Global STEP Booklet, Volume II; Sustaining Entrepreneurial Family Businesses: Developing the Core, Expanding the Boundaries

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THE GLOBAL BOOKLET
VOLUME II
SUSTAINING ENTREPRENEURIAL FAMILY BUSINESSES: DEVELOPING THE CORE, EXPANDING THE BOUNDARIES

SUCCESSFUL TRANSGENERATIONAL ENTREPRENEURSHIP PRACTICES

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The visionary institutions that founded the project include ESADE (Spain), HEC (France), Jönköping International Business School (Sweden), Universita Bocconi (Italy), Universitat St. Gallen (Switzerland), Universitat Witten/Herdecke (Germany), and Babson College (USA).

Families are the dominant form of business organization worldwide—they play a leading role in the social and economic wealth creation of communities and countries. To achieve continued growth and continuity, they must pass on the entrepreneurial mindsets and capabilities that enable them to create new streams of wealth across many generations—not just pass a business from one generation to the next. We refer to this practice as transgenerational entrepreneurship.

Leading academics and business families from around the world have joined as partners of the STEP Project to explore Successful Transgenerational Entrepreneurship Practices and create a stream of powerful practices and cases that empower families to build their entrepreneurial legacies.
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HOW ARE ENTREPRENEURIAL FAMILY BUSINESSES SUSTAINED OVER TIME?

Nunzia Auletta, Rocki-Lee DeWitt, Maria José Parada, Pramodita Sharma and Mohar Yusof

Since the launch of this project in 2005, scholars from over 42 renowned academic institutions from around the world have worked with over 100 business families to identify key insights through an action research program. Over the years, findings from this research have been shared through publications for academics and practitioners. The STEP project and related publications such as this Booklet aim to generate usable knowledge on practices that enable building of entrepreneurial capacity across generations of family enterprises.

This second STEP Global Booklet features thirteen chapters authored by thirty-three scholars. Insights are drawn from sixteen transgenerational family enterprises based in ten countries located in five continents—Asia (Hong Kong, India and Malaysia), Europe (Belgium and UK), South America (Brazil, Colombia and Venezuela), Africa (Uganda), and North America (USA). Collectively, these sixteen family firms have been in business for over a thousand years. Based on the most recent figures available to us, they generated annual revenues of over 1.9 billion USD and provided employment to over 41,000 individuals. With such depth and breadth of experiences, it is indeed a privilege to learn from these notable enterprises that deal with the paradoxes of family and business on a daily basis, while preserving their core and expanding their competencies and boundaries.

The contributions of people, processes, and systems over time are evident as we cluster the cases to inform the non-family member influences; development of next generation and professionalization of the enterprise; building of community, alliances and networks; and the comprehensive systems of transgenerational entrepreneurship. The clusters are not impermeable but simply our attempt to systematize the contents of this booklet and draw some insights from the whole. In some instances a chapter addresses multiple topics and thus could be placed in another cluster. Chapter tables summarize the booklet’s structure and identifies the topics covered in each section. A brief summary of the key insights follows.

1Alphabetically listed
Building and sustaining a family business over generations often takes more than the controlling family. The three cases in this section from Belgium, Brazil and the USA shed light on the contributions of non-family members in family business continuity through their influences on the core and boundary expansion. These examples are noteworthy not only because they point to the critical role of non-family members in three different continents but also because the introduction of “externals” is commonly recognized as a challenge for family businesses. Families are concerned with the loss of power, control, and at times even the family identity of their enterprise. The cases and insights contained here point out ways in which non-family members contribute to the success and continuity of the family business while helping enhance the cohesion within the family.

The Van de Velde case in Belgium reinforces the utility of hiring a non-family CEO when a family member is not fully ready to assume the role. In this case we gain insight to how a family member and non-family member worked side by side as co-CEOs. Together they pursued acquisitions and strategic alliances. Beginning with familiarity of the business through the role as an independent director, four critical factors supported the success of the non-family CEO. These are: (1) his formal competence that complemented that of the family co-CEO; (2) his cultural competence that helped him to understand the family values and shared vision; (3) his engagement in reciprocal role taking with mutual understanding and respect making effective cooperation possible; and (4) open discussion of business initiatives amongst family, non-family and independent directors before key decisions were made.
The Labtest case in Brazil describes the evolution of a business from a partnership of colleagues to a family business, owned and operated in various degrees by three different families. At each evolutionary stage, it is evident that complementary competences derived from previous experience contribute to the administration and expansion of the business. Beginning with the relatively similar skillsets of its founders, additional resources and more diverse expertise were added over time. The next generation family members joined as the venture expanded. Entrepreneurial spirit and complementary skills were imprinted on family members through their experiences in other businesses in the families’ portfolio. Eventually, with the increasing complexity of the business a non-family CEO joined the business. When the passing of one of the founders occurred, the board and family were already familiar with the role of a non-family CEO who helped the three families understand and navigate the complexity in a regulated life sciences environment where ongoing technological change is the norm. An important ingredient in their success was the alignment of values among the co-founders, the later generation owners and the non-family CEO.

In the final chapter in this section, the Curtis Packaging case from the United States of America evidences how a family business legacy can persist despite multiple changes in business ownership and management. We see the significance of non-family owners, managers and employees as contributors to the legacy and the entrepreneurial spirit. Recognition of the need for other’s input and respect for their ideas result in: (1) the engagement of employees in opportunity identification and investment, and (2) the subsequent entry of his son and a non-family packaging expert. In the process, the business is stabilized and migrates to a more attractive market segment. Analysis suggests that socio-emotional wealth is more than the benefit that family members derive from working in a family business; it can be a business endowment safeguarded by non-family employees that helps keep the family business spirit alive during risky succession events.

**PROCESSES**

Next Generation Development and Professionalization, Alliances and Networks

Seven chapters refer to an array of processes. While three chapters focus on the development of next generation and professionalization of the organization, four chapters are directed toward building a community, alliances and networks. We use the term processes to represent the ways in which individuals are developed and contribute to business’ initiatives. In the processes pertaining to training and professionalization, the emphasis is on people’s abilities to carry out their roles. As the business and the roles evolve over time, a critical concern is how training and professionalization develop the next generation’s readiness for increasingly challenging responsibilities. In processes pertaining to community building, alliances and networks, greater emphasis is placed on establishing and sustaining connections beyond the business. These linkages establish legitimacy for the business’ efforts and provide the business with access to resources and markets. In combination these chapters describe ways in which people are developed and how individual connections to the business and its values enable family businesses to connect with others to extend and sustain their presence.
Next Generation Development and Professionalization

The development of the next generation and professionalization of the business affects the ability of family members to succeed their parents as leaders and owners. These processes support the capacity of the family business to reliably provide products and services and to extend their presence into new areas. As such they are built upon experiences that develop the breadth and depth of knowledge. Common contributors to these processes include informal and formal training, and experiences within and outside the family business.

The four cases in this cluster illustrate the different pathways in which the next generation members gain education and experience. Each case illustrates the fostering of sustained entrepreneurial capacity accompanied by disciplined attention to operations through educational and experiential preparation of the next generation. In combination, these cases suggest that: (1) Next generation development and professionalization is informed by context; (2) Education, experience within and outside the business, and the freedom to pursue one’s own interests are different ways to empower and encourage next generation family members to develop their leadership and management skills. A common practice is to encourage next generations to get strong educational backgrounds and start from entry level positions in their family business; (3) Whether the next generation is ready for the inevitable succession and is perceived as legitimate leaders depends upon experience within the business. Education and experience outside the business enhances the range of entrepreneurial avenues that may be pursued. A long-run view puts the timing of education and experience into perspective.

The AEL case of the second-generation family firm from Hong Kong reinforces the common assumption that education and experience outside the family business can contribute to the development of capabilities of next generation family members and in turn to continued success of the family enterprise. Specifically technical training and experience as a non-family manager in family businesses enhanced the son’s capacity to become a leader in his
family’s business. But just as important, subsequent experience within the family business through a series of projects enhanced the next generation leader’s capacity to lead increasingly challenging undertakings.

In the Colombian chapter, a comparison of two cases (Caballero and Pacheco families) draws attention to distinctions between informal and formal training, indicating the importance of contextual factors such as the nuances of an industry and market. Both firms were similar in their humble origins, hands-on experience of founders, and concern for formal university education of the next generation. Yet, they had marked differences in the formal training and involvement of next generation. The Caballero family utilized a more hands-on approach in building connections with employees and customers. This approach was critical to success in the trucking industry. In contrast, the diversification of the Pacheco family’s business from an innovative approach to savings to a diversified financial services portfolio called for the founder’s exacting high educational and working standards for his children. This included graduating from renowned universities and working in international banks. Each chosen pathway to prepare the next generation members for leadership roles has its advantages and limitations. For example, the hands-on approach of the Caballero family has led to a strong core team, although the exploration of new opportunities is limited. In the case of the Pacheco family, a heavy emphasis on formal education and outside experience brings in new ideas to the business, but potentially limits the degree to which a core strong team can coalesce.

Professionalization of the family business typically involves changes from more informal, intuitive approaches to the adoption of decision-making standards and the use of governance mechanisms for oversight. Education and experience increase the awareness of these structural mechanisms. Increases in the complexity of the family business and expectations of key stakeholders often serve as impetus to professionalization. Yet, strongly held values can also serve as behavioral guides that foster success. The shaping of values and creation of a community may alternatively serve as mechanisms for an enduring presence. Two cases within this cluster are especially pertinent to professionalization processes.

In the Aurobindo Pharma case in India, like the Labtest case in Brazil, the business began as a partnership amongst scientific colleagues. Professionalization of the firm began early on as it went public six years after its establishment. Operational professionalization was a requisite for the business’ participation in regulated pharmaceutical markets. Recruitment of highly qualified managerial and technical staff helped bring in professional attitudes and behaviors to Aurobindo Pharma. Governance professionalization involved the addition of independent directors. For those family members involved in the business, two changes in perspective were required. No longer would family be a sufficient qualification for leadership. Instead, passion and knowledge of the science and technology were necessary for leadership roles in the business.

The Karangkraf case in Malaysia shows how family businesses are community builders. They can set the tone and guide the development of countries with their values and conduct. A strong culture appears to be built by shared experiences and jointly determined outcomes. The commitment to share with and give voice to others while simultaneously imposing limits on what will be shared occurs alongside changes in technology. Karangkraf nurtured a work environment and corporate identity that embodies the family values and virtues namely caring for the extended families and integrity which successfully result in low staff turnover, a sense of belonging, loyalty and a positive working culture and attitude among the employees.
Alliances & Networks

From a process perspective, alliances and networks are instrumental to accessing resources, building competence, and extending the reach of the business. From the most basic use of joint ventures to address changing technologic requirements and other forms of resource risk to more complex networks of multiple relationships, the following cases illustrate how a strong business core increasingly requires competences in establishing, modifying and exiting business to business relationships. A long-run orientation with a clear strategic vision translates into the ability to choose the right partners to build a future together and lead the quest for growth and continuity.

In the Colombian chapter we see a comparison of the cases of the Mejía and Pacheco families entering into joint ventures as a means to grow, enhance their competitive positioning, and add to organizational knowledge and learning. These family firms held strong positions and clear objectives for the alliances and these guided their choice of partners. In both cases they retained the joint venture leadership, reflecting the partner’s interest in the particular family resources pool. Both needed to change the nature of their business relationships over time. Their experience in managing relationships allowed them to pursue more appropriate arrangements with the same partner and seek new relationships as their situations changed.

The Styles Company case from the USA presents us with a more complex and sophisticated array of strategic allies supporting the development of this enterprise since its founding. Experience of the first and second generation in the broader industry coupled with a perspective on how you work with others contributed to depth of knowledge about the industry, a collaborative mindset, and relationship ready capability. Experience allowed the riskiness of ventures to be assessed and discipline assures that an assessment would be undertaken.
The **ATF, Inc.** case from USA shows how one CEO’s understanding of the operations coupled with entrepreneurial passion serves as a foundation to build an alliance with potential competitors. Instead, this peer alliance of nine family firms in five countries provided opportunities for expansion of all its members. Furthermore, the strong relationship between the alliance members provided opportunities for next generation members to gain valuable experience in building new businesses and working in a network of relationships. This innovative usage of peer alliances signals creative ways to provide developmental opportunities for next generation family members.

**SYSTEMS**

Transgenerational Entrepreneurship in Action

Substantive changes in the family business’ scope provide an opportunity to tease out the influences of context, people and processes on the overall system. Here we see evidence of entrepreneurship in choices pertaining to mix of businesses over time. The following three cases shed light on the more fine-grained activities that likely need to occur to achieve transgenerational entrepreneurship.

The **García Tuñón** case in Venezuela shows how entrepreneurial values are grown and shared through leaders’ role modeling, explicit statements and resiliency in the face of adversity. In a hostile environment, industry-related social capital and knowledge can become restraining forces, necessitating accommodation in key relationships while engendering radical moves towards new ventures and diversification. The role of a family champion with future orientation as well as family values and support are paramount in reinforcing the entrepreneurial legacy across generations.

**SYSTEMS CASES**

Transgenerational Entrepreneurship in Action

<table>
<thead>
<tr>
<th>CHAPTER TITLE / AUTHORS</th>
<th>CASE COMPANY</th>
<th>FOUNDING/AGE</th>
<th>GENERATION</th>
<th>INDUSTRY/MARKET</th>
<th>SALES*</th>
<th>EMPLOYEES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fine-tuning the Entrepreneurial Legacy Across Generations of García Tuñón, a Venezuelan Company (Auletta, Rodriguez &amp; Monteferrante)</td>
<td>García Tuñón (Venezuela)</td>
<td>1963 (51)</td>
<td>3rd</td>
<td>Auto Sales/Parts</td>
<td>NA</td>
<td>250</td>
</tr>
<tr>
<td>Embracing Change While Minding Their Own Business for More Than 200 Years (DeMassis, Discua-Cruz, Jackson, Kotlar &amp; Mazzelli)</td>
<td>Beales Hotels (UK)</td>
<td>1769 (245)</td>
<td>8th</td>
<td>Hospitality (Hotels, Catering)</td>
<td>10</td>
<td>160</td>
</tr>
<tr>
<td>Portfolio Entrepreneurship across generations: Insights from Uganda’s Magezi Family (Balunywa, Rosa, Wejuli, Ntamu &amp; Nakaziba)</td>
<td>MPE Group (Uganda)</td>
<td>1990 (24)</td>
<td>3rd</td>
<td>Pharmaceutical</td>
<td>70</td>
<td>650</td>
</tr>
</tbody>
</table>
In the Beales case in the UK, we observe strategic pruning of ownership from time to time so as to enable the redirection of the family business. In this company, the core knowledge of the business is emphasized and preserved through the retention of loyal employees who are key to the business’ success in the food and hospitality industry. Reduction in dispersion of ownership is often accompanied with re-alignment of goals enabling growth of the enterprise. A professional board contributes to making tough decisions. Experiences of family members outside the business provide a safety net for the family and the Beales Hotels.

The MPE Group of Uganda sheds light on the process that prepares and inducts the entrepreneurial spirit and managerial experience in next generation family members. The socialization process led and supported by the founder includes providing higher education to his children as part of preparing them to succeed the family business, supporting their entrepreneurial ideas and endeavors by providing seed capital and guidance. The more established members of the family then start to serve as role models and mentors for juniors, who in turn, open their ventures. Ownership of all ventures is shared within family with different levels, though the founder is a shareholder in all companies.

**CONCLUSION**

In conclusion, we have chosen to organize the chapters in this manner to point out insights about the influence of non-family members, the roles of two key processes, and their workings as a system as they pertain to the core and expansion of boundaries of family businesses. Our analysis also revealed that three other influences were especially germane in these cases. First, influence of religion, family values, and community values and constraints on business practice was evident. These values informed a shared understanding of how business would be conducted. Second, changes in technology also imposed demands on these family businesses. Broader experiences contributed to awareness of the changes while relationships and partnerships helped address those changes. Finally, the country context of these businesses also affected their entrepreneurial endeavors. Whether adapting to address political risk, market size in a global economy, or regulatory risk, family business choices were not solely informed by the expertise resident within the family.

We thank the authors and the enterprising families for the insights shared in this booklet. Each chapter can be used as a short classroom reading to illustrate an effective strategy. Alternately, a cluster of chapters can provide a glimpse on different pathways in use by enterprising families as they engage and rely on the non-family executives, prepare the next generation leaders, professionalize or systematize the processes to strengthen the core and expand the capabilities in their firms.
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*Sales in US dollars.*
INTRODUCTION OF AN EXTERNAL CEO IN A QUOTED BELGIAN FAMILY BUSINESS

Eddy Laveren, Jos Thys, and Andy Lardon, Antwerp Management School & University of Antwerp

Van de Velde
Belgium

The Van De Veldes of Belgium bring in an external CEO to co-run the family lingerie business. The market seems to admire the fit.

Van de Velde Lingerie

Van de Velde creates, manufactures, and sells luxury women’s lingerie under its own brand names. It originated as a Belgian firm and all of the key activities still take place in Belgium (design, product development, sales, and marketing), except for the assembly that takes place in foreign production centres (Tunisia and Far East) for cost reasons. The firm has direct subsidiaries in Denmark, Finland, Germany, the Netherlands, Spain, the UK, and the US, which are agents responsible for the local sellers. Van de Velde has about 1550 employees (about 490 employees in Belgium), and is currently one of the main market players in the sector for luxury and fashionable women’s lingerie. Only Crystal Martin Holding (GB), Chantelle France SA (FR), and Petit Bateau (BA) realized a larger turnover than Van de Velde in 2010.

Van de Velde was founded in 1919 as a corset-making firm. In the genealogy chart (Exhibit 1), we indicate which family member is or was involved in the family firm as owner and manager, or as owner, manager, and board member. Two family members of the fourth generation are involved in the family firm: Bénédicte Laureys as a board member and Lien Van de Velde as manager. Exhibit 2 is an overview of key developments in the history of Van de Velde.
Between 1981 and 2004, Van de Velde had been managed by the family managers Karel and Herman Van de Velde and Lucas Laureys. When Karel Van de Velde and Lucas Laureys leave, a new manager has to be found because Herman considers it impossible for him to take on the management role alone. At that time, there were no possible successors in place within the business family. From 2004 onwards, the firm is managed by family co-CEO Herman Van de Velde, and nonfamily co-CEO Ignace Van Doorselaere (who had been member of the board of Van de Velde since 2003). While Herman Van de Velde is responsible for HR and operations, Ignace Van Doorselaere is responsible for strategy, M&A, finance, marketing, and sales. Van Doorselaere has obtained an MBA and gained experience with marketing, strategy, and M&A at 3M (as marketing coordinator), Puratos (as marketing manager), The Boston Consulting Group, and Interbrew (as director of M&A and vice president of strategy). The family co-CEO applies four values that he believes are important to be complied with in the company: respect, trust, integrity, and transparency. The nonfamily co-CEO also applies four values: flexible, focus, fair, and fight.
Since the arrival of Ignace Van Doorselaere, Van de Velde executed several acquisitions and entered into several strategic alliances between 2007 and 2011, as can be seen in Exhibit 2. In this way, Van de Velde aims to make up for its falling market share in specialist lingerie outlets. With the arrival of Ignace Van Doorselaere, the decision-making process also changed into a more formal and professional structure. The management committee outlines the strategy of the company. These strategies are then submitted to the board of directors, where they are discussed and confirmed. Prior to the board meetings, the opinions of family shareholders who do not have a seat on the board are always sounded out to safeguard the interests of all family shareholders. The three-circle model in the Exhibit 3 visualizes the current governance structure. The board is made up of family directors (the family co-CEO Herman Van de Velde, Lucas Laureys, and Bénédicte Laureys), an executive director (the nonfamily co-CEO Ignace Van Doorselaere), and several independent directors. The chairman (Lucas Laureys) is always a family member and has the deciding vote, which means that the

EXHIBIT 2
History of Van de Velde

YEAR EVENT
1919 Firm founded by Achiel Van de Velde and his wife Margaretha Van de Velde (same name but unrelated before the marriage) together with Henri Van de Velde and Marie Van de Velde (brother and sister of Achiel)
1946 Henri and Marie Van de Velde sell their shares to Achiel and Margaretha Van de Velde
1948 Second generation joins the family firm: son William Van de Velde (and partner Livine Van der Wee) and daughter Gaby Van de Velde (and partner Raoul Laureys)
1949 Family firm opts to specialize in luxury lingerie
1964 Formation of a limited liability company with two shareholders: William and Gaby Van de Velde
1971 First member of the third generation (Lucas Laureys) joins the family firm
1981 From 1981 until 2004 the firm is run by Karel Van de Velde (design and product development), Herman Van de Velde (internationalization), and Lucas Laureys (marketing and sales)
1990 Acquisition of the German brand “PrimaDonna”
1992 Greet and Liesbeth Van de Velde join the management team
1997 Initial Public Offering on the Brussels Stock Exchange
2001 Participation in Top Form International, which is the largest Chinese lingerie manufacturer quoted on the Hong Kong stock market
2004 Karel Van de Velde leaves the firm because of health reasons. Lucas Laureys leaves the firm because of retirement. Appointment of Ignace Van Doorselaere (who has been member of the board since 2003) as nonfamily co-CEO, who leads the firm together with family co-CEO Herman Van de Velde
2007 Strategic alliance with US retail chain Intimacy
First member of the fourth generation (Lien Van de Velde) joins the family firm
2008 Acquisition of Spanish lingerie firm Eurocorset and Spanish lingerie brand Andres Sarda
2010 Acquisition of Dutch store formula LinCHérie
2011 Acquisition of 87% of Rigby & Peller Ltd. (UK)
2011 Business agreement (joint venture) with Getz Bros. Van de Velde and Getz each own 50% of the shares in the newly established joint-venture (Private Shop Ltd.), which is the leading multi-brand lingerie chain in Hong Kong, Macau, and China

“It is less important that the knowledge to be able to run a company is present within the family, given that you can always find people outside the company for this.”

Herman Van de Velde
Family co-CEO
family always retains a majority. This does not mean to say that only the family determines strategy. But this majority on the board does ensure that the family retains control over the firm. There may be discussion about the strategies to adopt, but when it comes to actually taking the decision, this is usually done with the unanimity of the votes cast.

The new governance structure and the acquisition strategy after the appointment of the nonfamily co-CEO did not negatively affect the performance of Van de Velde. On the contrary, we can see a positive trend in the way its sales have developed from 130 million euro (or 178.11 million USD) in 2007 to 179.8 million euro (or 246.34 million USD in 2011). During the same period, operating profit increased from 41.7 to 49.5 million euro (from 57.13 to 67.82 million USD) and net profit increased from 30.7 to 41.2 million euro (from 42.06 to 56.4 million USD). There was a minor reversal during the financial crisis in 2008-2009. Overall, the case of Van de Velde is a striking example of a family firm in which involving an external CEO in the management team has proved to be beneficial.

EXHIBIT 3
Three Circle Model of Van de Velde

The following information explains the different roles:

A  There are three family shareholders working in the family company: Herman Van de Velde works as the family co-CEO of the company; his sister, Liesbeth Van de Velde, is brand design manager for PrimaDonna; and sister Greet Van de Velde is responsible for the planning department.

B  There are two family owners who do not work in the company: Lucas Laureys and his daughter Bénédicte. Lucas was a member of the senior management team until 2004 and ceased working based on the internal rule that family members must retire when they reach the age of sixty.

C  Karel Van de Velde, as a family owner, also worked as a senior manager in the family company. He left the company in 2004 for health reasons and later also sold his shares.

D  There are fifteen members of the family in the fourth generation of the business family. It is possible that some of them may soon be employed in the company and/or become shareholders.

E  There is already one person from the fourth generation of the business family working in the family company. Lien Van de Velde (Herman’s daughter) is brand design manager for Marie Jo L’Aventure.

F  43.73% of the company’s shares are freely available for trade on the stock exchange. 56.27% of the shares are owned by the third generation of the family.
KEY INSIGHTS

The case of Van de Velde illustrates critical factors that have facilitated a successful introduction of a nonfamily management in a quoted family firm. These factors are summarized in Exhibit 4 (see also endnote 1 for supplementary references on this issue).

EXHIBIT 4
Critical Factors for Successful Non-Family Management

**Formal Competence:** The nonfamily co-CEO has formal competences that complement those of the family co-CEO. The nonfamily co-CEO gained experience with marketing, strategy, and M&A before joining Van de Velde, and is responsible for strategy, M&A, finance, marketing and sales. The family co-CEO studied Development Economics and Pedagogical Sciences and is responsible for HR and operations. The competences of the nonfamily co-CEO supported the execution of several acquisitions to make up for the falling market share of Van de Velde. Van de Velde acquired firms in the same industry, for which the family co-CEO has the operational knowledge. The technical knowledge needed can only be gained internally in the family firm.

**Cultural Competence:** The nonfamily co-CEO should understand the family-influenced culture. For Van de Velde it was important to find a manager who shared the same vision. They appointed Ignace Van Doorselaere who had been a member of the board of directors of Van de Velde since 2003. Being already involved in the board before joining the management team allowed him to build up credibility and to gain understanding of the family’s goals, enabling him to skillfully adapt managerial practices to the established cultural context.

**Reciprocal Role Taking:** Effective cooperation between the nonfamily co-CEO and the family co-CEO requires mutual understanding and respect for each other’s values and goals, which depends on the fit between the character of both individuals. While the values of the family co-CEO (respect, trust, integrity and transparency) reflect a focus on smooth relationships, the values of the nonfamily co-CEO (flexible, focus, fair and fight) rather reflect his entrepreneurial mindset. Nevertheless, there also exists an overlap between the values of the CEOs: trust, integrity and fairness are closely intertwined. Moreover, the family CEO has indicated that he is not only concerned with keeping the staff and customers of Van de Velde happy, but also aims to achieve stable growth and maximize the firm’s value. This implies that there exists a complementary balance between the focus of the family co-CEO and the nonfamily co-CEO, which allows to hold on to the core values of the family firm while embracing progress.

Van de Velde is a striking example of a family firm in which involving an external CEO in the management team has proven to be beneficial.
**Arenas of Communication**: Van de Velde has a formal and professional governance structure which supports a successful nonfamily management. The strategies outlined by the management committee are discussed and confirmed by the board of directors, which consists of family directors (including the family co-CEO), the nonfamily co-CEO, and several independent directors. The board meetings allow the creation of a mutual understanding between the different parties involved. The independent directors may support the nonfamily co-CEO when proposing necessary, but unpopular strategic decisions.

**PRACTICAL APPLICATIONS**

- Although family firms are generally reluctant to delegate responsibility to outsiders, involving a nonfamily CEO may lead to a win-win situation. A joint management by a family and nonfamily CEO allows the family to hold on to the core values of the family firm while embracing progress.
- Nonfamily CEOs may have the skills and incentives to undertake the required entrepreneurial activities to ensure the firm remains competitive.
- The probability that a win-win situation occurs is likely to increase when
  - the nonfamily and family co-CEOs have complementary formal competencies;
  - the nonfamily and family co-CEOs understand and respect each other’s values and goals;
  - and arenas of communication are available (e.g., the board) to clarify expectations, values, and goals and increase the mutual understanding. Independent directors may support the nonfamily co-CEO when proposing necessary, but unpopular, strategic decisions.

**AUTHORS**

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Labtest Sistemas de Diagnosticos
Brazil

Three families join together to create a leading medical services company. Although unprepared for formal succession, the second-generation family managers work together, bringing in outside expertise, and keep the enterprise on a smooth path.

Located in Lagoa Santa in the Greater Belo Horizonte region of Brazil, Labtest is an industry leader in diagnostic products. With 32.6 million dollars in revenue, and over 200 employees, Labtest supplies 14 product lines composed of 284 diagnostic products to clinical laboratories of all sizes. Its plant extends over 5,100 square meters. Currently, Labtest is owned by members of the second generation of three founding families—the Basques, Lustosa, and Antunes who hold 41.38%, 42.49%, and 14% of the capital respectively. Four minority shareholders, relatives of families, hold the remaining 2.13%.

Labtest has come a long way since its founding in 1971 by pathologists Drs. Geraldo Lustosa Cabral and José Carlos Almeida Basques. As colleagues in laboratory medicine, they developed kits of reagents to guarantee the quality of their diagnostics tests. Over time, their products became well-known and other professionals requested supplies. There was no initial thought of turning this small venture into a family business. However, as the demand grew, they found themselves spending more time on this venture and eventually brought family members into management.

Evolution of the Company

Labtest evolved in three stages. In the first stage, Dr. José Carlos Basques presided over the company with Dr. Geraldo Lustosa as vice-president, although they alternated positions during some mandates. In the next stage, the two generations worked together. And in the third stage, the company was lead by the second generation.


The first generation focused on turning the company into a symbol of high quality, consolidating its presence in the domestic and the Latin American markets, creating a culture of innovation, and setting up a professional management system. It was only after both founders had passed away that the families saw a need for succession planning, the consolidation of professional management, and a governance structure that would lead to alignment between the families.
Under the leadership of its founders, Labtest consolidated its presence in both the domestic and the Latin American markets by investing heavily in quality control and product accreditation. In 1996, it finished building its new headquarters, a venture that had been halted for about eight years due to the deep economic crisis that engulfed Brazil at the end of the 1980s. To continue with the expansion process, it was necessary to increase the capital with the participation of a new partner. Ivano Antunes Moreira was invited to join as a partner. As the owner of the Central de Artigos para Laboratório (Centerlab), he distributed Labtest’s products, and was well acquainted with the company and its founders.

In 1998, Dr. José Carlos retired from Hospital da Previdência do Estado and started to work in Labtest fulltime. In 1999, the company received ISO 9001 accreditation from Bureau Veritas Quality Issue (BVQI) and all of its productive processes became compliant with the international standards of Good Manufacturing Practices (GMP). In April 2002, the firm created its Administration Board and hired the first non-family CEO, Alexandre Santos Guimarães. During this period the company intensified the processes of innovation with the launch of the urinalysis tests and immunochemical line and entered the automatic equipment market for laboratory analysis with its LabMax line. To complete this series of changes, it remodeled its identity by creating a new logotype and stating its mission and values, developed and approved by the board.

**Stage 2: Shared Leadership Between Generation 1 and 2 (2005-2008)**

The second stage is characterized by the shared leadership of the company by members of the first and second generations of the two families, and also the continuity of the process of integration in the global market. Geraldo Lustosa Cabral died at the age of 77 in 2005 and his daughter Eliane became company vice president. In 2006, Labtest began the process of registering its products with the European Community and expanded its portfolio with the introduction of ELISA line (enzyme-linked immunosorbent assay), a diagnostic tool in medicine and plant pathology. In 2007, it expanded its assembly lines and launched a coagulation line and two new biochemistry analyzers. In the following year, Labtest received the international accreditation ISO 13485, a specific standard for the medical products segment and launched a line of hematology. At this stage the number of staff increased almost 30%, from 92 to 121. However, although sales grew by 94%, the company’s net profit shrank about 18%.

The co-leadership of Eliane Lustosa and José Carlos Basques was quite harmonious, described by her as “a phase of a lot of learning.” At the end of this phase, however, there were major changes. The first was the
spontaneous exit of CEO Alexandre Guimarães in 2008. And the second greatest impact was the untimely death of José Carlos in May 2009 at the age of 68. Eliane assumed the presidency of Labtest while also keeping her position as president at another of the family’s businesses.

Stage 3: Second Generations’ Leadership (2009 onwards)

The third stage of evolution begins with many uncertainties and threats. The great challenge the managers faced was to ensure the company’s reputation was not shaken due to the sudden loss of a founder and president. He was well known in both the academic and the business worlds, esteemed by customers and suppliers, and enjoyed a reputation associated with quality and innovation in the field of diagnostics medicine. Furthermore, it was necessary to align the interests and business vision among the members of the owner families. A new CEO had to be hired to continue adding professionalism to management. The firm had to identify family and non-family managers who could add new competencies and support the needed strategic changes such as maintaining the pace of innovation, investing in developing proprietary technology, and rethinking the commercialization strategy. It would take all of the above to meet a critical and pressing issue: reversing the negative cash flow.

The challenge of the second generation was to have an effective management of the succession process and to build the company in an increasingly competitive market. They needed to accelerate technological innovation. For this, the successors would have to prove that they were imbued with the entrepreneurial spirit and that they had the expertise to act as entrepreneurial leaders in a continuous learning process.

The changes began with the governance structure. João Luiz Antunes, a member of the third family, became the president of the Administration Board. His family had not been part of management up to then. But he was a strong ally who had great strategic knowledge. The Basques family was represented by siblings Paula (lawyer) and Fernando (pathologist). The sisters of the Lustosa Cabral family, Eliane Dias Cabral Lustosa (medical pathologist) and Andrea Dias Cabral Lustosa, (dental surgeon), joined as well. With their diverse backgrounds, the members of the Council were complementary in the conduct of business strategies.

Eliane, who held the position of president at another of the family’s companies, offered technical vision as she knew the needs of diagnostic service consumers very well. On the other hand, João Luiz knew the material distribution segment of the health care chain, based on his experience at the clinical laboratories at Centerlab, where he was still the director-president.

The new CEO, Tarcísio Vilhena, was hired to implement the strategic guidelines set out by the Administration Board. The challenge facing the new CEO was bringing the experience he had acquired at planning, finance, and commercialization at large domestic and multinational companies to bear on the needs of the company and of the families while respecting their culture and values.

As time went by, the alignment among Eliane, João Luiz, and Tarcísio was positive and the company grew sustainably by creating a competitive business model. It was necessary to improve the company’s commercial performance to put the crisis behind it. Thus, they opted to encourage the performance of their resellers by setting up a system of goals based on market growth. They set up an advisory council to implement this change, composed of the six main Labtest product resellers in the country (including João Luiz), industrial and commercial operations managers, and the CEO. Next they set up direct sales channels for the government and other large private accounts.

EXHIBIT 4

LabTest Corporate

MISSION
Provide solutions for invitro diagnostic, for the benefit of life.

VISION
Be present in every clinical laboratory in Brazil and be a transnational company committed to the development of the in vitro diagnostic market.

VALUES
Commitment - meeting responsibilities with dedication and persistence.
Respect - understanding the differences in relationships, listening and paying attention to each other.
Excellence - delivering products and services with competence, beating expectations.
Results - achieving goals through teamwork.

It was only after both founders had passed away that the families saw a need for succession planning, the consolidation of professional management, and a governance structure that would lead to alignment between the families.
Innovation continued, with the creation of new diagnostic product lines, making it possible to expand the company’s international presence. In the diagnostics equipment segment, besides selling equipment, the company also began to assemble them in Brazil by using the original equipment manufacturer (OEM) tool. This new business became so promising that the company built a new factory and also created a sales and rental assistance service. In June 2011, Labtest entered the molecular biology segment with the launch of Magnex, a kit for genomic DNA extraction by magnetic particles fully developed in Brazil.

Labtest’s vision is that future diagnostic exams will be so sophisticated that they will make it possible to carry out customized treatment. In 2013 Labtest transferred its old R&D Department to the Belo Horizonte Technology Estate (BH-TEC) and launched its Development, Innovation, Science, and Technology Center (CDICT)/Labtest near the Federal University of Minas Gerais (UFMG) Pampulha campus.

Through such strategic positioning, R&D, Labtest moved from a service-focused company to a business on its own that will not only provide services to other companies but also generate new research-based products and services by operating within the self-sustainability model.

**Key Insights**

Together with a favorable economic scenario, this set of initiatives has allowed Labtest to show sustainable growth along the stages, as shown by the data in Exhibit 5.

**Key Insights about Entrepreneurship Across Generations**

**Integration of skills and resources among the founders:** The business began as an expertise of entrepreneurs who already had established medical careers, which points to the importance of professional experience and some maturity to sustain beginner business. The success of the founders is the result of the synergistic integration of complementary skills and resources, which is even more evident when the third owner joined at the time when new financial resources were needed.

**Integration of skills and resources between founders and the next generation:** Stage 2 was also marked by the integration of the skills and resources of the founders and members of the second generation who were qualified to manage the business. The successors pursued careers in healthcare, which allowed them to share the core values of the business, such as ethics, customer commitment, valuing human life, and quality of products and services. The learning process of the second generation occurred through sharing experiences in the workplace and in family life. They were also encouraged to innovate and employ their own methods of management in other companies of the families.

**Integration of skills and resources between members of the second generation and non-family CEO:** The entrepreneurial spirit is imbued in the company because the founders were able to transfer it to future generations. Before taking up their positions at Labtest, both Eliane and João Luiz had already succeeded their fathers at managing their families’ companies. From a very young age they...

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* A private, non-profit, scientific, technological, educational, and cultural association that was created in 2005 by the Federal University of Minas Gerais (UFMG), the Government of the State of Minas Gerais, Belo Horizonte County, the Brazilian Service to Support Micro and Small Enterprises in Minas Gerais (SEBRAE-MG) and the Federation of Industries of Minas Gerais (FIEMG) to speed up the technological innovation activities of the local companies that were gathered into this community.
### EXHIBIT 5
#### Evolution of LabTest

<table>
<thead>
<tr>
<th>STAGE 1</th>
<th>STAGE 2</th>
<th>STAGE 3</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Leader(s) of the firm</strong></td>
<td>José Carlos de Almeida Basques Geraldo Lustosa Cabral (1)</td>
<td>José Carlos de Almeida Basques (1) Eliane Dias Lustosa Cabral (2)</td>
</tr>
<tr>
<td><strong>Number of employees</strong></td>
<td>92 employees</td>
<td>121 employees</td>
</tr>
<tr>
<td>*<em>P&amp;L Company Value</em></td>
<td>1.4938</td>
<td>21.662</td>
</tr>
<tr>
<td><strong>Gross Profits</strong></td>
<td>1.200</td>
<td>986</td>
</tr>
<tr>
<td><strong>Sales Performance</strong></td>
<td>10.089</td>
<td>19.580</td>
</tr>
<tr>
<td><strong>Key Challenges</strong></td>
<td>Certification ISO 9001. Launching of the line urinalysis tests and rapid tests Turbiquest Resale of automatic equipment of the Labmax instrument line.</td>
<td>Registration of products in the European Community and expansion of the portfolio with the ELISA line. Launching of two biochemistry analyzers and coagulation tests line. International Certification ISO 13485.</td>
</tr>
<tr>
<td><strong>Governance</strong></td>
<td>Creation of the Administration Board and hiring of the first CEO.</td>
<td>Exit of CEO Alexandre Guimarães.</td>
</tr>
<tr>
<td><strong>Ownership</strong></td>
<td>Integration of the new partner: Ivano Antunes Moreira.</td>
<td>Eliane &amp; Andrea inherit their father's property, Geraldo Lustosa.</td>
</tr>
</tbody>
</table>

Note: US$ 1.0 = R$ 2.34

*In million dollars.

Enjoyed the autonomy achieved by involvement in business and hard work, and they had been encouraged to innovate and to believe in their entrepreneurial capabilities. The external experience of Eliane and João Luiz, from different points of the production chain—but associated with the core business—also proved crucial to the success of new entrepreneurial leaders, which culminated with the signing of a non-family CEO with the necessary skills to support the revitalization of business. This confirms that the seeds of integration of complementarities were sown and nurtured by the founders over time. Both generations have adopted a long-term view in order to continue to grow, leaving a legacy for future generations. The second generation innovates by leveraging market opportunities, knowledge, and individual contributions.

**Alignment of values:** Other ingredients of success were the alignment of values, first among the two founders and then between the three co-owners, followed by generations 1 and 2, and finally between generation 2 and the non-family CEO. The founders had already implemented the roots of good corporate governance and they were able to pass on family values and market orientation to future generations. The hiring of a market executive who had the needed knowledge, experience, and skill to understand the dynamics of family businesses was the key point to adding professionalism and overcoming the difficulties and the challenges the companies faced. The new governance structure replicated shared goals such as corporate agreement and the board of shareholders, audit committee, and external audit. All of this helped clarify and align business goals and support leaders in implementing the goals.
Applications for Practitioners and Educators on Succession

• The next generation’s succession is enabled by their solid consciousness of the mission, vision, and values of the company.

• Another key to success is planning and performing succession by the time the new generation is ready and willing to take over the leadership of the business.

• When the founders see business as an important part of the health of the family, they are responsible for transmitting values, interests, and goals through the generations, and the changes introduced by members of the younger generation can generate business models that positively affect business performance.

• The professionalization of management, accompanied by an alignment of values and practices between family and non-family members, can provide the necessary oxygen for accelerated organizational renewal.

• Families need to know the organizational skills to hire professionals who add value to the business.

Applications for Practitioners and Educators About Entrepreneurship Across Generations

• Entrepreneurial practices can be transmitted by the founders to future generations and absorbed by the structure and processes of the organization, as a part of its DNA.

• The company well structured in its products and services, its staff, and its administrative structure meets more efficient conditions to structure a continuous sustainability, even in the face of adversity.

• Family businesses need to prepare themselves to absorb managers who are not part of the family, achievable through the formalization of the process.

• Entrepreneurs who understand thoroughly the characteristics of their product and the impact it creates on the environment, tend to build stronger businesses.

• The basic motivation of entrepreneurs is the potential energy of the business. As entrepreneurs are aware of this motivation and make it explicit to all who live with them, they will be able to build a network of professional relationships in tune with the purposes of the business.

The entrepreneurial spirit is imbued in the company because the founders were able to transfer it to future generations.
RECOMMENDED READINGS


AUTHORS

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1 Similar to the Italian Falck company (Salvato, Chirico, and Sharma, 2010), Labtest found the synergistic integration of family and non-family leaders critical to strategic positioning of the company and overcoming its negative revenue challenges.

2 As observed by Vieira, Sousa, and Roscoe (2012), for family businesses to achieve continued growth, they must pass on the entrepreneurship and skills that enable them to create new streams of wealth between generations. The greatest threat to the perpetuation of entrepreneurship in the family is the authoritarian figure, with centralized power, who does not share with younger generations the founding process.
Curtis Packaging, headquartered in Sandy Hook, Connecticut, USA, was established in 1845. Initially, the business manufactured and sold buttons and combs made from cow hooves and horns. It evolved into a “box” business as a result of self-manufacturing the protective wooden boxes needed to ship products long distances. Over the next 80 years, the Curtis family innovated its business to match customer needs, moving from wood to paper. Its customers differentiated themselves with both their products and their packages. As a producer of an intermediate product, the business needed to simultaneously offer printing innovation and meet competitive pressures for lowest costs. Curtis developed robust process innovation capabilities and strong relationships with its clients.

Survival in a time of industry consolidation and ownership change

In the 1980s, even while completing two ownerships transitions and despite increasing consolidation in the paper packaging industry, Curtis stood alone. First, in 1980, the company’s failure to effect a family ownership and leadership transition to the fifth generation put continuity at risk. Curtis Packaging’s continuity and role in their community was sustained with a management buyout (MBO). Second, after this transition, one of the MBO leaders passed away. The remaining leaders sought a new owner. Mention of their intentions to their accountant matched his entrepreneurial interests. In 1989, Don Droppo Sr., former partner in a major accounting firm, acquired Curtis Packaging.

Applications of an accounting partner’s experience to a packaging business

From 1989 until 2002, Don Sr.’s experience provided him with the knowledge to engage in a set of initiatives that rejuvenated Curtis. He (1) effected the ownership transition with a leveraged buyout, (2) acquired an additional paper packaging company when Curtis required capacity, (3) continued capital expenditures to build Curtis’ innovation and capacity, and (4) engaged others in building Curtis’ competitive presence, drawing upon both those within the business while recruiting others (both family and outsiders).
Notably, early on, Don Sr. recognized that he did not fully understand the business. A colleague familiar with Curtis informed him that what he had purchased, though well-maintained, was old. An underlying desire “to have things nice” and his engagement of employees in discussions of “What can we do to make Curtis better?” and “How will we pay for this?” leveraged his and his employees’ knowledge and capabilities into a cycle of continuous improvement. Yet, at the same time, the economic challenges confronting Curtis caused him to direct his son Don Jr. to find his own way and not consider Curtis as an alternative.

After a decade, Don Sr. recognized that: (1) industry pricing pressures remained, (2) Curtis was heavily dependent upon a single customer, (3) he needed better skills in marketing and sales, and (4) there was an attractive segment within the industry. The previous acquisition of the troubled company and his participation in industry events had drawn his attention to the luxury goods segment. But he recognized he needed additional resources.

“Sun, moon, and stars came together”

Two actions helped Don Sr. begin to migrate Curtis from the commodity segment of paper packaging to the differentiated luxury goods segment. First, Don Sr. shared his thoughts about what the business could do with his son Don Jr. In the conversation, Don Sr. learned that his son was at a crossroads in his own career. Don Sr. became more convinced that Don Jr.’s experience in marketing, combined with his dynamic personality, could provide the skills Curtis needed to reach new clients.

Second, the departure of Curtis’ VP of manufacturing necessitated the search for his replacement. Don Sr. knew an experienced and talented individual, John Giusto, to whom he previously reached out about the position. Not only was John a creative master with paper-based packaging, he had luxury goods segment experience. Despite being concerned about Curtis’ ability to afford John, Don Sr. spoke with him about the opportunity. To better assess his potential role and responsibilities at Curtis, John spoke with Don Jr. After their talk, John was ready to join Curtis. John recalled, “I was going to get to use my design expertise and help Don Jr. learn the business. Pay was less of a consideration.” With the VP of manufacturing position filled, and John and Don Jr. working together, Curtis’ employees looked forward to their futures at Curtis.
Sustainability—the green luxury hook

Competition in paper-based packaging for luxury goods required more than manufacturing leadership and a charismatic marketing and sales professional. Luxury goods clients were willing to pay more for innovative packaging solutions, but the package was still a component of their cost structure. Curtis’ proximity to a luxury center, New York City, John’s reputation, and Curtis’ revitalized manufacturing capacity helped secure trial orders early on. But, Curtis needed a distinctive position to address the combination of higher client service expectations, continued pricing pressures, and rivalry.

Don Jr.’s presence on the shop floor was interpreted by many employees that Curtis was “once again a family business.” As Don Jr. learned about paper-based packaging within Curtis, he more broadly studied the economics and use of packaging across a wide variety of sectors. The notion of packaging and its waste stream was at odds with his environmental sensibility. He thought about how to balance Curtis’ environmental impact with its commercial appeal and recognized that fragrance and cosmetics companies were especially attuned to end-users’ concerns about the social and environmental impacts of their consumption.

Don Jr. developed a proposal to source environmentally-sustainable power. Knowing his father expected he would have to explain “how it paid for itself,” Don Jr.’s proposal incorporated both revenue and cost projections. Although Don Sr. was initially incredulous, Don Jr.’s arguments won him over. The path from 2002 until 2010 was not easy. The economy posed sales and profitability challenges. Yet, Curtis persisted with printing innovations and waste-stream reduction. Curtis emerged as a leader in luxurious sustainable packaging with Don Jr. as its President and CEO. Today Curtis employs approximately 140 skilled laborers with revenues approximating $35 million. Exhibit 1 summarizes key characters, actions, and impacts in Curtis’s history.

Exhibit 1
Timeline of Ownership, Leadership, and Business Transitions at Curtis Packaging

<table>
<thead>
<tr>
<th>Period</th>
<th>Event/Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1845-1980</td>
<td>Curtis Family</td>
</tr>
<tr>
<td>1980-1989</td>
<td>MBO</td>
</tr>
<tr>
<td>1989-2002</td>
<td>LBO Droppo Family</td>
</tr>
<tr>
<td>2003-2013</td>
<td>Droppo Family</td>
</tr>
</tbody>
</table>

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**Product/market/process innovation**

**Relationships with clients**

**Ownership transition to outsiders**

**Expenditures to build innovation and capacity**

**Employees’ and outsiders’ engagement**

**Leadership transition**

**Printing innovations and waste-stream reduction**

**Luxury goods paper boxes with balanced environmental and commercial appeal**

**Don Droppo Sr. leadership**

**Don Droppo Jr. leadership**
KEY INSIGHTS

Socio-emotional wealth refers to aspects of the family owner’s affective needs served by involvement in the business and may be prioritized over the firm’s financial performance\(^1\). We offer three insights to the interplay of ownership transitions, socio-emotional wealth, and business continuity by interpreting these transitions through the lens of preserving and creating socio-emotional benefits.

1. **As long as there are sellers, buyers, and employees who derive continued socio-emotional benefit from a business as an ongoing enterprise, simultaneous non-family ownership and leadership succession need not be disruptive to business continuity.**

Two succession events put the business at risk. First, when the fourth generation decided not to effect a transition to the fifth one, an MBO took place. Though seller and buyer motives are unknown, it is highly likely that they both cared about their reputation within the small community. The Curtis’ family resided within the community and their name was attached to the business. They would have emphasized finding a buyer who would keep the business in their community. The buyers also resided in the community and likely cared about continued employment for not only themselves but for their co-workers. Curtis remained, not technically a Curtis family business, but likely in the employees’ and community’s eyes, a legacy of the Curtis family.

In the second succession event, from the MBO to Don Sr., the seller’s concerns about reputation likely remained. The buyer’s motives are known; Don Sr. saw an opportunity to realize his entrepreneurial dreams. He was concerned with caring for his own family. He was relatively unconcerned with his reputation in the community. He did not live there and he did not see himself as a savior. His approach to engaging the long-tenured employees reinforced the affective benefit they derived from their employment. Curtis Packaging remained and eventually became a family business again in part due the perpetuation of socio-emotional benefit across ownership and leadership transitions.

2. **Socio-emotional benefit requires socio-emotional risk-taking; i.e., individuals making their relationships and reputations vulnerable. All parties evidenced socio-emotional risk-taking.**

Don Sr. stepped away from a successful career but remained in the region where he had built it. He was not fully aware of the limits of the purchased assets. If he had been, it is less likely that he would have bought Curtis. Once the socio-emotional risk was taken by Don Sr. (he committed to the purchase), he needed to see the transaction through to gain socio-emotional benefit. He engaged employees in sharing their ideas by questioning the previous owners’ wisdom and his own expertise. Don Sr. potentially created a rift between him and his son by directing him to find employment outside the business after graduation. Later, he shared his thoughts about what Curtis could become placing at risk his son’s respect for him if he was unable to realize his thoughts about Curtis. John Giusto pursued employment with Curtis because of socio-emotional benefits, substituting those benefits for economic returns and a possible reputational damage that he was past his prime and had “traded down” to stay employed. Finally, once inside Curtis, Don Jr. proposed a direction that aligned with his beliefs, knowing that his father may not have agreed.

Don Sr. “linked” employees in the psychological ownership of the company with a desire to hear their ideas and a discipline of supporting those ideas with the financial implications.
3. Socio-emotional wealth is sustained as a resource underpinning competitive advantage when leaders “link and leverage” experience and knowledge to address socio-emotional and business risk.

Don Sr.’s desire to “make things nice” was supported by engaging employees in answering two questions, “What can we do to make Curtis better?” and “How will we pay for it?” He “linked” employees in the psychological ownership of the company with a desire to hear their ideas and a discipline of supporting those ideas with the financial implications. In this participative process, employees became aware of what the company earned and what it cost to obtain those earnings. He “leveraged” and reinforced the value of their ideas through investments in equipment and people, taking pleasure in watching employees engage in the creation of value. Employees increasingly took the initiative to engage in the search for continuous improvement and competitiveness, proposing new ideas without being prompted by Don Sr.

The entry of John offered an influx of creative ideas that further stimulated the search for new solutions, but also generated concerns that his appearance could lead to a possible change in ownership. Employees were aware that his prowess was developed through recent employment at other acquisition-prone paper packaging companies. Early experimentation with new products was necessary to convey his anticipated role and affective commitment to Curtis.

Don Jr.’s entry into the business, alongside John’s entrance, reinforced employees’ beliefs that the new approach would be sustained. That a successful family member would chose to join the company when he had other alternatives signaled that Curtis would endure. Furthermore, that Don Jr. was learning the business alongside John on the shop floor demonstrated that Don Jr. was committed to the business as a going concern and not a tradable asset.

**PRACTICAL IMPLICATIONS**

The practical implications are directed at the three main stakeholders present in the case.

1. **For owners and leaders of a family business who desire to effect within-family ownership and leadership succession:** Be sure that you are developing those family members’ readiness to take on the roles. Outside experience and mentoring within the business potentially contribute to the capacity to own and lead. Recognize that you need not only rely on family members to transmit values and knowledge across time; key non-family members can help bridge gaps in leadership readiness. Investments in your business’ readiness have financial and socio-emotional benefit to family and non-family members alike.

2. **For non-family members within a family business:** Be ready to share ideas and consider their impact, just as an owner would. If the business’ leadership does not welcome your input or engage you in the improvement process, question whether this family business is a good fit for you, and be concerned about your longer run job security.

“**The STEP project was a great opportunity to chronicle our rich legacy and to perform a 360 on Curtis with senior management. It was a phenomenal experience where we all learned a lot!”**

Don Droppo, Jr.
President & CEO
3. For would-be entrepreneurs: Family businesses unable to effect a within-family ownership and leadership transition may be an attractive avenue for realizing your entrepreneurial dreams. Understand why they have failed to realize a succession. Learn about the requisite success factors present in the industry. Recognize that others have better understanding about the business and establish a mechanism for learning. Find an approach for engaging others’ knowledge.

In sum, family business continuity demands we recognize that socio-emotional wealth is derived from multiple stakeholders’ attachment to the business. Family business continuity demands that we recognize where knowledge resides inside and outside the business and that we use that knowledge. By listening to both insiders and outsiders, applying their insights to business purpose and recognizing their contribution, we affectively engage them and create socio-emotional wealth as a resource, not just for the family but for the business as a whole. The departure of the family does not necessarily destroy the business’ socio-emotional wealth.

AUTHORS

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Ana Cristina González, PhD is assistant professor at Universidad Icesi in Cali, Colombia. González has been a member of the STEP project since 2006 and from 2012 she became a member of the University of Vermont STEP team. Her research interests include entrepreneurship, innovation, and corporate governance in family businesses.

Career advancement of family managers to top management positions is related to the accumulation of managerial skills along their career path. The skills required for such positions may vary for different firms. Yet the dynamic capabilities of top management to 'sense opportunities and threats,' 'seize opportunities,' and 'transform to manage threats' is often central in an open economy, characterized by rapid innovation and global competition. Dynamic capabilities help enterprises adapt to the changing internal and external environment. Entrepreneurial learning is the process of acquiring skills and knowledge to initiate, manage, and grow a venture. This may include learning by doing, handling critical events, or absorbing others’ experience. Through entrepreneurial learning, family managers may gradually develop these capabilities for the business while enhancing the potential for individual career transitions. The case of the Associated Engineers Ltd (AEL) shows how entrepreneurial learning may advance the career of Jude Chow, a second-generation member, in his family firm.

The AEL Case

AEL was founded by Mr. Chow Ging Tak in 1961. From a single-site workshop providing maintenance services for ground vehicles at the former Kai Tak International Airport in Hong Kong, AEL by 2014 had grown to a corporation offering engineering products and services to over 30 airport terminals in the world. Apart from airport engineering, it also ran a diverse business portfolio including construction engineering, environmental engineering, and material handling systems. It hired over 350 workers directly and had revenues of over HK$250 million.

Starting from Ging Tak, two generations of the Chow family have been involved in AEL (see Exhibit 1). Ging Tak had six sons, with a significant age gap among them. They were born in Hong Kong and attended high school and college overseas. In 2014, three second-generation members (Jude, Peter, and Francis) were working in AEL. Roger (the eldest brother) and Herman (the second eldest brother) started their own businesses after spending about ten years in AEL. Daniel (the third son) ran his own private equity firm. Ging Tak owned shares of AEL together with his sons.
Before taking the helm of AEL, Jude (43) obtained a bachelor in mechanical engineering, a master in engineering management, and an Executive MBA in which he studied strategic management and organizational change. In his early years in Australia, Jude was involved in large-scale engineering projects in a subsidiary of AEL and an external firm. Returning to Hong Kong in 2003, he joined a German medical technology firm and became its regional manager for customer services. In 2005, upon Ging Tak’s request, he joined AEL as general manager. Jude transferred his work experience and management knowledge to sense opportunities and threats for AEL. Observing his elder brothers, he learned the decision-making protocols that avoided sensitive issues in the leadership transition and helped seize identified opportunities. In 2008, he led a corporate restructuring, transformed the use of existing resources, and navigated AEL through the global financial crisis. Jude assumed full responsibility as AEL’s group managing director (equivalent to CEO) in 2012, bringing in a new vision and strategies.

Key Insights

1. Entrepreneurial learning built the dynamic capabilities—‘sensing opportunities and threats’, ‘seizing opportunities’, and ‘transforming resources to manage threats’—which may raise the chance of career advancement to the top level. Each of the dynamic capabilities offered ground for the development of the next capabilities in line (see Exhibit 3). Jude built his fundamental managerial skills by combining internal and external work experience in his family business. This experience prepared him to sense opportunities and threats of AEL. Screening through the pool of identified opportunities, Jude observed and learned from his elder brothers, acting in a way that avoided sensitive issues and realized the opportunities. The combined capabilities of sensing and seizing opportunities paved the basis for building the capability to transform resources and manage the global financial crisis.
EXHIBIT 2

Jude’s Entrepreneurial Learning Journey and Career Transitions

<table>
<thead>
<tr>
<th>Entrepreneurial Learning Activities</th>
<th>Learning Outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Working in a subsidiary of AEL and another firm in Australia and obtaining a master of engineering management and an EMBA (late 1990s-early 2000s)</td>
<td>Jude acquired technical knowledge in engineering and gained contextual empathy required for applying management theories at work. In particular, he developed people skills working with nonfamily managers.</td>
</tr>
<tr>
<td>Career Transition—To a managerial position with limited responsibility outside AEL</td>
<td>Working in a German medical technology firm in Hong Kong (2003-05)</td>
</tr>
<tr>
<td>Career Transition—To a managerial position directly reporting to the AEL chairman</td>
<td>Going back to AEL; learning by doing (2005-07)</td>
</tr>
<tr>
<td>Vicarious learning from his elder brothers and a nonfamily general manager in the leadership transition (2005-07)</td>
<td>Going from the portfolio of identified opportunities and threats, Jude took an ‘insider’ perspective by observing his brothers and the nonfamily manager. He adopted decision-making protocols which prevented sensitive issues in the transition. For instance, he did not bring in his own ‘troops’ when first stepping into the business, thereby avoiding actions that could potentially offend the patriarch or other senior management. These strategies or decision-making protocols allowed him to seize identified opportunities in the early leadership transition while avoiding disruption.</td>
</tr>
<tr>
<td>Handling the global financial crisis (2008)</td>
<td>Combining his greater awareness of opportunities and threats and his understanding of the internal dynamics, Jude navigated AEL through the global financial crisis. Turned around the business by leading a successful corporate restructuring. He took the chance to replace the multi-layered organizational structure installed by Ging Tak with self-accountable teams and units and restored the profitability of the business by the end of 2009. He transformed existing resources to manage the threats of AEL and earned recognition from this experience.</td>
</tr>
<tr>
<td>Career Transition—To the group managing director position of AEL</td>
<td></td>
</tr>
</tbody>
</table>

EXHIBIT 3

Career Transition with Development of Dynamic Capabilities via Entrepreneurial Learning

ENTREPRENEURIAL LEARNING

DEVELOPING DYNAMIC CAPABILITIES

Sensing Opportunities & Threats

Seizing Opportunities

Transforming Resources to Manage Threats

CAREER TRANSITION
2. Accumulation of general managerial skills (e.g., technical knowledge and people skills) may increase the chance of career transitions at entry and middle-management levels. To attain the CEO position, however, a manager must develop new sets of individual skills to facilitate and match with the continual development of dynamic capabilities in the company. From 2008 to 2012, Jude repeated these cycles of ‘sensing opportunities and threats,’ ‘seizing opportunities,’ and ‘transforming resources to manage threats’ before he got the CEO position.

3. Entrepreneurial learning may be less family-specific at the beginning of one’s career. The skills acquired may apply in both family and nonfamily firms. As a family manager sought advancement to the top position, this would naturally contract entrepreneurial learning activities which involve a critical understanding of family dynamics in the business. Jude observed what his elder brothers had done in the power transition process. He gained legitimacy in navigating the firm through the crises, demonstrating his leadership to both the family and the business communities he worked in. Attaining these outcomes specific to the family firm may enhance the potential for an intra-firm advancement.

**PRACTICAL IMPLICATIONS**

1. Help your family managers (or your clients) reflect on their entrepreneurial learning experiences and their career plan. Chart their career transitions along with their ability to build dynamic capabilities for the family firm. Assess how good they are in (1) sensing opportunities and threats, (2) seizing opportunities, and (3) transforming resources to manage threats. Take the discussion further to include what dynamic capabilities the business may need in the future, and how satisfying these needs may advance the family member on the career ladder.

2. Create a plan with various experiential learning opportunities and encourage family members to form a community to share their experience. Formal education is useful for developing management concepts and absorbing others’ experience, but practice is needed to transform the knowledge to entrepreneurial skills. Build entrepreneurial learning activities not only for personal but also for corporate attainment. This raises the chance for an intra-organizational career amongst incoming generation members, thereby retaining the family talents within the business.

**AUTHORS**

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Two successful Colombian family firms (FF) varying in size and industry exemplify the effectiveness of different pathways to train and involve the next generation in business. Our comparison is neither industry- nor firm-specific. Instead, we explore the formality or informality of succession schemes, education, and training of the next generation—themes that might influence governance and family involvement plans, and their role in family firm sustainability. One firm followed an informal hands-on approach to share knowledge with, and enhance the management skills of, next-generation family members, beginning in their teenage years. The other used a formal system of training with no hands-on teenage experience in the firms. Although the latter family spent time together, the children pursued firm-focused undergraduate and graduate education, worked overseas in industry-related companies, and followed this with a twenty-year involvement in management before taking over the firm’s leadership upon the retirement of the founder.

The Caballero Family

Logistica Colombia, founded in 1970, is a logistics and cargo business launched and managed by the four Caballero brothers: Noe, Eugenio, Silvino, and José Agustín. They all claim that the example of their parents (Silvino, deceased, and Ana, aged 95) and their upbringing fostered their entrepreneurial spirit. Each brother’s wife and children are owners in equal proportions. Noe’s oldest daughter (aged 40) and son (aged 30) work in the FF. His youngest daughters also participated some time ago, but left the FF to pursue their own entrepreneurial initiatives. Eugenio’s two oldest boys, both in their 30s, work in the FF, but not his youngest daughter. Similarly, Silvino’s two oldest children, also in their 30s, work in the FF, while his youngest son is still attending university. Finally, José Agustin’s oldest daughter, who is in her 20s, just joined the FF, but his youngest son is still studying.
Nature of the Cargo and Logistics Business

Logistica Colombia relies on cargo contracts, loading docks, and managing different means to deliver goods, including its own trucks and containers, plus trustworthy independent drivers who own their own trucks. It is now among the five largest companies in the Colombian cargo industry. They have 500 employees, including a handful of drivers, and they outsource to more than 500 independent truck owners. These drivers must comply with very stringent maintenance programs and the safe driving practices demanded by Logistica Colombia’s cargo and logistics brand.

The Caballero brothers’ acquired hands-on and backroom experience in trade-related activities in their youth. These assets, plus demand-driven opportunities, have guided their strategy. They haven’t concerned themselves with formalizing their joint ventures and partnerships, either intra-family or with non-family partners. They do concern themselves, however, with honoring contracts, and providing secure and on-time delivery, in spite of unsafe roads, climate hazards, and unpredictable customs officials. Their fair treatment of their own and their independent drivers—not a common practice in the industry—has proven to be a competitive advantage.

Noe, the oldest brother, now semi-retired, lived and established his start-up company in Barranquilla—then the largest Colombian seaport—in partnership with Eugenio, who at the time was doing clerical work for a cargo company in the country’s interior. Noe incorporated his two younger brothers, Silvino and
Jose Agustín, into the business while they were still teenagers. During the day they would work in the warehouse and on the dock, attending high school at night in order to graduate.

**Education, Training, and Involvement of the Next Generation**

Eugenio, the second oldest Caballero brother, is the FF’s financial strategist. His more sophisticated background and experience (while still a teenager he did clerical work for his hometown’s mayor) allowed him to complement Noe’s rugged port experience and ability to deal with truck drivers. This might explain why Eugenio’s sons share his financial interests up to a point: they might prefer to shift the FF activities to managing a passive investment portfolio, rather than maintaining the hustle and bustle of dealing with insistent customers, rude truck drivers, and unsafe roads.

José Agustín mentored his nephews (Noe’s children) similarly in some respects to the way he was introduced to the business by Noe. The companies’ headquarters, now located in the capital city of Bogota, offer administrative training instead of the hands-on warehouse and loading dock practices that the founding brothers experienced. Furthermore, all second-generation children in the business have university degrees, but none had previous working experience in related activities outside the FF. This group of cousins understands the portfolio outlook of Eugenio and his sons, where any assets can be liquidated for better short-term returns. But they share a vision more in line with their respective fathers and uncles: that their business should provide work not only for family members, but also for seasoned employees and independent truck drivers.

The four Caballero brothers have a standing business relationship. All important business decisions are discussed at the end of each day in an informal but exclusive meeting. In spite of all those cousins who now work in the FF having undergone clerical training and holding university degrees, and some even occupying management positions, they still don’t participate in the daily “upper board meeting.”

In order to be an FF, a firm needs to be “governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by a family or a small number of families in a manner that is potentially sustainable across generations of the family or families.” The Caballero organization meets all these criteria.

Eugenio and his sons’ vision of a passive portfolio will have to confront the other three families’ vision, which favors continuing with the cargo and logistics business.

**The Pacheco Family**

Mercantil Colpatria is the holding company for several firms where four second-generation siblings of the founding Pacheco couple are majority owners.

Mercantil Colpatria houses three large business units: a bank, a construction company, and an investment unit, all of which originated in the 1950s. Its founder, Carlos Pacheco, built a middle-range financial firm—according to Colombian industry standards—that employs 8,000 people, with operations throughout the country; and it recently established joint ventures in Mexico and Peru. Furthermore, Scotiabank now partners with Colpatria’s bank, after General Electric Capital withdrew its partnership in the wake of the global financial meltdown.

Their fair treatment of their own and their independent drivers—not a common practice in the industry—has proven to be a competitive advantage.
Nature of the Financial Business

Don Carlos Pacheco took the bold step in his 20s to open a savings firm under an innovative sweepstakes scheme named capitalización. The customer would commit to a monthly, fixed amount of savings during an agreed-upon time period (various periods, 80 months being the longest), at the end of which the company would return the final amount saved. No interest compounded; rather the benefit was to participate in a monthly drawing where the prize would be the whole final amount agreed to (a sweepstake scheme), independent of the amount saved up to the time of the drawing.

It was a financial innovation based on a very sophisticated actuarial model and plenty of initial luck. What Don Carlos and his partners offered was a savings scheme for small and mid-size savers within a culture prone to betting. It was a bold step in the context of a very traditional and selective banking and insurance industry.

Receiving a fixed amount of savings every month for a previously agreed upon period resulted in a mutual trust between customers and the company. The former deposited their money with no further incentive but that of believing the company would honor the agreement of returning the accumulated amount at the end of the agreed time. Of course, there was the remote possibility of winning this amount in the monthly drawing. The latter trusted that the customer would honor his/her commitment of monthly deposits. It then would invest these accumulated amounts in activities that would gain sufficient return in order to pay operating costs, honor the customer’s final amount saved at the agreed time, and provide funds for the monthly draw, while growing at a rate which was worth the company’s investments.

The two activities that initially gave the company its growth in assets were investing and selling equities in Colombian firms, and buying and developing land. Don Carlos, observing the success of the savings scheme, began to offer a portfolio of insurance (life, education, health) of moderate amounts with affordable installments to individual customers and small- to medium-size businesses.

His partners who made up the board of directors, together with a professional advisory board, were good counselors regarding the continuing business ventures that Don Carlos proposed. He would listen to sensible advice, but once he decided upon a course of action, he would captain that course obstinately, through integrity, hard work, honoring contracts, and putting the customers’ welfare above all else.

Buying good tracts of land and developing them for middle-income housing projects allowed for the insurance and mortgage activities to be linked. This then was the initial means for buying a small, regional bank that in the course of four decades has grown sufficiently to partner with a multinational bank.

Housing know-how has allowed Colpatria to build projects in Mexico and Peru today. Furthermore, it has diversified its building activity into shopping centers, warehouse complexes, and the most recent project: a large oceanfront pier for cargo.

Education, training, and involvement of the next generation

Don Carlos Pacheco, CEO and founder, made sure his children attended private universities and worked overseas in banking and related activities before joining the family companies.
Mario, the second youngest, was second-in-command after his father. When Don Carlos announced his retirement, he called for a meeting of the four siblings—where he wouldn’t be present—in order to decide who was to be the CEO. In that meeting, two of the three brothers and their sister, knowing of Mario’s short-term view of the companies and his bold entrepreneurial initiatives (always willing to sell out the companies if good offers appeared), chose Eduardo, the oldest, because he was committed to a long-term view.

Eduardo has proven to be a clever businessman who has grown Colpatria into an industry leader, serving middle-class customers with credit cards and short-term loans.

Don Carlos held a low profile at work and home. While growing his company, he and his wife saw to it that their children received a good and demanding education in a wholesome family environment. Before joining any one of the firms, they needed to finish an MBA and worked in large international banks overseas. His Calvinistic work ethic allowed for plenty of time together with his children, where he instilled the values of integrity, fairness, and leadership in service.

This upbringing was tested when, in the 70s, Don Carlos was abducted by the FARC guerrillas, who demanded a ransom. Fortunately, the special forces of the army rescued him, but the family remained in shock for some time. Don Carlos, nevertheless, considered that he had a responsibility to his employees and customers so, in spite of this blow, he resumed activity with renewed vigor.
This was an example not only for his children, but for the whole organization, whose admiration and loyalty grew.

The two older brothers had twenty years’ working exposure to Colpatria’s firms while their father was CEO. They had to work their way up, gaining respect from fellow workers. They did so to the point that, when Don Carlos truly retired, Eduardo was able to lead the FF in spite of Mario withdrawing from the companies to become a very successful entrepreneur. Rodrigo, the youngest, joined too, and is now in charge of all corporate social responsibility activities. Claudia and Mario serve today on several of the companies’ boards.

EXHIBIT 3
Contextual Factors and Next Generation Training Pathways of the Caballero and Pacheco Families

<table>
<thead>
<tr>
<th>Firm Basics</th>
<th>Caballero Family</th>
<th>Pacheco Family</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees: 500</td>
<td>Employees: 8,000</td>
<td></td>
</tr>
<tr>
<td>Logistics and cargo services for Colombian market</td>
<td>Financial products for low- and middle-income customers</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Industry and Success Factors</th>
<th>Caballero Family</th>
<th>Pacheco Family</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regulated cargo fares. Timely and secure cargo delivery with reliable drivers.</td>
<td>Regulated banking industry. Excellent customer service plus novel financial services.</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Life Stage</th>
<th>Caballero Family</th>
<th>Pacheco Family</th>
</tr>
</thead>
<tbody>
<tr>
<td>Four founding brothers in their 50s and 60s.</td>
<td>Four second-generation siblings in their 50s and 60s.</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Ownership</th>
<th>Caballero Family</th>
<th>Pacheco Family</th>
</tr>
</thead>
<tbody>
<tr>
<td>By family trusts of each of the four brothers.</td>
<td>Widow of founder and her four children own majority of holdings.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Governance</th>
<th>Caballero Family</th>
<th>Pacheco Family</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequent informal meetings of the four brothers.</td>
<td>Each sibling holds diverse board positions.</td>
<td></td>
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<table>
<thead>
<tr>
<th>Succession</th>
<th>Caballero Family</th>
<th>Pacheco Family</th>
</tr>
</thead>
<tbody>
<tr>
<td>No agreed protocol or succession planning.</td>
<td>Current protocol has driven out third generation holding jobs in the FF.</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Management</th>
<th>Caballero Family</th>
<th>Pacheco Family</th>
</tr>
</thead>
<tbody>
<tr>
<td>Each brother is CEO of one business activity. Some second generation working.</td>
<td>Founder succeeded by oldest sibling. Youngest a VP.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Networking of Founding Generation</th>
<th>Caballero Family</th>
<th>Pacheco Family</th>
</tr>
</thead>
<tbody>
<tr>
<td>With important national customers. Today with multinationals.</td>
<td>Advisory Board made of reputed businessmen and former government officials.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Networking of Next Generation</th>
<th>Caballero Family</th>
<th>Pacheco Family</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prestigious schools and universities. Some with post-graduate degrees.</td>
<td>Post-graduate industry-related degrees. Elite sports and prestigious country clubs.</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Business-related experience of Founding Generation</th>
<th>Caballero Family</th>
<th>Pacheco Family</th>
</tr>
</thead>
<tbody>
<tr>
<td>Warehouse and cargo logistics activities of two oldest brothers. Older brother mentors his youngest brothers.</td>
<td>Actuarial experience in largest insurance company of the time. Partnered with fellow workers and started an innovative savings company.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Next gen: Hands-on and “back-shop” experience</th>
<th>Caballero Family</th>
<th>Pacheco Family</th>
</tr>
</thead>
<tbody>
<tr>
<td>Worked during vacations and weekends, doing clerical work.</td>
<td>While teenagers, no relation with father’s work nor FF. Postgraduate degrees in USA, and worked in banks and other financial companies abroad.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Vision of family or of dominant coalition of families</th>
<th>Caballero Family</th>
<th>Pacheco Family</th>
</tr>
</thead>
<tbody>
<tr>
<td>No dominant coalition in sight. Some wanting to sell out and focus on passive capital management, others to stay in the cargo and logistics business.</td>
<td>Permanent core business agreed to by four siblings: Serving middle class customers with a variety of saving and credit schemes.</td>
<td></td>
</tr>
</tbody>
</table>
Comparision of the Two Cases

Exhibit 3 compares the contextual factors related to family, business, industry, and economy, and how these factors influence the chosen pathway to train, educate, and involve the next generation in a family business. Thus, one size does not fit all when it comes to deciding what combination of education, in-house and outside firm experience, and formal and informal training is best suited for each firm.

The family’s vision of the future, however, influences the pathways adopted, and whether the focus on the core business continues over time or not. In our first case, the Caballero family, the shared vision of the dominant coalition was felt to be loosening its grip from one generation to the next. Only time will tell whether this will jeopardize the continuity of the family enterprise in the line of business that has made them successful. In the second case of the Pacheco family, limiting access of the third generation to work in the family firm may weaken the founder’s legacy of focusing on middle class customers, a choice that has been key to this firm’s success.

KEY INSIGHTS

Insights common to both cases:
• Humble origin of founders.
• Business-related experience of founders. Hands-on cargo experience and relations with truck drivers in the Caballero’s case. Insurance and auditing experience in the Pacheco’s case.
• Not much formal education of founders.
• Formal and university education of the next generation.

Distinct insights:
• In the cargo industry, where physical labor is predominant, rapport with truck drivers and blue-collar workers is essential. Financial activities rely on cognitive labor, where rapport with white collar employees and banking customers is essential.
• General university education could be acceptable for the Caballeros’ FF, but could be a hindrance for needed rapport with manual workers. Specialized university education—economics, MBAs—is a must for the Pacheco’s FF.
• Standard school and university socialization of Caballeros’ next gen. Although this too is true in the case of the Pachecos, exposure to elite sports (like tennis and golf) and working in international banks enhanced their socializing with bankers and their customers.
• Explicitly preventing third generation from working in the Pacheco’s FF risks making them distant and uninterested shareholders. This is not the case of the Caballero coalition of cousins, who are willing to continue with the cargo business in spite of Eugenio’s family wanting to sell and focus on passive capital management.

Conclusions

The comparative description above has led to the following conclusions:
• A family business perspective based on a theoretical definition where vision and dominant coalition are just as important as the conventional components of family involvement (ownership, management, governance,
and succession) contributes to the understanding of sustainability in both family business and family coalitions.

- The nature of a business determines the degree of informality in governance that it can withstand over time. Logistica Colombia’s cargo and logistics activities might not be regulated in the same way as banking, investing, and construction activities are—the latter group (including Colpatria) is required to follow corporate government procedures from the start. Informal governance contributes to flexibility in start-ups, but can jeopardize firm sustainability when members of the second generation take over or become shareholders.

- Including non-family members on the board requires family members to establish their vision. Such vision has to be encouraging enough to overcome hurdles—Don Carlos’ abduction being a case in point—without giving up their basic mission: serving middle-class clients with integrity. Logistica Colombia’s lack of non-family board members can jeopardize a dominant family-coalition vision.

- The growing complexity of a business can disconcert untrained, new generations. The case of Logistica Colombia, whose lack of a family coalition with an agreed-upon vision can threaten the firm’s sustainability, offering passive portfolio management to family members as a last resort. By contrast, Colpatria’s bold move into partnering with Scotiabank is a result of the founder’s exacting high educational and working standards for his children, which included graduating from renowned universities and working in international banks, plus overseeing their work for two decades before effectively retiring.

**PRACTICAL IMPLICATIONS**

The nature of a family business determines the degree and modes of family involvement of next generations.

One can conclude that keeping his children out of Colpatria’s business activities, and sharing family time with them but insisting on high academic and work performance before entering the family business, allowed Don Carlos a true retirement. Thus, one may conclude that strong family relations and adequate professional training of the following generation enhances favorable succession. Hands-on experience of youngsters in the FF is not a necessary requirement.

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Aurobindo Pharma Limited was set up in 1986 by Ram Prasad Reddy (RPR) and his friend K. Nithyananda Reddy (NR) along with a small group of highly committed professionals. The company, based in Hyderabad (India), commenced operations in 1988 with a single unit to manufacture Semi-Synthetic Penicillin. By the end of 2010-11, Aurobindo registered sales revenues of 44.81 billion INR (about USD 725 million; see Exhibit 1) of which more than 60% came from exports.

RPR remained the chairman of the company until the latter half of 2011 when, at the age of 54, he felt the need to transform Aurobindo into a more professionalized organization. He had been thinking for some time about detaching from the operational affairs of the company and limiting his energies to long-term strategic issues.

Early Days of Professionalization

From the beginning, there was clear demarcation of responsibilities between RPR and NR, with NR managing all operational responsibilities and RPR taking care of the rest, including finance and marketing.

The period between 1998 and 2005 witnessed a major strategic shift and organizational transformation with the company deciding to exploit global growth opportunities. Knowledge gained from the experience of other Indian pharmaceutical firms (regarding huge market opportunity and advantages of lower cost of production supported by availability of skilled manpower) prompted Aurobindo to explore developed markets. Aurobindo decided to enter the regulated markets of North America and Europe with new focus on ‘active pharmaceutical ingredients’ (APIs) and formulations. The company invested significant amounts in R&D, and revised new standards across the company on par with the US FDA (Food and Drug Administration) quality specifications. The company focused on R&D efforts and filed several Abbreviated New Drug Applications (ANDA), Drug Master Files (DMF) and patent applications with drug regulators in various countries. Besides providing market access, these approvals also enhanced Aurobindo’s product
quality and R&D credentials. It had 13 production facilities by 2011; most of those complied with US FDA norms. The company simultaneously set up marketing offices in several advanced countries including 20 overseas subsidiaries.

This was not very easy because along with the new set of knowledge and skills, it required a change in attitudes of managers and employees at all levels. Though RPR and NR had a positive attitude towards professionalization and raising quality standards, managers and employees across the entire organization had to practice strict adherence to quality specifications in tune with the requirements of the clients and stringent regulators. RPR and NR persisted and this shift towards a culture of quality work evolved overtime. The change proceeded on two fronts. One was compliance oriented, as regulatory frameworks both in India and abroad became more stringent over time. For instance, the Securities Exchange Board of India (SEBI), the nation’s market regulator, tightened the norms for publicly-listed firms in areas of finance, auditing, and legal compliance, so Aurobindo had to improve on those counts. These were coupled with regulatory compliances in technical aspects (like meeting FDA requirements etc.) of pharmaceutical production. The second was capacity building in terms of knowledge and skills required to take the company to the higher orbit. For this, the company went for recruitment of higher quality managerial and technical staff (across marketing, systems, and human resources domains) with qualifications from premier institutions and the experience of working in the demanding environments of the developed markets (see Exhibit 2). They brought with

Along with the new set of knowledge and skills, it required a change in attitudes of managers and employees at all levels.
Professionalization of Governance

As part of further professionalization and improvement in governance practices, Aurobindo inducted several independent directors on the board during the early days of globalization and beyond. Yet the board was far from being truly independent. The year 2006-07 witnessed another major effort to strengthen the board with the arrival of some very reputed professionals as independent directors, who brought an objective perspective to strategic decision-making and helped improve the company’s governance.

Virtuous Cycle of Growth

Aurobindo’s strategy of entering developed markets was backed up with capacity-building, led by newly hired professionals who helped set up appropriate systems and processes. This reinforcement of resources in turn improved the functioning and governance of the company, thereby enhancing a virtuous cycle of growth through professionalization.

Family Involvement and Dynamics

Though Aurobindo became a public company in 1992, the promoters continued to own about 55% stake in the company. Their holding structure (see Exhibit 3) was based on their mutual agreement of monetary and non-monetary contributions.
RPR was the visionary strategist, while NR was an expert in execution. Together they complemented each other and formed a great team at Aurobindo. They were good friends with many years of association that went beyond business. RPR’s elder son Sarath, was a non-executive director since 2007-08 while his 23-year-old younger son was not involved in the business. The relationship between RPR and NR evolved into a family relationship when RPR’s son Sarath married NR’s daughter, Kirthi Reddy, who managed one of the production units (See exhibit 4 for family members involved in business).

**EXHIBIT 4**

*Board and Family’s Involvement in Business*

*Depicts family member*
Sarath was a graduate in business administration and did not have deep interest in the pharmaceutical field. However, RPR was not sure whether Sarath was prepared or inclined to play the leadership role, for which there was not much choice within the two families. His younger son was too young to take any major responsibility in business. In one of the conversations, RPR said, “the business has become very complex now and you cannot be a top executive unless you have passion and knowledge of the science and technology involved.”

**KEY INSIGHTS**

Aurobindo’s journey had been a discovery-driven growth propelled by ambitious leadership. As the company grew from a co-founder-led small operation to a large pharmaceutical firm, it traversed through two distinct waves of professionalization. The first was operational professionalization (i.e. improved systems and processes in operational aspects) that was aimed at growth in international markets. The second was governance professionalization (i.e. improvement in corporate governance mechanisms) aimed at catapulting the company into a major global pharmaceutical firm.

**Visionary Leadership Team:** Aurobindo’s visionary leadership team of RPR and NR correctly forecasted industry trends and enabled the company’s successful transformation into a globally competitive bulk drugs and formulations manufacturer. The co-founders complemented each other in terms of attitudes and skill sets. They took up the role that suited their respective capabilities and played to their strengths.

**Swift, Strategy-Driven Changes:** Clarity of changes in product-market focus enabled Aurobindo to acquire and/or develop both tangible and intangible resources and capabilities including people, structure, systems and processes required to meet the company’s strategic objectives.

**‘Let-Go’—Key to Growth:** More than the mere logical acceptance of the idea of ‘letting-go,’ RPR also had the emotional preparedness to ‘let go’ the affairs that were best managed by professionals. He ensured that NR and the rest of the team willingly embraced this change in the command structure that made Aurobindo a vibrant growth-oriented organization.

**Board Potential Remained Untapped:** RPR strengthened the board and showed willingness to listen to others. However, the company is yet to fully tap into the capabilities of several experts brought on the board. Such changes would have enabled the company to build improved governance and global best practices.

**PRACTICAL IMPLICATIONS**

**Anticipate and Adapt:** Complexities increase with business growth. Family firms need to anticipate the need for systemic changes and proactively make those changes. Like Aurobindo, a firm may adopt a phased approach to achieve professionalization (i.e. initiating professionalization efforts covering the operational aspects to later cover the governance aspects that take the firm to the next orbit of growth).
Build Professional Team: Once there is strategic clarity, the family firm must enhance its organizational capabilities, most importantly by constituting a team of expert professionals. They need to attract and nurture high quality talent that can help them evolve into a highly professionalized business. The professionals hired to bring about these changes must be trusted, supported, and given freedom to make crucial decisions. The leadership must learn to ‘let go’ and delegate responsibilities to these professionals.

Bring in External Expertise: Good mentors or independent experts must be brought on board as they help a family firm adopt better systems and practices. More importantly, they can caution the management on what ‘not to do.’ This ensures that the professionalization process remains on track.

Execute Well: A family firm must develop the executional capability to effectively tweak structures, systems, and processes to achieve higher levels of professionalization. No strategy is good as long as the quality of execution is weak.

AUTHORS

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1As per the Annual Report for financial year 2010-2011.
Kumpulan Media Karangkraf was founded in 1978 by Dato¹ Hussamuddin Yaacub, together with his elder brother, Fickry, and a cousin, Mohamed Nasir. From the humble beginnings of their first office in a shop lot in SS2, Petaling Jaya², Karangkraf is now Malaysia’s largest independent publisher and printer. The Karangkraf Complex is spread over 9.5 hectares in Shah Alam, Selangor. Its popular magazines—35 at last count—have 50% of the national magazine market. It also publishes more than 200 Malay language books per year by local authors. A national newspaper with 8 different regional pullout sections is Karangkraf’s most significant recent contribution to Malaysia’s media market.

Karangkraf is seen as a highly innovative company that moves ahead of the industry. It is known to take risks but balances these with its reinvestment strategy. In the early to mid-80s, the company shifted its focus from schoolbooks and materials to magazines and novels. In 1996, Karangkraf was the first publisher in Malaysia to introduce desktop publishing software. In its quest for industry leadership in 2011, Karangkraf started to digitize print media and also invested heavily in the state-of-the-art printing machines.

The company is moving rapidly into digital media while also maintaining a printing services business that is the largest in the country and is also the firm’s largest revenue generator. In 2013, Karangkraf’s revenue was RM500 million (approximately US $151.5 million³) and the company employed 1,500 individuals. Exhibit 1 illustrates a timeline of key events and the evolution of the company over time.

Presently, there are fifteen family members working in the organization, with three of the second generation, Akmal, Syamil, and Firdaus, holding top management posts. The other second-generation family members are in middle management positions. Exhibit 2 depicts Hussamuddin’s siblings and the second generation involved in management positions.
Family Values

Hussamuddin Yaacub was born and raised in Kota Bharu, capital of the state of Kelantan in the northeast of the Malay Peninsula. The Yaacub family was raised with traditional Muslim virtues such as caring and integrity. Hussamuddin’s mother had to care for many siblings, nephews, and nieces. This was because the family lived in the proximity of numerous schools. Relatives would come to live with them for extended periods of study, requiring Hussamuddin’s mother to supplement the family’s income with making and selling embroideries. And yet, “even though we were poor,” recalls Hussamuddin, his mother “always gave.”

Hussamuddin and his co-founders built Karangkraf’s corporate values on the Yaacub family’s core values and virtues. They applied these values to lay the foundation for their core organizational capabilities (publishing, printing, and news reporting), and encapsulated them in their corporate identities (brands, slogans, taglines, and CSR programs). Exhibit 3 illustrates the two profound values and practices in Karangkraf.

Caring

As indicated in Exhibit 3, the caring value is evident in Hussamuddin’s family and felt by Karangkraf’s employees. The virtue of zakat is the pillar that instilled the caring value. The virtue of zakat is understood as giving alms or charity but also the philosophy of sacrificing one’s self interest for others. This act of giving was trained through upbringing in Hussamuddin’s family, infused in the extended family and family business, and ingrained in Karangkraf’s corporate culture.

“My partners support my idea because they understand my philosophy. Especially now, our company is stable, well structured, and very well organized. I want to spend the balance of my life to create opportunities for the second generation, by using the strength and synergy within the main company.”

— Dato’ Hussamuddin

EXHIBIT 1

Key Events for Karangkraf

<table>
<thead>
<tr>
<th>YEAR</th>
<th>EVENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>1978</td>
<td>Hussamuddin, Fickry and Nasir founded Karangkraf in a shoplot (CO) • School Books (PUB)</td>
</tr>
<tr>
<td>1983</td>
<td>Magazines &amp; Novels (PUB)</td>
</tr>
<tr>
<td>1996</td>
<td>Introduced Desktop Publishing Software (PUB)</td>
</tr>
<tr>
<td>2000</td>
<td>First web presence: <a href="http://www.karangkraf.com">www.karangkraf.com</a> (CO)</td>
</tr>
<tr>
<td>2002</td>
<td>Moved to Shah Alam on 2-acre land (CO)</td>
</tr>
<tr>
<td>2003</td>
<td>Awarded Malaysia Book of Records for Publisher with largest Malay magazine titles (30) (PUB)</td>
</tr>
<tr>
<td>2005</td>
<td>Awarded ISO 9000:2001 to Ultimate Print (PRINT)</td>
</tr>
<tr>
<td>2006</td>
<td>Launched Sinar Harian in Kota Bahru (NEWS)</td>
</tr>
<tr>
<td>2009</td>
<td>Rebranded &amp; restructured into Karangkraf Media Group (CO)</td>
</tr>
<tr>
<td>2010</td>
<td>Sinar Harian in all 11 states in Peninsular Malaysia, launched sinarharian.com.my (NEWS) Invested in state-of-the-art technology in printing machines (PUB)</td>
</tr>
<tr>
<td>2012</td>
<td>Expanded to a new 15-acre Karangkraf Complex (CO)</td>
</tr>
<tr>
<td>2013</td>
<td>Fickry passed away (CO) • Sinar Harian in 8 states in Peninsular Malaysia (NEWS)</td>
</tr>
</tbody>
</table>
EXHIBIT 2

Relationship between Family Members in Management Positions

EXHIBIT 3

Relationship between Values and Practices

<table>
<thead>
<tr>
<th>Value</th>
<th>Meaning of the value</th>
<th>How it is practiced in the family and by employees</th>
<th>How it is integrated in the firm</th>
</tr>
</thead>
</table>
| CARING  | The caring value is based on the spirit of “Zakat,” which is one of the Five Pillars of Islam. It can be defined as alms-giving and is the practice of charitable giving by Muslims based on accumulated wealth, and is obligatory for all who are able to do so. | - Care for employees  
- Care for learning  
- Makan or weekly potluck sessions in every department  
Makan is a Malay word meaning eating.  
INFORMAL MECHANISMS |                                                          |
| INTEGRITY | This value is based on the Islamic virtue of “self-assessment” of right and wrong. It is based on the character of Prophet Muhammad called, “siddiq,” which means truthful in words and deeds. | - Journalistic self-censorship in Sinar Harian  
FORMAL MECHANISMS  
- Corporate core values:  
  Concern, Passion, Trustworthiness  
  Innovation, Teamwork, Sincerity  
- Tagline: Energizing soul & mind  
- PEDULI CSR programs | |

**A) Care for Employees**

As a child, Hussamuddin often saw his mother fried “two pieces of fish” which "twelve of us could still share." When he and his younger cousin Nasir started Karangkraf, they lived together in the same house and cooked together. Hussamuddin said, “When it comes to makan sessions…I share the same plate with my staff.” He said the company’s environment reminded him of his childhood home because he and his employees “eat together and enjoy together.”

Firdaus, Hussamuddin’s daughter and head of the Publishing Division said, “When you eat what a co-worker has prepared, you talk about simple things, not just about work…about their family, about our family…so in that sense the family values actually became stronger.” Shaimaa Ali, an employee, mentioned that “We develop a family approach here. We share food together.” The makan sessions occur weekly in all departments, with all employees.
B) Care for Learning

Hussamuddin’s father was both an adventurer and a religious teacher. As a youth, he traveled to Singapore and Mecca to learn English and Arabic. Together with friends he founded an Islamic school for girls in Kota Bharu. Finding the school’s income insufficient, he started a small bookshop. Hussamuddin learned and trained by helping run the bookshop while following his father’s constant injunction to develop the virtue of iqra’, the reading habit, by studying the shop’s books. He believes that Malaysians are not reading enough, and with Karangkraf as a vehicle, he is happy that his vision is reaching out to create change in that regard.

With the tagline “energizing soul & mind,” Syamil, future CEO-designate and presently the chief operating officer, emphasized to the staff the importance of inspiring readers and building passion among staff. “We tell our staff, whatever you do, remember, when our customer picks up our product, we inspire them and the knowledge that they gain from reading our books. Do good deeds: this is our own small, small thing that we do for them.” Conversely, Karangkraf has been careful not to inspire bad habits.

In October 2013, Firdaus said that the company will not publish photographs of people smoking. Neither will readers find explicit descriptions of sexual conduct in the novels published by Firdaus’ division.

Integrity

In 2006, Karangkraf started its first hyperlocal newspaper, called “Sinar Harian.” Hyperlocal is a term used to describe its focus on community news, and by 2010, it reached 11 states throughout Peninsular Malaysia. Sinar Harian’s tagline is “Telus dan Tulus: Kebenaran di sebalik berita,” which translates to “Transparent and Honest: Truthful news reporting”.

Truthful (based on the character of Prophet Muhammad, called “siddiq” in Arabic) is an Islamic value based on the virtue of “self-assessment” of right and wrong in both words and deeds. This value has enabled Sinar Harian to strike out boldly for fairness, openness, and editorial neutrality where other papers have become the narrow organs of political parties. Akmal, who leads Sinar Harian said, “Reporters are cautioned that unfair or mistaken news stories will be punished, not by Karangkraf but “by the Almighty.”

Sinar Harian has more than one million LIKES on its Facebook page, and to ensure up-to-date news reporting through its online version of Sinar Harian, the journalists and photographers at each of its eleven sub-offices are equipped with high-tech tools. This in itself allows not just internal communication efficiency, but also provides news-on-the-move to its online readers.

With its mix of national and local news, the newspaper provides ordinary Malaysians a voice. This was not just an abstract principle of democracy but an insistence that the people, their weddings and their funerals, their local celebrations, and their football matches, merited attention. “We do not just carry the stories of the leaders,”
said Hussamuddin, “but of the rakyat (the people), too.” As a result of the paper’s determination to call to attention the needs of ordinary people, it has helped to resolve problems faced by them, for instance, getting some dirt roads tarred at several places. “That is how we serve the people”, said Hussamuddin, “sometimes I even think we serve them more than their wakil rakyat (Members of Parliament)”.

The practice of journalistic virtues such as openness, neutrality, and integrity is not always easy in a nation where newspapers are licensed. In years past, some Karangkraf publications have been perceived to have crossed political lines, have lost their government licenses, and gone out of print. Hussamuddin walks a fine line and sometimes speaks of leaving “politics…to the politicians.” Other times he avows a policy of full coverage of the news, asserting perhaps out of strategy as well as conviction that the government would be foolish to revoke Sinar Harian’s license. “Malaysians want transparency and this trend towards greater openness is unstoppable. It doesn’t matter who takes over.”

Values—Firm Integration

The family values built and virtues practiced in Karangkraf came from the family upbringing. It was done consciously, consistently, and with a strong belief and attitude of its importance. For these values to be sincerely and honestly felt by all family members and employees, they have to come from the heart and be communicated continuously throughout the organization. The makan session is used to bring everyone together where conversations are not limited to work-related matters but open to their daily nuances and even matters of the heart.

Karangkraf’s corporate culture is ingrained not just by the corporate core values. “We believe our employees are the heart of organization, and consumers are the soul of the business. As much as we are passionate about our products, we are also passionate about our consumers and at Kumpulan Media Karangkraf, six key values stand out and govern our daily business: passion, innovation, teamwork, trustworthiness, sincerity, and concern.”

“We make everybody understand the meaning of the values, share from the bottom of their hearts, and work together with us to achieve the values. In Karangkraf, there is an unwritten vision: we would like to be successful in this world, but when we die, we would like to go to heaven. This is the vision that everyone here also shares with us,” said Hussamuddin.

Further, it was the atmosphere of peduli (the Malay word for “care”) and integrity in the family and work environment which resulted in the label of its social initiatives, their five corporate social responsibility (CSR) “Peduli” programs:

- Karangkraf Peduli Duafa (helping the poor and unfortunate)
- Karangkraf Peduli Alam (preserving the environment)
- Karangkraf Peduli Muafakat (promoting solidarity of the society and supporting the 1Malaysia5 concept via community programs)
- Karangkraf Peduli Jujur (fighting corruption)
- Karangkraf Peduli Iqra’ (inculcating reading culture and life-long learning).

It is interesting to observe that the tagline, “energizing soul & mind” was developed collectively with all staff, practiced, and communicated consistently throughout the organization. This tagline encapsulates all the other initiatives in Karangkraf by becoming the compass in everyone’s attitude and behavior when interfacing with all stakeholders.
In ensuring the values and culture are carried through when it goes into the second generation and beyond, future CEO-designate Syamil says that Karangkraf will apply its ingrained virtues to new opportunities. With the succession plan that has been in place fifteen years, Hussamudin is confident that the second generation is well prepared to take over the leadership.

**KEY INSIGHTS**

The key insights include:

- Every organization wants good returns, trust, honesty, and other positive values for its stakeholders. But the work environment that embodies the values determines how things are done, how the virtues are practiced, and how people interact with one another and external parties. Communicating shared values to all family members and employees is a challenging task. At Karangkraf, Hussamuddin has used storytelling to communicate values with people around him.

- The family value of caring for extended families, and all the families of Karangkraf's employees, have built the company’s organizational capabilities and corporate identities. These values have successfully resulted in low staff turnover, a sense of belonging, loyalty, and a positive working culture and attitude among the employees.

- In shaping corporate identities, Karangkraf's family values of caring and integrity, and its organizational capabilities of news reporting, publishing, and printing are brought together to impact the community at large.

**PRACTICAL IMPLICATIONS**

- Values must be clear to the core family and practically demonstrated in their actions and projects. Karangkraf has achieved the values-firm integration through informal and formal mechanisms.

- Managers must take care to prepare and groom the next generation (fifteen years in this instance). The most suitable next generation member to take on the leadership was chosen based on competence and performance rather than family lines or emotions.

- Strong family values and virtues, based on religious belief and principles, can build organizational capabilities and reputable corporate identities.

**AUTHORS**

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Creating alliances with nonfamily partners is neither the most common nor the most sought-after decision for family firms. Sometimes alliances involve a family’s loss of control and ownership, two highly cherished objectives in family firms (FFs). While strategic alliances are common in nonfamily firms, the familial aspect of FFs establishes particular conditions to consider. Two Colombian FFs decided to give up part of their ownership to ensure their firms’ survival and growth. These decisions represent risky moves because they demand resource allocations and changes for the firms, without significant assurance of financial success. Additionally, the family firms’ complex configurations and their idiosyncratic behavior may hamper the development of inter-firm cooperation agreements. However, the decision of the Mejía and Pacheco families to associate with appropriate partners demonstrates that FFs make headway with alliances, at an opportune time, by first developing their idiosyncratic pool of resources, or “familiness,” and then searching for a suitable collaboration that advances their goals and plans.

The Mejía family manufactures batteries and markets these and other products to the auto parts industry, which is closely linked to the dynamics of the automotive industry. While the manufacturing activity is conducted through MAC-JCI, a joint venture with Johnson Controls Autoholding México (since 2011), in which the Mejías hold a stake of 60%, the family controls around 85% of the commercial activity through Coéxito.

In the second case, the Pacheco family, with companies in insurance, banking, and building, initially set up a joint venture for Banco Colpatria, in 2007, with General Electric (GE) Money, yielding 49.77% of its stake. Before long, GE decided to discontinue. Following this decision by GE, another joint venture was set up with Scotiabank in 2012. The family kept majority ownership of other businesses within the holding company: Constructora Colpatria (a building company), the private equity fund, and the investment unit. In the following sections, we discuss these cases in more detail, emphasizing the preparation of the businesses for the alliances, the choice of the partners, and the influence of the joint venture on the family firms.
**The Mejía Family**

As a youngster living in Argentina with his parents and brothers as Colombian expatriates, Ernesto Mejía learned from an Italian immigrant how to manually assemble and service batteries for automobiles. On his return to Colombia, this knowledge and experience helped provide him with employment in a shop in Cali, the third largest city in the southwest of the country. A few years later, in 1957, he opened his own workshop, which eventually became MAC S.A., the leading brand for car batteries in the Andean region. In the beginning, his wife was part of this start-up, having a part time job while being a full-time mother. Their children were involved in the firm since their early years until the present (see the Mejía family’s genealogy in Exhibit 1). By 2012, MAC S.A. had become the largest automobile battery factory in Colombia—a world-class player with approximately 600 employees and 60% of its revenues coming from exports.

EXHIBIT 1

**Mejía Family Genogram**

![Genogram Diagram]

Currently only the second generation of the Mejía family participates in the holding: María Fernanda is President of both the joint venture and the group, Diego is Commercial Vice-President for the joint venture, María Consuelo is Projects and Corporate Identity Manager for EMA Holdings, Luis Ernesto is President of the MAC-JCI Board of Directors.

A few timely events prove that technology-based knowledge guided the path of MAC S.A. Initially the business offered the service of maintenance for batteries. Later, in 1960, Ernesto Mejía and his brother José Antonio started assembling 25 batteries per month, a quantity that doubled in 1962. In 1969 they acquired new equipment and built a new plant with the capacity to manufacture 2,500 batteries per year. Seeking better technologies to support both processes and product development, Ernesto entered a US program for retired professionals, which gave him access to Calvin Mosser, an employee of Johnson Controls Inc., who was an adviser for MAC S.A. on several occasions. During the 70’s, Mosser aided the family by setting up visits with US manufacturers. Several years later Diego, Ernesto’s eldest son, spent two years visiting various factories abroad with one of their equipment suppliers with the same purpose—acquiring knowledge for MAC S.A.

The “learning from others” period was followed by one in which in-house technology development progressed. In 1991, MAC S.A. signed a contract for technical assistance with Johnson Controls Inc., which benefitted the firm until 2004, when Johnson Controls got established in Mexico and ended its assistance due to a conflict of interest.

Along with these technological developments, the Mejía family transformed the factory, its manufacturing processes, and its overall organization. Furthermore, it adopted the practice of quality certifications, which was initially promoted by the
local automotive industry and then embraced by the Mejía FFs. For MAC S.A., it was a step toward entering international markets, while fostering continuous improvement and sustainable growth.

Maintaining its Position within an Alliance

In 2010, two years after the founder’s death, the four siblings realized that, in spite of the research and development efforts made by MAC in the preceding years, current conditions were more exacting in terms of technology demands. María Fernanda Mejía, MAC’s CEO explains, "Our R&D department is very valuable, but this activity has limits related to available resources. We are very good at improving processes and adapting knowledge, a very important quality in MAC’s history." The siblings decided to maintain the firm’s position in the local as well as the international market. In 2011, they acquired the needed technology through a joint venture with the Johnson Controls Auto Holding México—a subsidiary of Johnson Controls Inc. They also decided to retain the ownership of the other firms in the holding such as Coéxito and EMA Foundation. Besides financial resources, the ally provided direction and support for the strategic decisions. According to the siblings, this firm is the natural ally for MAC, given both its position in the world market and its previous and almost continuous interaction with MAC S.A. during several decades. This alliance was possible because of the market position achieved by MAC S.A., its management control system—implemented at the end of the 1990s,—and the accredited manufacturing and organizational total quality culture promoted by the Mejía family since the firm’s inception. Exhibit 2 shows this process.

After 2011, the Mejía family retained majority ownership in MAC S.A. and in the firm’s management, through its agreement with the new partner, “which was treated as if it were the majority stockholder in order to achieve close and harmonious relations,” according to Luis Ernesto Mejía, one of the siblings. The family’s leadership in the alliance allowed the continuity in the operation. For the partner, it was necessary to have the family leadership that had guided the firm since its founding. The family culture was embedded throughout the whole firm and served as its engine, as Luis Ernesto mentioned, "Everything we do is oriented to be well done...The main concept is transparency and decency...We instill global thinking; our market is the world, and reaching it requires a global attitude."

EXHIBIT 2

The Preparation Process for the Joint Venture

“Our R&D department is very valuable, but this activity has limits related to available resources. We are very good at improving processes and adapting knowledge, a very important quality in MAC’s history.”

Maria Fernanda Mejía
MAC CEO
For the family and the family firm, the joint venture brought learning and adaptation to a new, more formal governance system and to a new strategic orientation. The decision-making process, for instance, went beyond the discussion between the four siblings; it required the approval of the board, in which the new partner had a position, and it was more demanding with regard to information. The financial resources coming from the joint venture were used to develop new projects in the manufacturing plant, to comply with financial obligations, and to share returns.

The Pacheco Family

Carlos Pacheco founded Colpatria in 1955, drawing on his experience from Bolivar, the second largest insurance company in Colombia at that time. He started an innovative sweepstakes scheme in which customers would commit to saving a fixed amount monthly during an agreed period, at the end of which the company would return the final amount saved. No interest was paid, but customers derived the benefit of participating in a monthly draw in which the prize was independent of the amount saved up to the time of the draw. His partners, together with his professional board of directors, were good advisors for the continuous business ventures that Carlos could foresee.

Colpatria started to grow rapidly and moved into other financial services. From capitalization and insurance, Carlos ventured into banking, with the acquisition of Banco de la Costa in 1969. Three years later, Upac Colpatria was created in response to the Colombian government’s demand for specialized bank units to handle savings and mortgages. Then, during the 1980s another UPAC company—Corpavi—was acquired, and, likewise, became involved in buying land and developing it for middle-income housing projects. This allowed the insurance and mortgage activities to be tied together, enabling the firm to diversify the latter activity into building shopping centers, warehouse complexes, and an ocean pier.

Carlos Pacheco’s children learned about Colpatria when finishing their university degrees. Eduardo and Mario, the two oldest sons, joined the firm in the 1970s. Claudia, the only daughter, never worked at the firm. Eduardo has been CEO since 1997, when Carlos decided to retire and the siblings chose him to lead the firm. The following exhibit shows the three generations of the Pacheco Family.

The Pacheco family has faced critical moments that have required hard decisions for the family but, at the same time, those moments have generated significant learning. One was during the UPAC crisis, when the bank’s liquidity was compromised because the interest rates were so high that people were not able to pay their mortgage loans. At that time, the family had to sell part of its assets and resort to FOGAFIN (the government financial guarantee fund) for temporary credit. According to Eduardo Pacheco:

“The acquisition of Corpavi led Banco Colpatria in 1998 to have 75% of its assets in mortgages, and then the crisis came. The crisis was very hard for the Bank, as we had to go twice to FOGAFIN and they required our personal assets to back the loan and save the bank from liquidation. My Dad said, “Eduardo, as long as our customers do not lose anything, that’s what I need to do, and that’s what we will do.” That was done; then our problems were so great that we had to sell our recently acquired pension fund...I would add that circumstances and eventualities are very important to take into account; they can leave deep scars within a family. Mario, my brother, was in total disagreement with this whole process and with many of the things I did, and it affected me deeply...These things happen in families, and they can be extremely complicated.
After the crisis, the Pacheco family organized an Advisory Council, and formally defined the family’s participation in its firms: family should be separate from the firm.

**Growth Based Alliances**

In 2007, the Pacheco family decided to yield a portion of Banco Colpatria to GE Money, which was also a critical move for the family. Eduardo Pacheco led this initiative, observing that the continuous learning and improvement during the bank’s entire history, including learning from difficulties, were key factors in entering an alliance. He describes the driving motivation behind this move as follows:

*I still think that a medium-size bank like Colpatria in a middle-income country has to think in the long term. I was always willing to sacrifice total control of the bank in exchange for somebody who could provide financial backing, new skills, and knowledge. To the extent that we have agreed the Pacheco family is not going to work in the future management of the companies, then why can’t I associate myself with the best managers in the world to learn from them? The business with GE and now with Scotiabank had that kind of motivation: to collaborate with international competitors that provide the best skills and practices in financial management. With Scotiabank we are going to have new tools because they have several funds to lend from the outside... After the crisis, we strengthened the credit cards and individual loans; nowadays the retail is very important in the bank, generating part of its profitability.*

As Eduardo’s statement indicates, after a period of four years, GE decided to withdraw from the banking business overseas. Once again, Banco Colpatria faced a critical moment. As compared to 2007, its size was much larger now. The group bought back its shares. In 2012, it sold them to Scotiabank. This turned out to be a smart financial operation that brought important revenue to the holding. In both cases, executives of the firm who were looking for an international ally suggested the partners from which Colpatria could learn. Two members of the advisory board comment on this learning as follows:
I think that the joint venture with GE was fantastic in every way; these individuals were very good partners. It was always an absolutely balanced, respectful, and profitable business for all, but one never knows how it would have been had they been majority owners. [Julio Manuel Ayerbe, member of the Advisory Council].

The partner will not own the bank. Eventually if there was a system problem, they sent it to technical systems. If there was a problem of portfolio, a risk problem, they sent their experts in different fields to train and help improve the situation, standards, and systems in the bank. GE was a very important partner and Colpatria was such a good partner that some of GE employees stayed because they liked the people, the work, the environment and the culture. [Carlos Escobar Barco, member of the Advisory Council].

Exhibit 4 summarizes the general characteristics of the families’ businesses and the key elements of the alliances.

These joint ventures continued at the beginning of 2013. While the Pacheco family had high expectations of continuing the alliance, the Mejía family faced the challenge of deciding about its participation, and that of the following generations, in the joint venture with MAC S.A. Both families kept majority ownership and the Mejía family has yielded part of its autonomy and control to maintain the benefit that the partner’s guidance brings to the firm.

**EXHIBIT 4**

**Characteristics of the Joint Ventures**

<table>
<thead>
<tr>
<th></th>
<th>MEJÍA FAMILY</th>
<th>PACHECO FAMILY</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2012 – Scotiabank</td>
<td>2012 – Scotiabank</td>
</tr>
<tr>
<td>Motivation of the families</td>
<td>Access to new technologies.</td>
<td>Access to financial resources.</td>
</tr>
<tr>
<td></td>
<td>Thoroughness of the board’s advice.</td>
<td>Better managerial practices.</td>
</tr>
<tr>
<td></td>
<td>Firm’s continuity and firm’s growth</td>
<td>New skills and knowledge in financial management.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Firm’s growth.</td>
</tr>
<tr>
<td>Benefits for the partners</td>
<td>Access to routines and capabilities of a local firm.</td>
<td>Access to the “familiness” that drives the firm.</td>
</tr>
<tr>
<td></td>
<td>Local and regional market access under the guidance of the strongest local player.</td>
<td>Local market access through a well-positioned local player.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Market diversification.</td>
</tr>
</tbody>
</table>

**KEY INSIGHTS**

While family firms benefit from joint ventures by gaining access to new technologies and practices, the alliance companies access new markets by partnering with consolidated firms. From both cases the following insights emerge:

- The desire to enhance their competitive positioning and the quest for organizational knowledge or learning were common motives for the alliance. While the Pacheco family looked for financial leverage and managerial skills and practices (with the firm’s growth as the ultimate objective), the Mejía family sought to improve the firm’s technological capabilities to guarantee its sustainability.
Family firms decided to consolidate several businesses related to their successful entrepreneurial initiative(s) and enter into a joint venture with only one for which new resources were required (MAC S.A. and Banco Colpatria respectively), thereby retaining majority control of the holdings.

Achieving the families’ objectives through the alliances was a long path with multiple learning experiences and different third parties for the Pacheco family and repeated collaborative experiences for Mejía family. Time worked in favor of these families.

The practice of quality certifications and the internationalization in the Mejía family case, and the consolidation of financial soundness in the Pacheco case, are processes in the distant past that provided the basis for attaining the same level as their world-class partners. This stance is necessary to make appropriate arrangements to gain leverage and key resources, without the family losing control of the business.

These FFs held strong positions and clear objectives for the alliances and these guided the choice of partners. Both were looking for allies that would view the “familiness” of the firms as an asset for the alliance.

The joint ventures retained the family leadership in the firms’ management, reflecting the partner’s interest in the particular family’s resources pool.

A few insights are more clearly visible in one case as compared to the other:

- The Mejía family and its partner had known each other for several decades through different interactions: consultancy with a partner’s retired employee through a US government development program, and through direct consultancy contracts with the firm.

- Previous relationships helped the Mejía family not only to align part of its operation with the partner but also to envision a global market position through that alliance. With this vision, the Mejía family took advantage of both the legal requirements and the technological support to assume a leading position in the local and regional markets.

- The previous relationships of the Pacheco family (with both non-family minority owners and with the Colombian government during the crisis) allowed the family to understand that to sustain their influence on the firm, in the presence of third parties, required the vision of a viable future for the firm. It also required the whole family’s commitment to this, a relevant point when GE decided to leave the joint venture.

Benefits for the Partners

- The partners diversify their investments by entering a new target market already developed by the consolidated firms.

- The partners gained the families’ leadership and reputation that led the firms to their current market position, growth, and stability in environments such as Colombia and Latin America, while constituting a guarantee for the partners’ investment.

- The partners benefit from the FFs’ human capital, particularly from their culture, permeated by the family’s values of hard work, thoroughness, commitment, and honesty, among others, that created part of each firm’s image.

- Given that the holdings of the families consist of businesses related to that of the alliance, the joint ventures, and thus the partners, benefit from the relationships established with the businesses in the family holding.
PRACTICAL IMPLICATIONS

• Being clear about the objectives of any alliance is a key element of its success. This clarity is especially relevant when FFs face critical moments, and they may be tempted to give up the firm. Although the latter is an option, the analysis of experiences with relationships with third parties may help to clarify whether or not family firms should pursue these objectives, how to do it, and if the alliance may satisfy the family's interests in the firm.

• Having a strong market, financial and family positions facilitate the search for the right partner, with objectives aligned with those of the family. However, a lack of alignment in the objectives for the alliance, between the family and the partner, may represent a risk for the alliance’s success. For instance, that many family firms seek their continuity contrast to the reduction of the family’s influence expected for the allies.

• Alliances should not be viewed as loss of control of the firm; they can leverage some long-term objectives of FFs such as growth, technological updating, or development of better skills and practices. In those cases in which alliances involve loss of control, the cost-benefit relationship should be as clear for the family as it is for the partner firm. The challenge for the family firms is to balance growth and control.

• The idiosyncratic resources of the FF that comprise its “familiness,” constitute a characteristic of high value that can balance the benefits brought into the alliance by partners. While considering them may help reinforce the alliance's outcomes, ignoring them may put it at risk.

• Alliances do not always involve difficult decisions for family firms but in all cases they demand adjustment to new requirements and new ways to proceed. The lack of FF’s preparation and/or ability to assume challenges in its management is another risk implicit in alliances with FFs. In summary open mindedness is essential for the family firm to take advantage of the alliance.

AUTHORS

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The Styles Company (TSC) is a blended family business established in 1995 in Houston, Texas. It has three partners: John Henry Styles, Sr. (John Sr.), and his two sons Johnny and Jason, each holding a one-third share in the company. The firm targets the healthcare industry, but has diversified into real estate, Broadway productions, oil and gas, and software. The main family holding company has five employees (four family members and an administrative assistant). The Proton Cancer Therapy Center (PCTC), which they built and now manage in partnership with M.D. Anderson Cancer Center, has over 350 employees and annual revenues over $100 Million.

Evolution of The Styles Company

John Sr. grew up in a dirt-floor home in North Texas. Though they never considered themselves poor, John and his brother would stare at the stars dreaming about the future. After graduating from Baylor University on a football scholarship, John held a number of management positions in the healthcare field. On July 30, 1965, President Lyndon Johnson signed the Medicare bill as part of the Social Security Amendments of that year. That legislation catapulted John’s professional career. In 1966, he joined Providence Hospital in Waco, Texas as their chief financial officer. Though many hospitals struggled to collect payments from older patients with reduced income, Medicare legislation positioned the government as a third-party payer. John realized that institutions aligned with Medicare could capture lost revenue from the program. His action plan for Providence was successful, thus establishing his name in the field.

John’s penchant for opportunity awareness surfaced again in 2002, when TSC crafted a partnership with M.D. Anderson Cancer Center in Houston to build and manage a Proton Cancer Therapy Center (PCTC). As far back as 1946, the physicist Robert Wilson theorized that protons could improve cancer treatments. Compared against a standard X-ray, a proton beam has a low “entrance dose” (the dose delivered from the surface designed to cover the entire tumor) and no “exit dose” beyond the tumor. This increases the radiation to the target while decreasing the radiation to healthy tissue, thus reducing the quantity and severity of side effects. PCTC specializes in this new treatment process.

GAMBLER’S RESILIENCE: THE INFLUENCE OF FAMILY FISCAL AND RELATIONAL CAPITAL

William J. Worthington and Marlene Mints Reed
EXHIBIT 1
Styles Family Genogram

The opportunity spawned from a casual conversation with a member of John’s church who knew that Tenet Hospital Group, the original partner with M.D. Anderson, withdrew from the deal. TSC invested $700,000 of due diligence to position themselves as a proposed substitute. The proposal was accepted, and the building was completed in 2006. To this point the center has successfully proven the science and rewarded the investment beyond initial expectations.

John Sr. believes in relationships and fiscal leverage. He is adamant that his children enjoy family yet avoid the scarcity he faced as a child. He values family but, he says, “I needed help and it happened that these guys were among the best available; it’s pretty nice that they are family as well. Working together is really a bonus for us.” Currently, Johnny, Jason, and grandson Ryan are involved in the business. Johnny now has 28 years of operational experience in hospital and healthcare-related business. He has been involved in the design, construction, development, ownership, or management of acute care hospitals, rehabilitation hospitals, ambulatory surgery centers, medical office buildings, and cancer treatment and research facilities. Jason, the younger son, served as a finance executive with Harris Webb & Garrison (a venture capital firm co-founded by John, Sr.). He cultivated over $400 million in various deals and served in several capacities for Mid-America Healthcare Group (a Styles venture) prior to the sale of its assets to Columbia/HCA. After leaving HWG, he was cofounder and executive vice president of corporate affairs for Triumph Healthcare prior to its sale in 2004. Ryan has been in health care operations for his entire professional career.

John realized that institutions aligned with Medicare could recapture their profitability.
The fiscal zeal exhibited by the Styles’ runs deep in the family tree. John Sr. observed his father buying and selling a variety of items for his trading store in North Texas, where he sold groceries and farm tools. John Sr. recalls his dad with a roll of money wound in rubber bands to pay for negotiated goods. He says, “He was the ultimate deal maker.” Like his father, John Sr. crafts deals with cash and a network of relationships, but he has extended their scope and significance. Today, John Sr.’s multiple networks have resulted in a complex array of deal-making participants, some of whom are limited partners, some lenders. The figure below with information supplied from a Houston Chronicle article demonstrates the range and sophistication of these parties.

**EXHIBIT 2**

**Exhibit 2: PCTC Relationships**


The Styles Company navigates threats well. The weight of M.D. Anderson’s reputation forms a strong political and social capital buffer. A hostile political environment is forming around the Affordable Care Act but M.D. Anderson is well regarded and long established. John Sr. notes that the kids and their mothers are always taken care of” (referring to healthcare and insurance coverage.) The long success of M.D. Anderson’s cancer treatment combined with the differentiated ability of proton therapy suggests this partnership will be protected. It is unlikely that a party could mount a political campaign against PCTC, at least not in Texas.

Through it all, the Styles family remains low key... John Sr. has a disarming, low-key personality that has always won him friends. He does not attempt to impress people with his accomplishments, and is known for his humility. As one friend describes, “…he was never on an ego trip. With John, what you saw was what you got. He is much smarter than he wants you to believe.” John Sr. instills that quiet strength in his sons, teaching them “it is easier to be nice than not” and that you never know when sowing a kind act will reap a good deal. The Styles’ family venture is confident their success will carry forward, yet they watch the horizon for signs of threat.
KEY INSIGHTS

The Styles Company demonstrates family business advantages consistent with research from Bain Consulting Group. Specific insights include:

**Foundation First.** TSC did not enter into risky ventures until John Sr. spent years building his corporate credibility. Prospect theory suggests that people accept more risk after their survival needs are met; TSC’s evolution supports that theory.

**Context Matters.** If you have three bowls on a table—one filled with ice, the middle one filled with room-temperature water and the third filled with hot water—your perception of the middle bowl temperature changes depending on which bowl your fingers begin. Risk is relative to your starting point.

**Birth Order.** Building on the context notion, the two sons have different approaches to the entrepreneurial process. While Johnny remembers his father’s struggle, Jason grew up with security in place. Perhaps both weigh entrepreneurial risk through the lens they witnessed. Johnny concentrates in healthcare as his father did for so long, while Jason explores as his father did later. Each seems to emulate what they observed from their father during their formative years.

**Calculated Risk.** John Sr. explains that “…seasoned gamblers are not lottery players. They study the odds and make decisions accordingly. They gather information to remove risk before jeopardizing capital. When their seed money is in play, they are well aware of the risk boundaries governing their actions.”

PRACTICAL IMPLICATIONS

**Diligence.** Deals are built one layer at a time with gamblers’ resilience. Debunking the myth that entrepreneurs ‘jump’ at opportunity, John Sr. makes the case that opportunities are tracked and hunted down carefully, systematically.

**Re-distribute Risk.** Time and due diligence must be spent to mitigate, not embrace, risk. John invested $700,000 to hedge his investments into PCTC. When he was done, the vast majority of fiscal and operational risk was borne by others.

**Mastery.** John Sr. has built a quiet empire within the healthcare industry. He has done so through ‘time on target.’ He has devoted himself to one primary industry as the foundation for his entrepreneurial career. Successor generations do best to build upon the incumbent generation. John Sr. captured his father’s knack for networking, deal-making, and the power of cash, but replaced his father’s rough edge with the Golden Rule value his sons build on.

**Kindness.** Leverage family reputation with the ‘Golden Rule’ to build social capital. Remember “it is easier to be nice then to be a jerk.”

**Successor Development.** The apple does not fall far from the tree, but it might bounce a few times. Failures and successes of the next generation add to the canvas of successor development.

AUTHORS

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Marlene Mints Reed is entrepreneur-in-residence at Baylor University, former Margaret Gage Bush University Professor at Samford University, past business owner, past president of the North American Case Research Association, and selected by the Carnegie Foundation as the Outstanding Alabama Professor.

1Numerous members of the Texas legislature, on both sides of the isle, have family members who survived cancer after treatment at PCTC or other M.D. Anderson facilities.


ATF, INC.: ENHANCING SUCCESSION TRANSITIONS AND NEW ENTREPRENEURIAL ACTIVITY ACROSS GENERATIONS

John L. Ward and Carol Zsolnay

ATF, Inc.
United States

When Don Surber purchased ATF, founded in 1946, from Beatrice Foods, a large public enterprise, founded in 1894 and acquired by ConAgra in 1990. At the time he had been leading the Beatrice subsidiary for four years, and the company had $12 million in annual sales. In 2013, Don served as ATF’s board chair, while his oldest son Jason, who joined the business in 2001, held the president position and was also a board member (since 2009 and 1999, respectively). Middle son Ryan joined ATF in 2005 and was senior sales representative, initially based near Detroit, Michigan to better serve the company’s many automotive accounts. In 2013, Ryan relocated back to the Chicago area to be responsible for ATF’s largest customer account, which generated $17 million in annual revenue. Youngest son Kyle joined the company in 2011 as a new business development manager for an ATF joint venture based in Wisconsin. He was assigned to help the JV’s leadership team branch into a new product line. All three Surber sons worked elsewhere before starting at ATF. All were married with children and none of the spouses worked in the business. In 2013, Don owned 10% of the ATF shares, with the remaining 90% split evenly among trusts held by the sons.

ATF, Inc. is a US-based manufacturer of fasteners and other customized components for the automotive, off-road vehicle, agricultural equipment, medical device, and other sectors. It is headquartered in a suburb of Chicago, Illinois, USA, with subsidiaries and joint ventures located in Wisconsin, Michigan, Arizona, and Mexico. In 2012, ATF entities had revenues of just over $120 million with projected 2013 revenues of $144 million. In 2013, the company employed 574 people across all entities.

The Family

In 1982, Don Surber purchased ATF, founded in 1946, from Beatrice Foods, a large public enterprise, founded in 1894 and acquired by ConAgra in 1990. At the time he had been leading the Beatrice subsidiary for four years, and the company had $12 million in annual sales. In 2013, Don served as ATF’s board chair, while his oldest son Jason, who joined the business in 2001, held the president position and was also a board member (since 2009 and 1999, respectively). Middle son Ryan joined ATF in 2005 and was senior sales representative, initially based near Detroit, Michigan to better serve the company’s many automotive accounts. In 2013, Ryan relocated back to the Chicago area to be responsible for ATF’s largest customer account, which generated $17 million in annual revenue. Youngest son Kyle joined the company in 2011 as a new business development manager for an ATF joint venture based in Wisconsin. He was assigned to help the JV’s leadership team branch into a new product line. All three Surber sons worked elsewhere before starting at ATF. All were married with children and none of the spouses worked in the business. In 2013, Don owned 10% of the ATF shares, with the remaining 90% split evenly among trusts held by the sons.
Business and Family Governance

ATF had multiple governance structures in place, for the core business and subsidiaries/JVs, along with a family council. In the late 1990s, Don created the company’s advisory board of directors for the core business. The board was “advisory” in that its guidance was in the form of advice rather than the formal voting structure of a fiduciary board. As of 2013 the group included Don and Jason from the family, and three non-family independent directors (one a former silent partner when Don acquired the business, one in similar industries, and one running his family’s business). The plan was to add two more people to the board in 2014 and make it a fiduciary (voting) board. All but two of ATF subsidiaries had boards that included outside directors and/or shareholders.

In 2013, the family council (started in 2000) comprised eight people: Don, his sons, and their four spouses. As direct descendant grandchildren reached age 18, they too could become members. The family took seriously the role of family as owners and developed a family council credo, mission statement, and constitution that they operationalized in their endeavors. (Exhibit 2: Family Mission, Credo, Constitution).

Peer Alliances

Don pioneered global peer alliances by launching the Global Fastener Alliance (GFA), a group of nine companies in similar industries worldwide. They shared practices, licensing arrangements, joint ventures, family member internship opportunities, and even capacity. (Exhibit 3: GFA Members). Each alliance member was a family business with commonalities such as a people-orientation, a long-term view, and a global focus. The group members had a high degree of trust for one another. Members found strength together (in 2000, their collective annual sales were over $1 billion, and in 2011 over $2 billion), and the ability to compete with much larger non-family, publicly-traded global enterprises.
EXHIBIT 2

Family Mission, Credo, Constitution

Family Council Credo
• Practice Servant Leadership
• Give Great Service
• Undertake Stewardship with Honor
• Build an Institution of Indefinite Length

Family Council Mission Statement
• Create an environment for professional leadership to profitably grow the Surber business entities for future generations assuring that all future generations have complete access to higher education
• Promote integrity though example, honesty, and progress
• Embrace responsibility through shared leadership
• Empower family and professional leadership to pursue entrepreneurship

Main Sections of the Family Constitution (developed and approved by the Family Council in 2001)
• Family Mission: Commitment to business and family continuity, reasons for commitment, values, and philosophies underscoring commitment
• Philosophy of Impact on Business Decisions: Entry rules, compensation, governance, and others
• Family Values: Including integrity through example, honesty, and openness; operating with each other and others on a foundation of respect; open communications; holding family above all business units
• Family Vision: Including creating an environment to foster family relationships on a foundation of continuing education, fun, and camaraderie; keeping in mind the best interest of the business, with no personal value agenda; never losing sight of your personal life and family outside of business

By converting potential competitors to collaborators, all parties benefited, including generational leadership changes within individual members. An example of this is with ATF and EJOT. Don at ATF was half a generation younger than the head of EJOT and half a generation older than EJOT’s next-in-line son, Christian. When Christian joined EJOT, his father asked Don if Christian could gain experience by working at ATF. The son spent a year or more at ATF and also became part of the family for holidays and celebrations. He grew close to Don, and gained a leadership mentor in addition to his father. When it came time for Jason to join ATF and the process of leadership succession, he had Christian, at that point leading EJOT’s business, to serve as a mentor to him. Together Jason and Christian explored joint venture opportunities, and opened two manufacturing joint ventures, one in the US and one in Mexico.

Another example is Won Joon of the Korean alliance member, JIMHAP. While in college, Won Joon attended school in the US, relatively close to the Surbers. He got to know both generations in the family, the business, and the plants. Won Joon and Jason are the same age, are both currently presidents of their respective firms, and know each other’s predecessor/father. This allows them to share and support each other at a deeper level than typical peers. It also allows them to notice and accept differences in leadership transition that occur due

EXHIBIT 3

GFA Peer Alliance Member Companies*

ATF, Inc. (574)
Lincolnwood, Illinois
Romulus, Michigan, USA

MacLean-Fogg Component Solutions (1500)
Mundelein, Illinois
Rochester Hills, Michigan, USA

EJOT HOLDING GmbH & Co. KG (2500)
Bad Berleburt, GERMANY

EJOT GmbH & Co. KG (included in above)
Bad Laasphe, GERMANY

Richard Bergner Verbindungstechnik GmbH & Co. (1300)
Schwabach, GERMANY

Böllhoff Berbindungstechnik GmbH (2200)
Bielefeld, GERMANY

JIMHAP Co., Ltd. (555)
Daejon, KOREA

Lakshmi Precision Screws Ltd. (1000)
Haryana, INDIA

Metalúrgica Fey Ltda (500)
Indaiatuba, BRAZIL

*Approx. # employees in 2012
Source: globalfasteneralliance.com
to culture. In Korean culture, Won Joon defers to his elder (father) on business decisions, even though Won Joon is president. In the US culture, Don defers to Jason, making sure that Jason’s authority as president is not compromised since Don stepped aside.

**Transitioning of Leadership**

ATF’s generational leadership transition started in 1999 and was completed in 2009 when Jason became president. (Exhibit 4: Key Milestones). This transition was accomplished in large part due to the relationships Don built with his employees (especially those with whom he developed and offered leadership opportunities to guide the business until a family member might be considered ready to be president.)

### EXHIBIT 4

**Key Milestones for ATF**

<table>
<thead>
<tr>
<th>YEAR</th>
<th>EVENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>1982</td>
<td>Don Surber acquires ATF</td>
</tr>
<tr>
<td>1998</td>
<td>Don creates and launches the Global Fastener Alliance (GFA)</td>
</tr>
<tr>
<td>1999</td>
<td>Don steps down as president at age 55, remains chairman; Don promotes ATF’s non-family GM to president; Jason (w/JD, an MBA, and outside job) joins the board</td>
</tr>
<tr>
<td>2001</td>
<td>Jason joins ATF in sales management, later rising to VP of Sales and Marketing</td>
</tr>
<tr>
<td>2005</td>
<td>Ryan joins ATF in a field sales role</td>
</tr>
<tr>
<td>2006</td>
<td>Non-family president retires; second internal non-family candidate named as president</td>
</tr>
<tr>
<td>2009</td>
<td>Jason named president; chosen over one internal and one external finalist contender</td>
</tr>
<tr>
<td>2011</td>
<td>Kyle joins ATF in a sales role with one of the JV businesses</td>
</tr>
</tbody>
</table>

### Guiding Philosophy

- **Practice Servant Leadership** (HUMILITY)
- **Same Day Response** (DEDICATION)
- **Speak the Truth** (INTEGRITY)
- **Go the Extra Mile** (PASSION)

Don’s leadership style was charismatic, decisive, and commanding. In comparison, Jason’s style was more analytical, methodical, and collaborative. Jason subscribed to the theory of servant leadership, an approach that emphasizes putting employees first, to motivate high performance. Firm-wide, Jason introduced a guiding philosophy with four key principles, called “The ATF WAY” (Exhibit 5: Guiding Philosophy). It expressed his beliefs for the firm, but also connected with and built upon his father’s decades of influence on business culture.

### KEY INSIGHTS SUCCESSION

**Transitioning**: ATF had been built by a visionary founder who was able to anticipate market trends and position his venture to capitalize on new opportunities through innovation and other growth strategies. Don was also forward-thinking and intended to make room for future leaders from within and outside the family. Succession from Don to Jason took a decade to complete. Meanwhile, Don promoted two internal candidates to replace him as ATF president, and eventually helped Jason earn this role. Similarly, the family looked for ways to encourage younger sons Ryan and Kyle to develop their own leadership strengths, through growing responsibilities within the business and as board and family council members.
Continuity and Adaptability of Culture: ATF’s strong, family-driven corporate culture places explicit emphasis on autonomy (e.g., encouraging new ideas from employees), innovation, and transparency (e.g., sharing financial and other performance-related information with employees). It also organizes the family through the council, constitution, mission, and vision, which have been significant factors in the company’s success.

Values-based Leadership: The “ATF Way” emphasizes servant leadership, an explicit focus on putting employees first, which helps drive better performance at the individual and organizational levels. The second generation has institutionalized several of the informal cultural practices that Don Surber started.

Stewardship: Both Don and Jason think of the business as something to guide or direct beyond their tenure. The family has taken clear steps to develop the second generation’s leadership and to institutionalize some of the informal practices and cultural elements that Don originated to value the business beyond any one individual. Part of strengthening stewardship is the family’s intention to add two more independent members to the board.

**PRACTICAL IMPLICATIONS  SUCCESSION**

- Think of succession as a process that requires care, thoroughness, and time. In the case of AFT, the succession process took a decade.

- Even charismatic entrepreneurs can embrace succession and “letting go,” especially if it is best for stewarding the enterprise beyond their watch.

- Make way for successor leaders to implement their own leadership style and approach, as there is no one “right way” to run a business, even if the preceding leader’s way was stellar.

**KEY INSIGHTS  ENTREPRENEURSHIP ACROSS GENERATIONS**

Innovation and Seizing Market Opportunities: Both generations of Surbers have embraced a long-term view, with the goal of continuing to grow ATF as a legacy for future generations. The foundation of entrepreneurship laid by Don has been built upon by all three sons in the second generation, as embodied by the family’s collective valuing of innovation, seizing opportunity in markets, growing by acquisition, networks, knowledge, and individual contributions.

Peer Alliances: ATF and the family leaders have been visionary and innovative in cultivating a high-value network both within and outside the company. The company derives value from its internal network of subsidiaries and joint ventures, which generate strong synergies including those related to idea generation (such as serving adjacent markets) and enablement of mobility between entities for high-performing employees. At the global level, ATF has generated substantial value for itself and its fellow member companies of the Global Fastener Alliance (GFA). Members share joint venture and licensing arrangements, practices, and capacity, allowing smaller fastener-industry players to gain a truly global footprint. Jason and his brothers have begun to build on Don’s network-based approach, opening ATF’s first Japan-based office to learn best practices and maintain closer contact with Japanese automakers.
PRACTICAL IMPLICATIONS GENERATIONAL ENTREPRENEURSHIP

• Create and maximize internal and external networks to benefit the enterprise by generating trust, innovation, opportunity, and mentorship across generational succession.

• Focus on ways to stay entrepreneurial and innovative, look to the future for opportunities and to the past for the guiding principles that formed the base for the heritage of inspiration.

SUGGESTED READINGS


AUTHORS

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Carol Zsolnay serves as the assistant director of the Center for Family Enterprises at the Kellogg School of Management. She received her degrees from Northwestern University (BA and MBA).

1 Family Business Succession, by J. Pendergast and K. LeCouvie, Palgrave 2014 provides a comprehensive outline of all aspects of the success process, with very helpful references.)

2 The article “Culture of Family Commitment and Strategic Flexibility: The Moderating Effect of Stewardship” by S. Zahra, et al, Entrepreneurial Theory and Practice, 2008 begins a string of research that explores the interdependence of stewardship, company culture, innovation, entrepreneurship, and family business performance.


In 2013, García Tuñón C.A. (GT) was one of the most important General Motors car dealerships in Venezuela. After 50 years of operations, the firm evolved from a typical car dealer to a rather diversified business: importing and selling spare parts, car accessories, and sound equipment, offering repair, brass and painting services, and selling insurance policies.

Three generations of the García-Tuñón family had managed the firm: José, the founder, George, his son, and Jorge, George’s son. Each one of them had a distinctive leadership style, but they shared common values, such as honesty, result orientation, and initiative, which were transmitted from one generation to the next and had become a guide in an ever-changing business environment that had become openly hostile (due to Venezuela’s government restrictive economic policies, aimed to control car production, imports, and sales).

The automotive industry in Venezuela had always been very volatile and directly related to the country’s economic performance. The ups and downs of the industry called for the adaptation of the business, moving from car sales to diversification towards related services, which allowed the company’s growth, in what can be classified as three different stages (Exhibit 1).

José founded and consolidated the company focusing on the car dealership. Then George scaled up the operation starting the workshop and the maintenance services. Finally Jorge aimed at efficiency and growth first in related services, then in diversified businesses.

In order the preserve the legacy, each generation had to adapt to the uncertainty of the environment, but did so with different focus and style, with the common thread of the entrepreneurial mind.

**Founding a Car Dealership**

García Tuñón C.A. was founded in 1963 by José García-Tuñón, an experienced automotive vehicles salesman, who started his independent business as a Renault dealership store, with a limited investment and in a leased site. At that time, the business model was one of a typical sales agent, selling cars of a given brand for a corresponding commission. The initial relationship of exclusiveness with Renault was replaced by an agreement with Nissan and Nissan.
EXHIBIT 1
García-Tuñón’s Evolution Over Three Generations

<table>
<thead>
<tr>
<th>Years</th>
<th>1ST GENERATION</th>
<th>2ND GENERATION</th>
<th>3RD GENERATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leader</td>
<td>José</td>
<td>George</td>
<td>Jorge</td>
</tr>
<tr>
<td>Key players</td>
<td>Chicho (José’s brother) George (José’s son)</td>
<td>Suzanne (George’s sister) Diana (George’s sister)</td>
<td>George Suzanne Diana Trina (Jorge’s sister) Sabrina (Jorge’s sister)</td>
</tr>
<tr>
<td>Employees</td>
<td>20 employees</td>
<td>50 employees</td>
<td>250 employees</td>
</tr>
<tr>
<td>Products/ Markets</td>
<td>- Car sales - General Motors Venezuela (GMV) car dealership</td>
<td>- GMV car dealership - Service (mechanical workshop)</td>
<td>- GMV car dealership - Service (mechanical workshop) - Spare parts sales - Insurance business - Body work and painting - GT concept shop - Classified ads web site service</td>
</tr>
<tr>
<td>Cars sold/year</td>
<td>Data not available</td>
<td>4,800</td>
<td>480</td>
</tr>
<tr>
<td>Key challenges</td>
<td>- First years: competing in a growing market - Last years: coping with declining car market demand</td>
<td>- Consolidating business in a medium activity industry with steady demand, but changing regulatory environment</td>
<td>- Surviving in a hostile macro environment - Last two years: diversifying to cope with historical low car production and sales</td>
</tr>
<tr>
<td>Key insights</td>
<td>- Focus on one-to-one customer service - Sales growth - Centralized government - Transferring know-how to next generation</td>
<td>- Focus on service quality standards - Reinvest in new headquarters and commercial sites - Centralized government - Foster his children’s education: invite them to join the business - Working day to day with his son to transfer know-how and values</td>
<td>- Focus on efficiency - Growth with new diversified services and businesses - Decentralized government - Start new ventures in untested territory (not car industry) keeping it apart from GT brand to preserve the legacy</td>
</tr>
</tbody>
</table>

While managing to consolidate the business, one of José’s main concerns was to teach his son George “all the tricks of the trade.” Chrysler (1968-1979), and later became a long-term exclusive relationship with General Motors (GM). He dedicated a great part of his daily activities to serve his clients on a one-to-one basis and was proud to know every customer and his/her requirements.
was transferred to the spare parts’ department, thereafter in sales, which was what I really liked the most.”

José always showed a great entrepreneurial spirit, but his approach to risk-taking was very measured and somewhat conservative.

Those were good times for Venezuela, the per capita income was on the rise, and so was the demand for vehicles, which reached its height in 1978, starting to drop during the 80s, and experienced its worst moment during the economic crisis of 1989.

Scaling up the Operation

In 1989, José passed away and George assumed the business leadership, after a brief management transition with his uncle Chicho, a minority stock owner, who later sold him his share of GT. From the very beginning, George focused on service quality (which was becoming a core differentiating feature in the car industry). Consequently, he improved the vehicle maintenance and repair facilities by equipping and enlarging the workshop area.

During the 90’s, sales went up and down, depending more on the level of car supply in Venezuela, than on changes in market demands. In 1991, car imports were allowed, reaching 23% market share by 1993.

Domestic car production stabilized below 100 thousand units per year, and only in 1997 did it exceed this threshold, thanks to what was known as ‘Industrial Complementation Automotive Agreement’ between Venezuela, Colombia, and Ecuador, aimed to protect national manufacturing. After a period of imports substitution, this trend changed again and by 2001, 42% of all cars sold in the country were imported introducing a whole new competitive landscape in the market, in terms of variety, price ranges, and promotions.

In 2002, George decided to pursue the growth opportunity posed by a more dynamic market, choosing a new location to set up a second bigger and nicer commercial site. Moreover, he decided to follow his vision, designing a whole new concept for his new concessionaire. His project included a car showroom, as well as the administrative offices, garage, and parking areas, but also a gym, a concept shop, and a restaurant to render a value added service to his customers. It all looked very optimistic, until General Motors refused to grant the second franchise for five years, frustrating part of the growth projections. George considered selling the property that became financially unsustainable for GT, but he decided to deal with the consequences of his decision, waited until GM approval, and finally was able to open the new site.

As his father had done in 2001, George invited his son Jorge to spend a few days in the company to better understand the operation. Upon recalling such days, Jorge commented: “I graduated in the USA in July 2001 and I had an offer from Citibank. I decided to spend my vacations within the family firm. I came with the best of studies from abroad, and I was able to see the operation. I was hooked by the business potential and decided to stay.” As of that moment, he became the first family member of the third generation to join the company (Exhibit 2). Following his father’s steps, he worked in several posts, from sales representative, to repair services, hence assimilating all the details of each department. In 2004,
he assumed the company’s general management, from where he backed a substantial growth, both in sales and in number of employees.

By 2009, Jorge sponsored an organizational change in line with the firm’s growth from 90 to 150 employees. Concurrently, he recognized the need to consolidate the family ties with other agents in the industry by participating in the board of Asocon (Chevrolet Dealers Association), and reinforcing relationships with GM headquarters and banks.

**Diversifying the Family Business**

By 2007, the Venezuelan automotive market experienced an all-time peak, with 491,000 units sold, due mostly to a positive combination of domestic manufacturing and car imports. However, in three years the market dropped again to a level of 108,000 units, and in 2012 went back up 12.5%. Concurrently, supply shortages led to a substantial increase in the price of cars, both new and used, causing an enormous distortion in the secondhand car market where some resellers offered them with mark-ups over 80% of manufacturer’s suggested price.

With fewer cars to sell and a pessimistic scenario ahead, Jorge had to find new sources of revenues for GT. Car sales contribution had already decreased from 80 to 60%, while services (including the insurance business) and accessories and spare parts sales accounted for 20% each. In commenting on these years, Jorge said: “We had always kept our optimism and the company had grown by almost 100%, both in profitability and labor force.” He felt, however, that the family’s entrepreneurial spirit needed to look beyond the auto’s frontiers, searching for new opportunities to diversify the business. Among Jorge’s main challenges and dilemmas was the need to align business resources to the environmental constraints, as well as expanding market boundaries, leveraging on GT capabilities, both through a related and unrelated diversification strategy.
On one hand, he envisioned possible moves into markets and technologies in which the firm operated (extensions of existing businesses) that could contribute in preserving the existing family firm legacy, both in terms of knowledge and social capital. On the other hand, Jorge was attracted towards an unrelated business opportunity, specifically the social e-commerce industry, that he decided to pursue independently. He based this decision on the lack of relation of the new venture (online classified ads) to the core competencies and resources of GT, and need to protect the GT name and legacy. Entering an unknown industry represented a high uncertainty path, which could tarnish the family business reputation. Only if the new venture succeeded might he integrate it to the core family business. This kind of corporate diversification is both related to survival strategies in a very hostile market and to Jorge’s individual entrepreneurial urge.

In evaluating the actual family resources to pursue new endeavors, he had to consider the family business social capital and knowledge in the automotive industry in Venezuela, as a potential weakness that could hinder the progress of new family ventures in unrelated businesses. On the other hand, some specific know-how and tacit knowledge, as for instance, retail management, customer service, and ability to sell, could be seen as potential resources to diversify. This is the case of successful family business (called dynasties in Germany) which enabled radical and progressive moves towards continuous incremental innovation to ‘secure the base.’

**KEY INSIGHTS**

“There have been different managerial styles, but the philosophy has remained constant. Our values have been the fundamental pillars of the company and they were handed down from father to son both in the business and at home.” —George (2nd generation)

Some of GT stated values are: honesty, passion for customer service, communication, result orientation, and initiative, which stands as the main driving force among them all. This value and the principles related to it, such as looking for opportunities, risk-taking, and innovativeness, has been transferred from one generation to another (Exhibit 3).

In the face of opportunities as well as threats, company leaders had the same natural entrepreneurial drive which had modeled their decision making and actions, from one generation to the following. Accordingly, all family members had voiced their support to Jorge’s new venture, even though his mother’s comment—“To each, his own”—had set the grain of doubt as to exploring outside the automotive industry. Thus, entrepreneurial values seem to facilitate new moves across generations. However, when those moves have to be radical (i.e., ventures in different industries) they need to be accompanied with something more.

**EXHIBIT 3**

**Transferring Principles and Values**

José
- Created a completely new venture and consolidated
- Transfer of entrepreneurial principles

George
- Created a new branch and increase the size of the company
- Transfer of entrepreneurial principles

Jorge
- Create 3 new businesses and reorganized García-Tuñón’s structure
moves across generations. However, when those moves have to be radical (i.e., ventures in different industries) they need to be accompanied with something more. When market and product lifecycle are declining, radical moves and innovations in family controlled businesses (FCBs) need family champions of change. In addition, continuity must have referent power, future orientation, as well as courage to use an astute mix of family and nonfamily knowledge resources. Thus,

- Entrepreneurial values can be grown and shared within FCBs both through leaders’ role modeling and explicit statements. This legacy paves the pathway to business innovation across generations.

- When radical moves are needed, values are not enough to endure the uncertainty they carry. Family support is needed, but even more so a family champion with future orientation is key.

- While industry-related social capital and knowledge are rightfully considered as strengths in a favorable environment, they could become restraining forces when a hostile environment calls for unrelated diversification.

**PRACTICAL APPLICATIONS**

1) **In order to increase the odds of transferring the founder’s entrepreneurial mindset to future generations, it is recommended to encourage interactions with the heirs.** Specifically, FCB leaders should strategically identify career interests and entrepreneurial potential in younger generations. They could invite them to share experiences and practices, and therefore intrinsically transmitting the “tricks of the trade,” along with the values of entrepreneurship.

2) **Family businesses must be prepared with detachment strategies.** Past successes can be confused with invulnerability, thus calling for passivity and maintenance of the status quo. In a very hostile environment, families should continuously explore new business opportunities, even when they seem to move further from family know-how and social capital.

3) **Younger generations should be allowed to explore new endeavors, and eventually to do so independently of the FCBs.** Individual entrepreneurial ventures can foster risk-taking and opportunity exploration, minimizing costs for the core business or the family reputation. Family support and step-by-step venture development may facilitate business integration in case of success, as well as disinvestment strategies in case of failure.

**AUTHORS**

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Beales Hotels is an independent, eighth-generation family enterprise running two four-star hotels and an outside catering operation in North London and Hertfordshire in the United Kingdom. Developing from a single baker’s shop to a group of fine hotels has been a journey of over 200 years, during which the Beales have moved from Hertfordshire to London and back again. The company is owned by the Beale family, and managed by a professional board. Andrew Beale, the current Managing Director, is the only Beale family member to hold an active, full-time post in Beales Hotels. In 2011, Nick Beale, the younger brother of Andrew, joined the board as a non-executive director. By 2013 the company reached revenues of £6 million (around USD 10 million). Exhibit 1 shows an overview of Beales Hotels.

The company experienced important changes across several intra-family generational transitions. Each of the eight generations has added its own particular stamp, constantly adapting to new circumstances and, through booms, slumps, and world wars, getting on with “minding their own business” as Andrew Beale has suggested.

In this sense, the Beales company provides significant evidence to answer a fundamental question: how does the interplay between family and business systems affect the way in which enterprising families adapt and change over time? The simple answer: by managing their ownership distribution and acting upon entrepreneurial decision-making and innovation.

Beales Hotels: A Rich History

The company’s origin dates to 1769, when John Beale, a master baker from Royston in Hertfordshire, moved to London and opened a shop on Oxford Street. Succeeding generations quietly grew the bakery business, but in the 1860s its fortunes really began to rise through the efforts of William Beale, the fourth generation leader. He used the residual warmth of the baking ovens to cook dinners and then send them out for sale, thereby creating the first outside catering operation for the business. By 1889 he had opened the Beale
restaurant in a five-story building in Holloway. William enhanced an integral restaurant and grillroom with a range of fine foods and groceries in the same building. In 1895 the firm was incorporated as Beales Ltd.

Beales continued to flourish through the fifth generation. The tumult of the 20th century brought big changes to Beales, though. By the Second World War, the grocery, meat, and provisions departments had become uneconomical and were subsequently closed. The bakery side continued to thrive until 1969, when the sixth generation members decided to sell the Holloway premises. However, in 1945, Edward Beale, a sixth generation family member running the business, bought West Lodge Park Hotel in Hertfordshire, which, during 1958 he upgraded the restaurant, opened a bar, and began to accept bookings such as wedding receptions. In 1964 the Beale family expanded operations and purchased Hatfield Lodge, a small 26-room hotel in Hertfordshire. In 2004, the current Managing Director, Andrew Beale, demolished Hatfield Lodge and transformed it into Beales Hotel, Hatfield, a four-star, 53-bedroom establishment.

**Beales Hotels Ownership: Changes Over Time**

The history of the company is a tale of changes in direction and diversification, with little conflict between family members, resulting in two major rationalizations (ownership pruning) of shareholders, the first one in the mid-1930s. Since then one of the most significant issues the family had to address was the increasing number of family members who owned shares (and thus had a say in the business). As each successive generation of Beales has gifted or bequeathed shares to their children, the number of family members that were entitled to a seat on the board had increased to 22 by the 21st century, an ownership spread which impacted the decision-making process in the company. After discussion with board members and fellow directors, Andrew proposed to streamline the shareholding profile and reduce it to nuclear family members only. This would facilitate decision-making and ensure the continuity of Beales in the hands of the family. The 14 extended family shareholders were offered £2.9 million over a six-year payment period. The second ownership restructuring occurred in 2010 with Beales reducing its shareholder profile from 22 family shareholders to 7 nuclear family members. The changes in the ownership structure helped the family to focus on a particular industry and make crucial decisions for its future in business.

The present shareholders are Andrew and his wife Emma, Andrew’s parents Trevor and Susan, Andrew’s two brothers, Nick and Chris, and his sister Philippa, plus the Chair of the Beale Trust. The Beale Trust owns one third of the company shares. Whatever dividends the Trust earns are issued proportionately to charities nominated by individual shareholders. Exhibit 2 displays the current shareholder base distribution. The new group’s operational goal is to ensure sustainable leadership of the family enterprise, preserve family values across generations, and make the strategic changes and investments required to achieve long-term sustainability.

**Ownership Pruning, Entrepreneurship, and Innovation**

The Beales case highlights how the interplay between family and business systems may affect family enterprises’ entrepreneurial decisions and behaviors across firm and family life stages. The enterprising Beale family has been able both to seize new opportunities and to shape the external environment by achieving organizational change and innovation across generational transitions. Exhibit 3 shows a timeline of the major changes at Beales based on

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**EXHIBIT 1**

**Beals Hotels Overview**

<table>
<thead>
<tr>
<th>Location</th>
<th>Hertfordshire, UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry</td>
<td>Hospitality</td>
</tr>
<tr>
<td>Year of Establishment</td>
<td>1769</td>
</tr>
<tr>
<td>Revenues</td>
<td>6 million pounds sterling (£) or 10 million USD</td>
</tr>
<tr>
<td>Family Generation</td>
<td>8th</td>
</tr>
<tr>
<td>Ownership</td>
<td>100% owned by the family</td>
</tr>
<tr>
<td>Family involvement</td>
<td>Managing Director and Former Managing Director</td>
</tr>
<tr>
<td>Number of Interviewees</td>
<td>5</td>
</tr>
</tbody>
</table>

---

**The Beale family has been able both to seize new opportunities and to shape the external environment by achieving organizational change and innovation across generational transitions.**
Intra-family successions are reported in the first row, whereas the most significant changes in the company’s core business over time are reported in the second row.
Two rationalizations of shareholders (ownership pruning) over the course of eight generations. This may be interpreted as a deliberate initiative by family decision-makers to counter ownership dilution and goal-misalignment. The first pruning occurred in the mid-1930s and the second in 2010. The most recent shareholder reorganization saw the shareholding profile streamlined from 22 to 7 family members.

In essence, this case shows that radical changes, in terms of ownership pruning, business expansion, and development of new ventures and innovation, typically occur in the process of intra-family succession.

**KEY INSIGHTS**

The Beales Hotels case leads to a number of key insights:

- Rather than being stable over time, the attitude towards change in Beales Hotels has been influenced by a number of external and internal factors. In particular:

  - Organizational change and innovation have been often preceded by intra-family successions. In fact, as additional empirical evidence suggests, organizational members express their goals more fervently and activate social interactions that will lead to new stabilizations, and thus a new status quo in proximity to an intra-family succession. Generational transitions in the Beale family have encouraged change and entrepreneurial behavior by triggering organizational goal setting and pursuing new business opportunities.

  - Environmental factors and external conditions have represented threats for Beales Hotels and have spurred the emergence of a collective approach to entrepreneurship. The advent of the Second World War made the grocery, meat, and provisions departments uneconomical. However, in 1958, after a period of economic adversity, the 6th generation started a new business in the hospitality industry. Additionally, from the 1960s to the late 1990s the Beales family had to completely remarket themselves. In the 1960s, big banqueting events addressed to people belonging to clubs represented the core activity of the company, but then people started abandoning those organizational forms. The Beale family adapted at first by trying to move into the conference industry and then by opening the Beales Hotel. The way several generations have often relied on the participation and involvement of other family members in the pursuit of multiple business opportunities over time is evidence of a collective approach to entrepreneurship.

- Pruning the ownership tree affects family business continuity. The recent reorganization of the shareholder base allowed Beales Hotels to reduce the ownership dispersion among family members and generate within-group goal alignment. By rationalizing shareholders from 22 to 7 family members, Andrew was able to reduce the competition over firm resources among nuclear family members and clarify the future direction for the business. Thus, pruning the family tree served as a useful means to favor alignment of goals between different individuals, which has been shown to be an important ingredient for breakthrough change in family enterprises.

- A long-term orientation has played a central role in business success and adaptation over time. The most important goals that stimulated change and adaptation of the business across different generations were to secure a smooth and effective succession from generation to generation and to ensure firm survival. As a consequence, the Beale family preferred to establish a
long-term relationship with its stakeholders. Many of the staff members have worked for the last three generations of the family. Based on that long-term orientation, the Beale family has gained a distinct presence and standing in the communities where their businesses operate.

- The radical entrepreneurship processes leading to the creation, acquisition, and divestment of ventures at Beales may also reflect a collective approach over the lifetime of a family business. Such an approach may involve several family members, as an entrepreneurial team(2), in the emergence of several businesses, shifting the core business(es) in which the family may be involved over time(5).

**PRACTICAL IMPLICATIONS**

- Goal diversity offers family business owners and managers a tremendous opportunity to change and innovate. When an intra-family succession is imminent, the organizational goals previously stabilized are unfrozen as new managers reconsider leadership and organizational structure. This is why the Beales Hotels case clearly shows that radical change and innovation typically occur in proximity of intra-family successions.

- Managers should carefully consider how the distinctive characteristics of the family enterprise have an impact on its innovative and entrepreneurial behavior. This can be reflected through family members identifying and pursuing innovation and entrepreneurial opportunities during generational transitions. At the same time, such characteristics may help deal with organizational goal diversity and transform their family businesses during succession.

- Family business owners and board members should be able to critically evaluate their contribution to the business, especially keeping in mind the potential risks associated with ownership dilution and its negative consequences on within-group goal alignment. The Beales Hotels case shows that periodic pruning and restructuring of the family ownership tree is likely to foster continuity of business focus and sustainability of family goals over time.

- The case shows that long-term orientation is a critical success factor for family enterprises. The decision to name the company after the family name as well as the nurturing of long held relationships with diverse stakeholders provides some evidence of the Beale family’s long-term orientation. Family business owners and managers should, thus, consider the crucial role that sharing sustainable values and securing long-term relationships with stakeholders plays in fostering business survival and adaptation over time.

- When we consider transgenerational entrepreneurship across multiple generations in family businesses(4), the impact that a collegial approach to radical innovation and entrepreneurship has on the continuity of the firm and a family in business is extremely relevant. Such a collegial approach may showcase several family members who want to stay in business together, who act upon goal diversity within the family enterprise, and who engage in radical changes over time.

**SUGGESTED READING**


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PORTFOLIO ENTREPRENEURSHIP ACROSS GENERATIONS: INSIGHTS FROM UGANDA’S MAGEZI FAMILY

Waswa Balunywa, Peter Rosa, Brenda Wejuli, Diana Ntamu, and Janida Nakaziba

MPE Group Uganda

The MPE Group, owned by members of the Magezi family (Exhibit 1), comprises seven companies (Exhibit 2). It is the leading manufacturer and distributor of animal and human pharmaceuticals and drugs in Uganda and has achieved a dominant market share. In 2012, the businesses collectively had a sales turnover of seventy million US dollars, and employed over 650 people full-time. Beyond the founder, several family members developed various firms over a period of 24 years. This case study illustrates how family entrepreneurship across generations has contributed to the development and growth of these multiple businesses.

The Family: Francis Magezi Sr., the founder, came from a successful business family who ran "The Buganda Retailing Company," established in the late colonial period. Francis decided not to join his father’s business, as he had obtained a master’s in veterinary science at a leading Scottish university, and preferred a professional career. He joined the drug company Welcome East Africa in the mid 1970s and rose to a senior management position in Kampala General Industries (Uganda) Ltd, one of the Welcome East Africa’s subsidiaries. When Welcome decided to pull out of Africa at the end of the 1980s, Francis, with two colleagues (Simon Edigold and Bret Peters) organized a management buyout of Kampala General Industries (Uganda) Ltd, in 1990 and started their entrepreneurial career.

Francis, well into middle age, already had a large and maturing family when he took over Kampala General Industries (Uganda) Ltd. His eldest son, Fred, was already in his twenties at that time. In 2014, all his six daughters and three sons are between thirty and fifty years of age. And all but one are involved in the ownership and management of the family businesses. One non-blood Magezi family member who has played a significant role in the development of the Magezi businesses is Mathias Balikoowa. He is married to Dorothy Magezi and is Francis’s son-in-law.

Non-Family Members: Non-family members have played a significant role in the development of the Magezi businesses. The original co-founders and co-investors of Kampala General Industries Ltd., Simon Edigold and Bret Peters, were corporate managers in Kampala General Industries Ltd. before it was
bought out from Welcome. Following the buyout, they left the day-to-day management to Francis, retiring to the UK. They continued to invest in new companies formed by the Magezi family as minority shareholders. Eddie Buwembo, a friend and former management colleague of Fred, the eldest son, has also had a significant involvement in the development of the businesses established by the second-generation members of the Magezi family.

The Evolution and Development of the Magezi Family Businesses

The evolution of the Magezi family businesses can be divided into three phases. The first phase was the foundation, growth, and consolidation of the first business. This included the first son entering the firm. The second phase was the diversification into new companies initiated by the eldest son, as his influence and entrepreneurial qualities began to emerge. The third phase is the assimilation and socialization of other children into the business, leading to the formation of new ventures, inspired by their brother’s example.

The Foundation phase, establishing MPE Ltd. 1990-1997

In 1990, Francis Magezi, Sr., Simon Edigold, and Bret Peters bought out Kampala General Industries Ltd. from their previous employers, the Welcome East Africa Group. They recognized the opportunities presented by the improving conditions that followed President Museveni’s rise to power in the mid-1980s after nearly two decades of civil strife in Uganda. The company grew quickly in the early period.

Growth was organic in nature and did not at that stage involve diversification. As a senior corporate manager in a large multinational, Francis Magezi Sr. had been trained in orthodox corporate management, which favored developing core competencies and markets, rather than diversifying opportunistically into new markets. When diversification did follow in the mid-1990s, Francis’ children instigated it.

In 1990 when Francis bought out Kampala General Industries Ltd., his eldest children were already entering adulthood. Fred Magezi, his eldest son, had finished a degree in finance in the UK, and was working as a manager for another firm. He was persuaded to join the newly established family business. Fiona, his eldest daughter, was enticed into the business soon after. By 1997 both were working full-time in the family business. The other children, still in school, were being inducted by working for the business during the school holidays. By 2014 all but two daughters (Resty and Judith) had joined the core family business as managers. This highlights the policy of Magezi Sr.: to give his children experience working in the family business from a young age, a policy that was to continue into the subsequent phases of development.
EXHIBIT 2
Development and Ownership of the Magezi Family Business Group

<table>
<thead>
<tr>
<th>Company</th>
<th>Year</th>
<th>Instigator/Founder</th>
<th>Shareholding</th>
<th>Management</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FOUNDATION PHASE</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kampala General Industries Ltd</td>
<td>1990</td>
<td>Magezi (Sr)</td>
<td>MPE 90%</td>
<td>Francis Magezi Sr.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Simon Edigold, Bret Peters</td>
<td>30%: Magezi (Sr), Edigold, Peters</td>
<td>Dr. Francis Magezi Jr.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>10%: Fiona Magezi</td>
<td>Fiona Magezi Jr.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Matthew (nephew)</td>
</tr>
<tr>
<td><strong>SECOND PHASE: EARLY DIVERSIFICATIONS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capa Chemicals Ltd (CC)</td>
<td>1997</td>
<td>Frederick Magezi, Mathias Balikoowa, Eddie Buwembo</td>
<td>50%: MPE, 50%: Magezi, Balikoowa, Buwembo</td>
<td>Fredrick Magezi</td>
</tr>
<tr>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Capa Chemical Industries Ltd (CCI)</td>
<td>2002</td>
<td>Fred Magezi, Eddie Buwembo, Mathias Balikoowa</td>
<td>36.5%: MPE, George Baguma, Balikoowa, Magezi</td>
<td>Fredrick Magezi</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>36.5%: CIPLA India Ltd.</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>13.5%: Capital Works South Africa</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td>13.5%: TLG Capital Works, UK</td>
<td></td>
</tr>
<tr>
<td><strong>THIRD PHASE: NEW VENTURES INVOLVING YOUNGER SIBLINGS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bimla Nets Ltd</td>
<td>2007</td>
<td>Joviah Kahova Magezi</td>
<td>60% (MPE)</td>
<td>Joviah Kahova Magezi</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>20% Joviah Kahova Magezi</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>20% Fiona Magezi</td>
<td></td>
</tr>
<tr>
<td>Rolat Ltd.</td>
<td>2008</td>
<td>Peter Magezi with Francis Magezi</td>
<td>32% Peter Magezi, 68% Split evenly between MPE, Fiona Magezi, Vicky Magezi, Francis Magezi (Jr), Mathias Balikoowa</td>
<td>Peter Magezi</td>
</tr>
<tr>
<td>Masca Ltd</td>
<td>2010</td>
<td>Dorothy Magezi with Francis Magezi</td>
<td>40% Dorothy Magezi, 30% Francis Magezi (Sr.), 15% Francis Magezi (Jr.), 15% Fiona Magezi</td>
<td>Dorothy Magezi</td>
</tr>
<tr>
<td>Vera Ltd.</td>
<td>2010</td>
<td>Mathias Balikoowa with Francis Magezi</td>
<td>50% Mathias Balikoowa, 50% Dorothy (Magezi) Balikoowa</td>
<td>Dorothy Magezi</td>
</tr>
</tbody>
</table>

Phase Two: Early diversifications 1997–2002
This phase involved the founding and establishment of two diversifications, Capa Chemicals Ltd. and Capa Chemical Industries Ltd. These were instigated by Fred Magezi, the eldest son. Fred, who was deeply involved in the management of the business, observed the growth of the Ugandan pharmaceutical market and suggested establishment of a new company, Capa Chemicals Ltd (CC). This company would import drugs for the low income, price-sensitive market as opposed to the more expensive non-generic medicines that Kampala General Industries had inherited from Welcome. Fred established Capa Chemicals Ltd (CC) in partnership with two of his university friends, Eddie Buwembo and Mathias Balikoowa (who married Fred’s sister). Mathias brought experience to the business having worked in
several companies before as a general manager. As Exhibit 2 shows, Fred and his colleagues, as the instigators and prime movers, received 50% of the shares of the new company. As it was financed and supported by his father, Edigold, and Peters through the main company, Kampala General Industries (Ltd), these founding investors also received 50%.

By 2002, Fred, Mathias, and Eddie recognized an opportunity for further diversification in the manufacture of specialty drugs for the treatment of HIV and malaria, when the World Health Organization (WHO) championed changes in intellectual property rights that allowed developing countries to manufacture generic medications under patent protection for the benefit of the poor. For the Magezi family this was a significant departure from the core competency of importing and marketing drugs. Manufacturing is capital intensive and requires specialized techniques and skills to comply with rigorous regulations. Fred persuaded the family to provide seed money for the new venture using profits and leveraged finance from Kampala General Industries and Capa Chemicals Ltd.; but the investment was too large for the family alone to shoulder. Thus they formed a joint venture with CIPLA of India, with additional equity provided by Capital Works of South Africa and TLG of the United Kingdom. The family, Mathias, and Eddie shared 36.5% of the new company, but the remainder went to their investors (see Exhibit 2). Francis Magezi’s niece, Maureen, joined the new company to help manage it as well.

By instigating and leading these two diversifications, Fred proved to his father that it was possible for his children to assume entrepreneurial as well as management responsibility. From this precedent, the family created procedures to handle future diversifications. The case also illustrates the value of friends with non-family managerial experience and peer support in launching new entrepreneurial ventures.

**Phase Three: New ventures involving younger siblings 2003-2014:**

This phase saw the emergence of entrepreneurial ventures by the younger siblings, who in partnership with their father established Bimla Nets Ltd., Rolat Ltd., and Masca Ltd. As more children started to join the family business, diversifications become more frequent. In the following year, 2007, Bimla Nets Ltd. was formed with funding from Francis and the original partners, Edigold and Peters. This was instigated by Francis Magezi Sr. and his daughter, Joviah.

Bimla Nets was a response to an initiative to increase the production of malaria drugs, which was to be complimented with a supply of mosquito nets by the Uganda government. The company started producing nets for sale both to the government and private individuals. Peter, one of the Magezi’s sons, who has a degree in computer science, started Rolat Ltd. The company was established with funds from Magezi Sr. in 2008. While Rolat Ltd. is not related to the pharmaceutical business, it is has provided IT support to the other MPE companies. It has since flourished independently by attracting a list of external clients.

In 2010, Francis’ daughter Dorothy founded Masca Ltd. The main objective of the company was to expand the sale of products of both Kampala General Industries and Capa Chemicals in the rural areas. Dorothy had found in her work for Kampala General Industries that beyond just selling drugs to animal farmers, there was also a need to sensitize the farmers about their safe usage. While Francis Magezi Sr. still retained 30% of the shares for investing, it no longer involved Edigold and Peters, or the eldest, Fred. Dorothy received 40%, while two younger siblings, Francis Jr. and Fiona, shared the remaining 30%.
In addition to these core family businesses Mathias Balikoowa, the son-in-law, established a water irrigation business call Vera Ltd. This is not linked into the other businesses, as Francis, while supporting its development, did not wish to be involved as a shareholder. Mathias’ wife Dorothy also works for Vera. This is an interesting case in that it is not a core company of MPE, but is part of the family’s portfolio of firms. Similarly two daughters, Resty and Judith, have also decided to go it alone with two micro businesses of their own. This raises issues of what really constitutes a “family business.”

One of the factors that emerged in interviews was that it was not easy in the latter diversifications to separate out which generation instigated them. In the cases of Bimla Nets Ltd. and Masca Ltd., for example, Francis Magezi Sr. and Joviah instigated the business together, and cooperated closely in the founding the new company. In all cases Francis Sr. was lending support and advice in the background.

**KEY INSIGHTS**

1. The Family intergenerational management and entrepreneurship socialization processes.

Francis Magezi did not have a prepared plan to develop his children and induct them in the family business. Rather the socialization process developed over time, but was guided and molded by principles in which Magezi Sr. strongly believes:

- His approach to the business and family is anchored in religion. He and his family are devout Catholics, which reinforces a strong sense of responsibility towards his family, partners, workforce, and customers. Strong ethical principles help establish strong bonds of trust between business stakeholders which confers competitive advantage in a country like Uganda where mistrust is endemic, not just between businesses but between family members too. Religion also binds his family together and provides respect for his authority, and ensures mutual support and respect between family members.

- Preparing his children through education related to the core business. Magezi values higher education. Having obtained an MSc. and a doctorate from a leading UK university, he recognized its value in equipping him for professional employment and management. He has ensured his children, girls as well as boys, have had access to the best education possible. All his children have studied abroad in leading universities and have postgraduate business or science degrees.

- Engaging his children in the business at a young age, leading eventually to full-time managerial positions. His children were given opportunities to work in the family business during school holidays, and when they returned from higher education, inducted them into working for the firm before assuming managerial positions.

These factors prepared the children to undertake responsible management and leadership positions within the family business.
2. New venture start-ups by the children
The following factors emerged as important influences in developing new ventures within the family.

- A supportive and sympathetic commitment by Francis Magezi Sr. to new business ideas when instigated by each child. Fred’s first new venture was well received and supported by Francis Sr. This established a precedent from which future new proposals could be supported and encouraged.
- The entrepreneurial activities of older siblings became role models for younger siblings. Fred, in pioneering the first two 2nd generation diversifications, inspired others to follow his example.
- The entrepreneurial activity of the oldest sibling also influenced his father, who started to provide ideas of his own for younger siblings to develop in partnership.
- The use of personal shares in the main company to underpin and provide equity for the development of the 2nd generation ventures. Francis was able to provide adequate financial support and mentorship in his children’s new businesses in return for shares in those businesses.

3. Pathways to grow a family business
Complex ways a family business can grow and develop when children embark on their own ventures using family resources:

- A family with multiple businesses is not necessarily one business with “subsidiary entities” as is often the case in large corporate non-family businesses.

  In the Magezi case, the family members have seven businesses. But the only person to have shares in all the companies is Magezi Sr. The children have major shareholdings only in those companies they founded or helped found. What is the family business? It thus highlights the complex nature of portfolio entrepreneurship in family firms, particularly in the context of developing countries where family businesses are commonly structured as diversified groups.

- Founding a new company when diversifying (rather than a division within the same company) has major advantages:
  - By creating a new firm, managers can concentrate resources to develop it without risking the reputation or integrity of the other main businesses.
  - It provides ownership and a sense of independence for the children, who remain linked to the father, but not necessarily to each other.
  - It enables non-family members to partner with shares in the new company, without holding any shares in the others.

PRACTICAL IMPLICATIONS
The case of the Magezi family illustrates one way to conceptualize and support transgenerational entrepreneurship. The following lessons from this case can be useful for other family enterprises.
• There is a difference between socialization for management and socialization for entrepreneurship. Each require different strategies and approaches. Practitioners need to be aware of this distinction when advising families and the need to prepare children on both fronts. Both are important, and the Magezi case illustrates how socialization for management in the family business and entrepreneurial ventures can be integrated and combined.

• The need to develop guidelines on how best to prepare children for entrepreneurial venturing is in its infancy. The Magezi case provides insights on key entrepreneurial socialization processes useful for educators and practitioners to develop such guidelines and prepare family firms for venture creation.

• Much of the entrepreneurial socialization may occur during the establishment of the child’s first new venture rather than in childhood. This means that educators and practitioners should be aware of the implications of this in developing guidelines and support.

• The case shows that there are real advantages in family members creating new businesses when they diversify rather than develop the diversification internally within the same main family business. Practitioners advising on growth and business development need to be aware of this in assessing and advising on growth strategies.

AUTHORS

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Since the launch of this project in 2005, scholars from over 42 renowned academic institutions from around the world have worked with over 100 business families to identify key insights through an action research program. Over the years, findings from this research have been shared through publications for academics and practitioners. The STEP project and related publications such as this Booklet aim to generate usable knowledge on practices that enable building of entrepreneurial capacity across generations of family enterprises.

This second STEP Global Booklet features thirteen chapters authored by thirty-three scholars. Insights are drawn from sixteen transgenerational family enterprises based in ten countries located in five continents—Asia (Hong Kong, India and Malaysia), Europe (Belgium and UK), South America (Brazil, Colombia and Venezuela), Africa (Uganda), and North America (USA). Collectively, these sixteen family firms have been in business for over a thousand years. Based on the most recent figures available to us, they generated annual revenues of over 1.9 billion USD and provided employment to over 41,000 individuals. With such depth and breadth of experiences, it is indeed a privilege to learn from these notable enterprises that deal with the paradoxes of family and business on a daily basis, while preserving their core and expanding their competencies and boundaries.

Nunzia Auletta, Rocki-Lee DeWitt, Maria José Parada, Pramodita Sharma and Mohar Yusof