each is briefly discussed below.

Past performance

Successful organizations formulate heuristics for dealing with recurrent problems (Cyert and March, 1963). Success can de-sensitize an organization to environmental changes as dependence on proven mental programs to handle encountered problems increases. Past success can be confused with invulnerability precipitating inaction leading to failure (Argenti, 1976). Under such conditions, managers in non-family firms have been found unwilling to acknowledge losses explaining them away as being short-lived. Even in the face of environmental factors necessitating changes, firms with past success highlight investments already made in the form of sunk costs and have been found to invest even more in an attempt to reap the potential profits in a failing but previously chosen course of action (Duhaime and Schwenk, 1985; Simonson and Staw, 1992; Hayward and Shimizu, 2006).

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Family firms present even higher barriers to exit. In the face of successful performance in the past, each generation begins to view itself as a steward of the founder's business, which must be nurtured for the support of future generations (Miller and Le-Breton Miller, 2005). With such aspirations, the psychological deterrents faced by family member/s at the helm of a generational family firm against closing down the value creating founder's business are high. Against the backdrop of high performance in the past, successors at the helm of family firms experiencing declining performance, tend to feel personally responsible for causing the failure of their ancestors' business, and are ashamed to sell or exit it (Kenyon-Rouvinez, 2001). This suggests that leaders of family firms that have enjoyed high financial performance under previous generations are likely to be more reluctant to exit the business than those of mediocre or low performing firms.

Family firms have often been found to pursue financial and non-financial objectives such as family relationships (Tagiuri and Davis, 1992). Family harmony includes mutual respect, trust, understanding amongst family members, and the presence of open lines of communication (Malone, 1989). When multiple family members are involved in a family business through managerial, ownership, or governance roles, the livelihoods and identities of many family members are directly linked to the firm. Business may become an extension of family values generating traditions that may bring the family closer. Family firms have been found to persist during troubled economic times not because it is good for the business but it is good for the family who is willing to make personal sacrifices (Rosenblatt, 1991). Even when the need for drastic change is recognized, it is not implemented for fear of losing the family harmony that seems to be anchored and nurtured through the opportunities of developing collective history via the family firm (Handler and Kram, 1988).

Commitment to continue the founder's business

Commitment is a frame of mind or psychological state that compels an individual towards a course of action of relevance to one or more targets (Meyer and Herscovitch, 2001). Research conducted in non-family firms confirms that prevalence of strong emotional attachment to a business prevents timely divestments of businesses suffering from continued deterioration of performance (Duhaime and Grant, 1984). Meyer and Zucker (1989) label such firms as 'permanently failing organizations' as their leaders find it easier to lower their aspired level of performance from the business unit, rather than engaging in the emotionally and practically challenging task of divesting the failing unit.

Family firms are commitment-intensive organizations as family members are emotionally attached and identify with the founder's business (Sharma and Irving, 2005). Collective justifications such as 'troubled economic times are not going to last forever', supported by family legends of previously encountered hard times followed by turnarounds that reaped profits, drown any thoughts of divesting the founder's business. Such psychological barriers inhibit making radical changes even in the face of certain and unavoidable decline of industry (Dyer, 1994). Kaye remarks that the business itself may "become the drug of choice [illness], with the whole family addicted" to keep it alive and guarantee its progression regardless of environment conditions (1996, p. 350). The family is entrapped in the founder's business leading to escalated commitment to continue this business (see Staw, 1981).

Overall, the literature suggests that leaders of family firms with a history of successful performance on financial and familial dimensions are likely to be highly committed to the founders' business, thereby experiencing high levels of inertia against business exit.

METHODS

Studying exit in organizations and convincing key informants to talk about it, can be difficult, as exit strategies often result from failures and are a source of trauma and distress (Argenti, 1976). As our interest was in understanding both the business exit and subsequent regeneration of a multi-generational family firm, the Italian Falck Group is an excellent company to investigate. Established in 1906 as a steel company, it ascended to become the largest privately owned steel producer in Italy. The company suffered almost continuous losses in the 70s and 80s leading to a decision to exit from the steel industry in the 90s, followed by successful entry into the renewable energy business. After briefly sharing the data collection and an analysis of the methods used in this study, we discuss the various phases of the history of Falck Group.

Data collection

In order to reconstruct the history of Falck family's association with the steel industry since 1833 and exit from it in 1996, multiple primary and secondary data sources were used (Miles and Huberman, 1994). As the Falcks have been one of the prominent European entrepreneurial families, vast media coverage of the family and their businesses is available. In addition to the informative company website, we had access to over 15 years of financial reports, magazine and newspaper articles spread over 20 years, transcripts of board of director meetings, research reports and books on this family firm.

Sixteen in-depth semi-structured interviews, each lasting 60 to 120 minutes were conducted with five family members of third and fourth generations, and six non-family members. In choosing our informants, we followed Lincoln and Guba's (1985) guidelines for

‘purposeful sampling’. This implied initially choosing interviewees who could better inform us on our main research questions concerning what factors influence exit from long-established businesses and how family firms overcome the obstacles to exit strategies. Thus, our sampling began with both family and non-family top managers who played an important role in the strategic aspects of the business exit. We hence interviewed first the current CEO (non-family member) and the current Chairman (family-member) of the Falck Group, who have both been active in the exit process in the 1990s. We then used a snowball technique, asking key informants to recommend who could best explicate Falck’s exit from the steel business. Table 1 lists our informants.

All interviews were transcribed verbatim. Typically the first round of interviews focused on company and family history; company experience; involvement in the steel business before exit; the family, business and environmental context of exit; thoughts and perceptions about the exit process with a specific focus on hampering and facilitating factors. Subsequent interviews and collection of unobtrusive data became progressively more structured as themes emerged in both primary and secondary data. Thus, much of the content of second interviews and further collection of documentation focused on categories and themes emerging from previous data collection and preliminary analysis. This progressive focusing of data collection allowed us to target our attention on patterns, consistencies and inconsistencies across informants. The entire data collection procedure involved an iterative process of simultaneously collecting data, analyzing them, and seeking new informants and secondary data on the basis of information deemed important by prior informants, until we reached ‘theoretical saturation’ (Glaser and Strauss, 1967).

Table 1: Interview Informants

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

Data analysis

As we collected primary and secondary data, we started to inductively analyze them, closely following guidelines for qualitative inquiry including the techniques for the constant comparison of data and emerging data structure (e.g., Lincoln and Guba, 1985; Miles and Huberman, 1994).

To ensure reliability, we meticulously managed our primary and secondary data as they were collected, using QSR-N6™ —a computer-based qualitative data management program which helped us both in managing and analyzing our empirical evidence. Second, we used peer debriefing, in particular through seminar and workshop presentations, which means engaging other researchers not involved in the study to discuss emerging patterns in the data and to solicit critical questions about methods and emerging insights.

The techniques of open and axial coding were used for data analysis (Strauss and Corbin, 1998; Locke, 2001). Careful examination and comparison of key events, documentary data and ideas discussed by the informants allowed us to identify initial concepts in the data. We grouped them into categories (*open coding*; Strauss and Corbin, 1998; Locke, 2001) using language adopted by the informants or found in available documents (i.e., first-order codes). Next, we searched for relationships between and among these categories (*axial coding*), by assembling first-order codes into higher-order themes. Finally, we further aggregated similar themes into overarching aggregate dimensions, which constitute the building blocks of our emerging framework.

In collecting and analyzing our data, we placed particular emphasis on understanding specific family-related issues which may have influenced the exit process. Towards this end, we reconstructed the Falck family genogram⁴ over the focal period (see Appendix 1) and developed a list of the critical events in the family and business history – discussed next.

HISTORY OF THE FALCK GROUP

In order to understand the involvement of the Falck family with the steel industry, forces influencing this industry and exit of Falck Group from steel production, and subsequent entry into renewable energy business, it is important to understand the history of the firm starting from 1833 onwards. Four segments are found useful to present the key events: - seeding the fundamentals: 1833 - 1930; - strategic growth: 1930-1963; - cycles of steel crisis: 1963-1996; -

⁴ Genograms record information about family members and their relationships over generations (e.g., McGoldrick, Gerson and Shellenberger, 1999). They display family information graphically in a way that provides a quick gestalt of complex family patterns.

shift into renewable energy business: 1996 - 2007. The highlights of each phase are presented below:

Seeding the fundamentals: 1833-1930

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

In 1863, thirty years after his association with the Rubini family, George Falck's son — Enrico married Irene Rubini, daughter of the patriarchal ironmaster, thereby merging the two families through matrimony. After Enrico's death in 1878, Irene Rubini Falck ran the business until her son Giorgio Enrico took it over in 1893. In 1906, he established the 'Società Anonima Acciaierie & Ferriere Lombarde – AFL', shifting the entire business to Sesto San Giovanni, on the outskirts of Milan. It was a strategic position in view of better scrap procurement facilities, abundant water resources and the railway junction bringing coal from Germany. Given the limited financial resources of the Falck family, AFL was started as a joint-stock company substantially owned by the banks and industrial investors, with Giorgio essentially being more of a manager than owner in the first two decades of the company's existence. Although AFL is the first steel company founded by a Falck family member, by the time of its establishment, three generations of this family had earned their livelihood from the steel industry for over seventy years.

Strategic growth: 1930 – 1963

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

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

Efforts were made to reduce dependence on capital from the banks by building networks of private individuals such as Rubinis, Feltrinellis, and Luranis for supplying capital. These relationships were sustained by governance control pacts among these families. This allowed the company to shelter itself from the crises that overwhelmed the Italian banks and the industries they managed. Although the major instruments of the Falck family were joint-stock companies for most of the twentieth century, whenever personal wealth allowed it, the Falck family always

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tried to increase the company autonomy by increasing its financial commitment to the business, even during hard times.

For instance, on November 29, 1930, Giorgio Enrico Falck presented his board with a surprising response to economic depression. In those years the small Falck mills at Vobarno and Dongo were running almost at full capacity, while the major plants in Sesto San Giovanni were operating at only 30 to 40 percent of capacity. Despite this situation, Giorgio Enrico concluded that the best response to these difficulties would be to undertake further investments, both using the firm's reserves, and raising more capital. As the market would not support such increase in capital in this critical year, at an extraordinary meeting of the family shareholders in December 1930, an agreement was made to raise the capitalization to 78 million liras. This allowed the company to start a new blooming mill in Sesto in 1931.

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

Cycles of steel crises: 1963 – 1996

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

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In April 1970, Bruno Falck became Chairman of the Falck Group. Three years later, Alberto and Giorgio, sons of Enrico and Giovanni respectively, were admitted to the company's Board of Directors. While both were born in 1938 and became active in 1973, when Bruno stepped down as Chairman in 1983, Alberto was appointed Chairman and Giorgio the Vice-Chairman of Falck Group.

The two cousins were characterized with profoundly different styles of thinking and leadership. Family members, non-active family shareholders in particular, were worried about Giorgio's irrational approach, distant from the discipline imposed by the bottom line. His overindulgent life style attracted interest from the media and made the shareholders' skeptical about the viability of his proposed strategic vision for the family company. A passionate sailor, he spent a large part of his time either boat-racing or in his beautiful villa in Portofino, leading a glamorous jet-set existence. He remarried twice, both with charming actresses, and had six children from his three partners. He rejected the family practice of naming the first male child 'Giorgio' or 'Enrico' after the progenitor George Henri. His first son Giovanni died in a diving accident in 1993, and he split from his second partner in 1995. Both distressing events happened over the crucial period of exit from steel, adding to his inherent difficulties in giving a fair evaluation of the company situation.

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

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

Falck managed to overcome the worst periods of the crisis, thanks to its superior products and market diversification, lower production costs, high quality products, and effective distribution networks. Strategic agreements with other nations such as France were made leading to the creation of Falck France that helped to promote new products and increase the company's market size. Despite these forward looking policies, the company suffered heavy losses throughout the 1970s and 1980s. The deeply-rooted entrepreneurial tradition, strong family unity and deep social values slowed down the realization of the extent and irreversibility of the crisis.

After the painful and prolonged losses experienced by the Falck Group during the years of the steel sector crisis, financial results of the company slightly improved over time, turning positive in late 80s, making it possible to start paying out some dividends to shareholders. Despite these improvements, the situation of the company still attracted a lot of critics, mainly governance control pact partners, who complained about its performance as compared to others in the steel industry. These external stakeholders raised in the two Falck cousins the awareness of

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the necessity to find a strong partner in order to better face future industry crises, and to find more efficient and innovative productive solutions. The strong partner was found in state-owned company ILVA, which offered 150 million Euros plus a mechanism of crossed shareholdings, in order to obtain cooperation in sectors within the scope of activity of the two companies. In 1989, Alberto hired Achille Colombo, an external CEO, new to both the family and the business, with an un-confessed hope that he would guide the family business out of the irreparably compromised steel industry.

Corporate restructuring was promoted at the same time a major crisis occurred in the worldwide steel industry. The steel crisis was so deep that made Alberto Falck, then chairman of the Federacciai, to consider 1991 as *“the worst year the steel industry ever had to face over the last 15 years”*. The big drop in revenues, and therefore in profits, was partly due to aggressive policies implemented by emerging countries and threatened the necessary layoff of over 10,000 steel workers in Italy. In order to prevent layoffs and conflicts with unions, Alberto Falck developed 23 projects of industrial re-conversion to save almost 70% of the workers still employed in the Sesto steel plant. In addition to being tied to the well earned reputation of the Falck family never firing any of its employees, this move enabled access to some governmental funds which helped reduce the huge outstanding debt of the company. Alberto believed a strong capacity reduction and a wave of mergers between the main industry players was necessary for the survival of the entire sector. The company began devoting increased attention to increase the autonomy of the promising energy business, which had been ancillary to the steel production.

This deep crisis represented a critical step in the whole history of the Falck dynasty. At the end of 1992, ILVA CEO Giovanni Gambardella informed Alberto Falck about his plan to modify the relationships between their two groups, with the aim of improving productivity

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through separate restructuring plans. In 1992 and 1993 financial results of the core steel business of the Falck Group were very disappointing, recording huge losses which amounted to more than 100 million Euros combined. Notwithstanding this, the holding company managed to turn a small profit largely due to financial and non recurring items.

The negative financial performance led to disagreements within the Falck family. At a tense executive meeting in December 1992, Colombo the non-family CEO, proposed a restructuring plan – drawing strong reactions and explicit dissent from Giorgio Falck who favored continuity in the traditional steel production (Dragoni, 1993). The only other family member active within the firm at that time was Alberto's younger brother Federico, a steel engineer who had been active within the family company since 1977. While he shared his cousin Giorgio's passion for steel, he supported the external CEO and his brother Alberto, as what they proposed was the only logical way to avoid the collapse of the family business.

This time of financial and emotional distress for the Falck family, a major family quarrel erupted revealing the hostility between the two descendents of George Henri I – the rational sober Alberto Falck and passionate flamboyant Giorgio Falck. Giorgio was not only opposed by his cousins Alberto and Federico, external CEO Colombo, but most significantly by his sister Gioia who propounded for the more rational strategy to abandon steel. Although a non-active family member, over the years she and her husband – Carlo Marchi had become major shareholders of the Falck Group, by systematically participating in the capital increases suggested by the board to face increasing losses imposed by the steel crisis. Her brother, Giorgio, on the other hand was left with only 6% share in the company. The family dispute aroused a great deal of interest among industry players and in the financial press. On 23 January 1993, Falck's board of directors approved the restructuring plan proposed by CEO Achille Colombo.

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This decision initiated the reorganization and progressive dismissal of Falck's core business and a major focus on electricity generation and real estate activities.

The disagreements within the family, together with the negative financial results, were the base of the dissolution of the governance pact that was scheduled to be renewed in 1994. The first to declare himself out of the agreement was Giorgio Falck, leading other participants to share their unwillingness to adhere to it as well. This led to a large volume of the company's shares being transacted on the stock exchange, as major partners divested their holdings. The change in the governance pact and the improved market outlook for 1995 did not make Alberto change his course of action about the divestment process. However, it deeply changed his relationships with his cousin Giorgio and his former industrial partners.

In October 1995, Alberto asked the former Minister of Industry Emilio Gnutti for the funds destined by law to those who planned to definitely dismiss activity in the iron and steel industry. The long era of steel production in Sesto San Giovanni finally came to an end at the beginning of 1996, when all the remaining employees were either relocated or moved to other companies. Falck Group managed to get 130 million Euros by the government, as a subsidy to exit from the steel industry. Company name was changed from A.F.L. Falck S.p.a to Falck S.p.a., to reflect the new interest in diversified activities within the energy, real estate, engineering and financial businesses.

Shift to renewable energy business: 1996 – 2007

Falck shifted its focus from steel to electricity, first from hydro resources and later from renewable and sustainable resources. In 2002, two subsidiaries —Falck Renewables and Actelios— were formed as the environmental and renewable division of the Falck Group with an

aim to generate electricity while leaving zero impact on the environment. While Falck Renewables is focused on wind-energy, Actelios is a biomass and waste-to-energy company. The company is active in the United Kingdom, France, Spain, and Italy, and a major contributor to the European Union's target of producing 20% of energy from renewable resources by 2020. Working closely with local land owners and governments, today Falck Group is actively involved in all key phases of wind farm development – finance, construction and operation of wind farms, and the sale of generated electricity. Although the Falck family faced the sudden death of Alberto in 2003, only to be followed a year later by the death of his cousin Giorgio, Federico and Enrico Falck, who are currently at the helm of the Falck Group are determined to lead the company towards its stated mission of:

Creating value through the design, development, financing, building and management of innovative and competitive power plants, destined for electricity generation mainly from renewable sources and in compliance with the principles of sustainable development⁵.

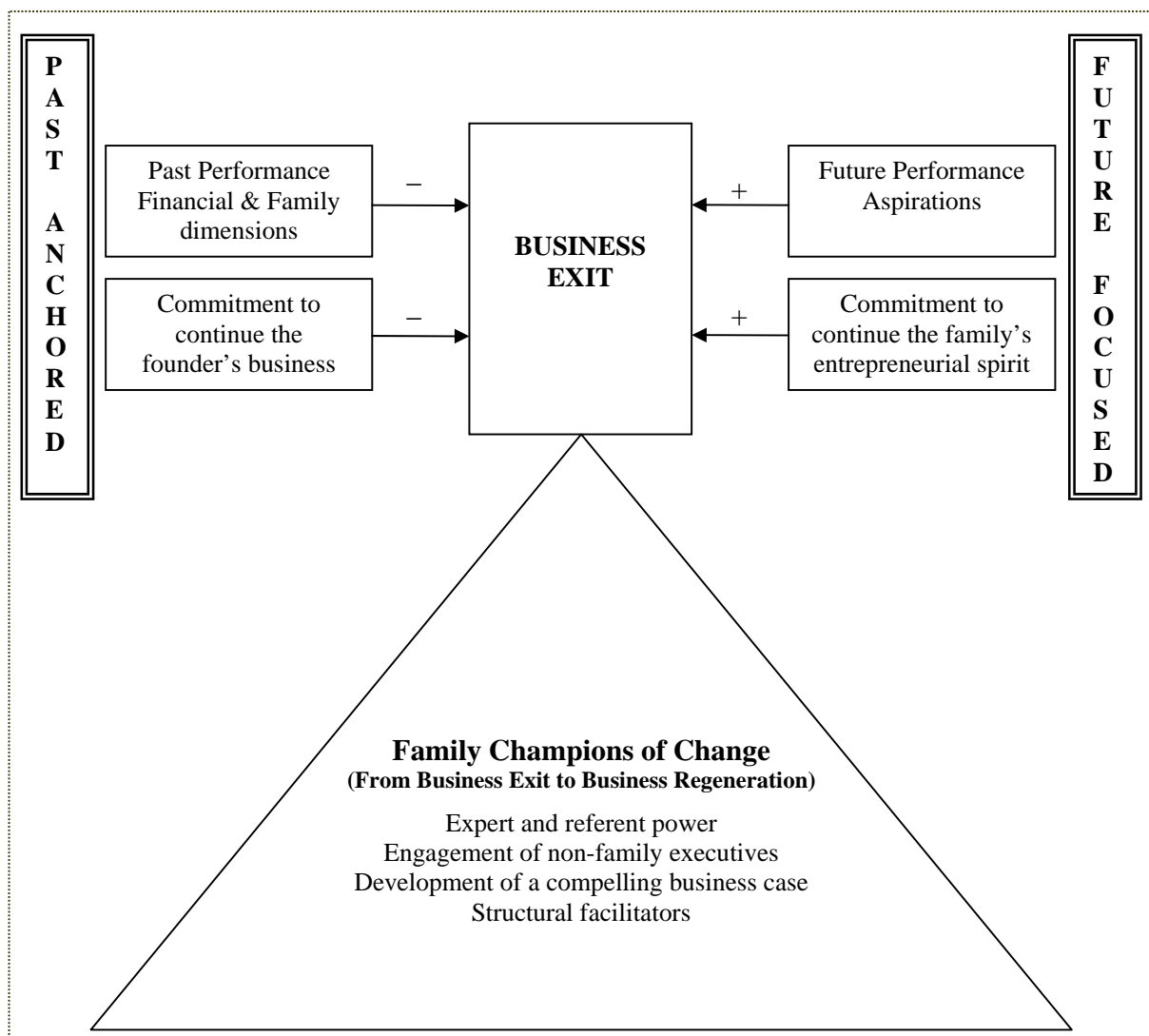
ANALYSIS

Our insights result from a combination of methodical triangulation of available sources of primary and secondary data, and several iterations between data and theory. The Falck family had clearly enjoyed success in the steel industry until the steel crisis hit the world economy. Falck family members were justifiably proud of their ancestors and the commitment to the founder's business remained strong for many decades. The dominant theme that emerges from the analysis of Falck's exit from the steel business, which extended over approximately two decades, is the struggle experienced by the family between the clear signals that exit was

⁵ http://www.falck.it/eng/chisiamo_missione.shtml

inevitable, and the strong sentiments about the long-lasting family tradition in the steel business. The family and its firm needed to move from their anchoring in the glorious past, to focus towards the future. The critical facilitating role of family champions of change is revealed as they enabled resolution in favor of exit from the founder's business—and subsequent entry into promising entrepreneurial endeavors. An overview of the factors influencing business exit is presented in Figure 1 and discussed below.

Figure 1: Inhibitors and Enhancers of Business Exit



FACTORS INHIBITING BUSINESS EXIT

Previous literature suggests two factors that are likely to hinder business exit from a failing course of action in a generational family firm – past performance and commitment to the founder’s business. As elaborated below, both of these factors were visibly evident in the case of Falck Group.

Past Performance

For many decades, the Falck Group and family enjoyed the prestigious status of being considered one of the most entrepreneurial families of Europe. In the golden era of the steel business, in the early 1970s, Falck was the largest privately owned steel producer in Italy, with an annual production of 1,250,000 tons—approximately 10% of the highly dispersed Italian market—and 16,000 employees. As reported by James (2006, p. 32), Alberto Falck felt that it was the wealth of his family that allowed them to continue bearing heavy losses in the 1970s and 80s. Attachment to the business prevailed over other considerations anchoring them towards the steel business for long after other players had bailed out of it. As indicated by the following comment, the family remained unified in its resolve and attachment towards the steel industry for many decades:

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

Commitment to continue the founder’s business

The Falck family members have developed over time a tough psychological commitment towards steel production —the founder’s business. This commitment is exemplified by the large

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investments of personal wealth in the steel business starting from George Henri Falck's investment in his employers business, and continued investments of his successors in the steel industry. The relentless commitment of the Falck family to the founder's business is witnessed by the pace of family-financed investments, which was not halted even during hard times.

The commitment towards the founder's business was also exemplified by the many family members who chose to devote their personal lives and careers to build the company. Perhaps, Irene Rubini strengthened the foundations of the family's commitment to the steel industry when she stepped up to lead the company after the untimely death of her husband Enrico Falck, until son Giorgio was old enough to take charge of it. Other evidence of the persistent commitment to the founder's business is signified by third generation members – Alberto and Giorgio, who joined the company as the steel industry was elapsing into cycles of decline.

A strong and tangible family commitment to the founder's business has characterized the Falck family even in the toughest period of the steel crisis. Annual balance sheets and the financial press report several instances in which the Falck family poured money into the company to cover mounting losses. In 1990, for instance, at the height of the steel crisis, a financial newspaper reported:

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

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

In sum, the success enjoyed by the Falck Group, anchored the company into the past with escalated commitment to carry on the founder's business – steel production. However, as the declining nature of this industry became obvious leading to high financial losses and a need to lay-off employees – another value that the family took great pride in, a far-sighted champion of change emerged in Alberto Falck.

FACILITATORS: FAMILY CHAMPIONS OF CHANGE

The critical role played by champions of change in moving stunted organizations into promising new directions has been highlighted by research on successful turnarounds (Burgelman, 1994). With the growing clarity of the irreversible decline of the founder's business, far sighted family leaders re-direct the focus of key stakeholders' into the future while respecting the collective past achievements. This enables a renewed energy and willingness to challenge the status quo and leap into the future.

The literature on time perspective suggests that individuals have a tendency to use the past, or present, or future as their primary time perspective when making decisions (Das, 1987; Zimbardo and Boyd, 1999). Those focused on present concentrate on consumption at the moment, take more risks and have shorter planning horizons. Decisions of individuals with past time frame are built upon recall of the costs and benefits of similar events in the past, while future focused individuals anticipate costs and benefits of their actions in future as they make decisions (Strike and Sapp, 2007). Over time, organizations develop a tendency to be guided by the past, present, or future time perspective (Orlikowski and Yates, 2002). In the context of successful past performance, family firms are often anchored in the past, as became evident in the case of the Falck family during cycles of the steel crisis.

The disagreement between Alberto and Giorgio Falck can be viewed as the tension created by two caring individuals – one with the past and other with the future time perspective. Although both were strongly committed to the founder's business, Giorgio's past perspective lead him to associate continuity of steel production with it, while Alberto's future perspective lead him to view it as continuity of the entrepreneurial spirit and value orientation of the founder, rather than an industry specific definition of continuity. The far-sighted family champion of change – Alberto Falck, was able to de-commit the family business from the steel industry and propel its regeneration in renewable energy business. Our analysis indicates four factors which supported him in this regeneration: - expert and referent power; - engagement of non-family executives; - development of a compelling business case; - structural facilitators.

Expert and referent power

Alberto Falck commanded great respect from many of his family members. This was a product of the expert and referent power he enjoyed (see French and Raven, 1959). His referent power was derived from his displayed respect for family traditions such as his devout following of the catholic religion, engaging in social and charitable causes, naming his first son after his father etc.. As indicated by the following quotes from family and non-family members, his expert power was derived from his business acumen:

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

“His [Alberto's] degree in business administration gave him the advantage of being able to frame any decision into a financial context”. [Achille Colombo, CEO since 1990]

Engagement of non-family executives

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

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

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

Although he was formally hired to focus on the steel business, Alberto saw in Colombo the manager who could help him transform Falck from steel to an energy business, overcoming the resistance of his cousin Giorgio. While this aim was not explicitly formulated, it is apparent in the accounts of those who were closer to Alberto in that period. As his brother Federico explains:

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

Development of a compelling business case

Working in concert, the powerful and respected family champion and the distant, smart and objective non-family executive, were able to develop and present a compelling business case that was critical in helping change the mind-set of the key family and non-family stakeholders' from the strong anchoring into the past towards future orientation, while respecting the core values of the founder. We draw this conclusion from comments such as:

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

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

Structural facilitators

Two structural facilitators —small number of active family members and presence of non-active family shareholders— seem to have facilitated and supported Alberto Falck to the business exit in this particular case, as indicated by the following comments:

"I believe that the fact that only three of us – my brother Alberto, myself, and our cousin Giorgio- were actively involved in the business has facilitated our decision to exit from steel. I believe it has been an advantage, even in probabilistic terms: it is easier for three individuals to come to an agreement". [Federico Falck, Chairman since 2003]

"Luckily, and also thanks to the Marchi family, the decision to exit from steel prevailed. The Falck Group has two groups of shareholders: the Falcks and the Marchis [Giorgio's sister Gioia Falck had married Carlo Marchi, currently vice chairman of the Falck Group]. The Falcks have always been closer to the

business, while the Marchis are merely shareholders, and are hence more inclined to focus on financial results. ...It is an issue of balance between different types of family shareholders". [Achille Colombo, CEO since 1989]

ENHANCERS OF BUSINESS EXIT:

Once the business case enabled the decision of the Falck Group to exit from the steel industry, the two inhibiting factors – past performance and commitment to founder's business, seem to change form. Instead of being anchored in the past, the family champion guides family members to aspire for future performance. While the commitment to continue the founder's business remains, it is redirected from continuity of the function of the entity (as in steel production) to the core values of the entity (as in entrepreneurial spirit).

Future performance aspirations

As the business embarks with high energy onto its new chosen pathway, family members of both senior and junior generations begin to feel far removed from the business of the founder and focus on the new activities.

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

"Nobody really cares about the remaining activities in steel. Well, obviously my uncle (Federico) does care, as he was active in the firm in that period; but we are currently too far from the steel era...we believe in a role of our entrepreneurial family as an employer...our role as value creators. Our business activities must create value and development. This I believe, has been the main reason why we decided to abandon the steel business and to enter the energy business". [Enrico Falck, Financial Analyst, 4th generation]

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

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

Commitment to continue the entrepreneurial spirit of the founder

As the focus of the family, its shareholders and executives is turned towards the future and the opportunities it presents, the commitment to continue the founder’s business gains a new meaning focused on entrepreneurial spirit of the founder and family, rather than the function – steel production that anchored the family firm. This conclusion is guided by comments along the following lines:

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

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

“Closing an activity of that size is obviously something which leaves a mark. However, the Falcks are so active, so inclined to the entrepreneurial sense of life.... Throughout all these years, after the decision to shut down steel activities, nobody has ever mentioned steel, other than in a technical sense, when discussing about the few remaining activities...I believe the Falck family has always had an entrepreneurial vision which went beyond steel, the specific business in which they had been active since the beginning.... It’s in their blood, in their DNA; it’s

the bloodline which prevails – they just don't surrender. You can feel the activism, the resolution to persist, always struggling to improve.... It's the family's entrepreneurial spirit". [Filippo Tamborini, President of Falck's Advisory Board since 1976]

DISCUSSION AND CONCLUSIONS

In this article, we set out to investigate the factors that hinder or facilitate exit from failing family businesses. Although business exit may play an important role in the regeneration of family firms, as observed by scholars such as Drozdow (1998) and Kaye (1996), family business literature seems to have an implicit bias towards continuity and persistence in the founder's business.

By tracking the developmental path of the Falck Group from 1833 – 2007 which meanders through the growing pains of startup stages, exceptional rise to the top of the steel industry, over two decades of losses while the family's strong anchoring to the founder's business tenaciously held on to this declining industry, with an impressive regeneration of the firm lead by a far-sighted family champion of change – Alberto Falck, we were able to develop a conceptual framework of factors that enable and inhibit exiting from the founder's business (see Figure 1).

In the context of clear and unavoidable decline of the steel industry, few active family members, and powerful non-active family shareholders, the transition from the steel industry to the high growth sector of renewable energy was facilitated by his commanding respect based position of power, astute non-family executives who enabled the development of an exciting future oriented alternative course of action to the key stakeholders. The emerging framework offers a more nuanced interpretation of de-commitment activities in family firms, pointing to the differential role family-specific factors may play as facilitators or inhibitors of business exit.

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This does not mean that exit from the founder's business is always the best option to family firms experiencing decline in business. This study is about family-specific triggers and obstacles to business exit, not whether exit is a suitable strategic option or not. We are not assuming that exit always has a positive effect. To Falck, exit was maybe not even an option, but a necessity at that specific time (i.e., first half of the 1990s). A few years later staying in the business became a more attractive option, as demonstrated by the experiences of other steel producers such as Riva and Arvedi (James 2006).

The experience of the Falck Group complements the findings of research on failed successions (e.g., Miller, Steier, and Le-Breton Miller, 2003) which points towards the inadequacy both of wholesale rejection of the past, as well as, tenacious holding onto every aspect of the past – as both these strategies lead to failures. As experienced in the Falck case and previous studies of firms that have undergone successful regenerations (Collins and Porras, 1994), it is the delicate balance of holding onto the core values (entrepreneurial spirit in Falck's case) while embracing progress (exit from steel production and energized entry into renewable energy sector) that enables trans-generational value creation (Habbershon and Pistrui, 2002). This case study points to one pragmatic way how this balance can be achieved – by development and presentation of a viable attractive alternative course of action. When effectively implemented, such a strategy can help loosen the grip of past anchors and re-focus the enterprise and its stakeholders toward the future.

It is reasonable to ask whether findings from one case study can be transferred to other domains, as it is always potentially problematic to argue for the generalizability of such findings. However, this study has a number of features suggesting that exit processes we found operating at Falck are likely to share commonalities with other family business domains.

Clearly, the specific reasons for business exit at Falck may have had an effect on the specific de-commitment and exit processes we observed. However, there is nothing unusual in the external triggers that started the process in our focal organization. Indeed, several family firms are active in industries that are hit by cyclical crises, and where players of a different ownership and governance nature —i.e., state- and privately-owned— are active. This lends confidence that exit processes similar to those observed at Falck are likely to be triggered in other family business settings.

More broadly, it seems fair to say that in the presence of strong environmental pressures towards exit, family firms are likely to face triggers and obstacles to de-commitment that are specific of the family business context such as company history and generational family involvement in management and ownership of the firm. These factors, in turn, trigger family responses to de-commitment needs, whereby family and non-family agents will gain and loose centrality, and different entrepreneurial responses will be attempted. Overall, it is apparent that Falck's experiences have commonalities with other family business domains, so the model seems plausibly transferable.

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

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APPENDIX 1: Falck Family Genogram

