Familiness: Strategic Determinant for Shared Value Creation

Paola Olimpia Achard

University of L'Aquila Department of Industrial and Information Engineering and Economics, Via Giuseppe Mezzanotte, 67100 L'Aquila (Italy) paolaolimpia.achard@univaq.it, phone +39 0862 434878

Valentina Castello

University of L'Aquila Department of Industrial and Information Engineering and Economics, Via Giuseppe Mezzanotte, 67100 L'Aquila (Italy) valentina.castello@univaq.it, phone +39 0862 434878

Abstract

The paper addresses the pivotal role of familiness as a strategic determinant enhancing family businesses (FBs) capability in boosting business innovation and value creation processes. More specifically, the paper highlight as familiness might represents a key strategic determinant driving FBs innovation and growth when coupled with a corporate shared value (CSV) framework. The proposed research frame is confirmed and enriched by the analysis of a case study of Antonelli, an Italian small FB working in the food sector. The paper is articulated on three part: the first one briefly presents the main features of FBs and the concept of familiness; the second part deepen the role of familiness as strategic determinant of FBs' success and shared value creation; the last part reports the main evidences from case study.

Key words: family business, familiness, shared value, strategic management.

Acknowledge

We acknowledge Mario Antonelli, CEO, owner and director of Antonelli's firm, for having accepted to participate to our study, with great availability and courtesy.

1. Family Business and Familiness

Family Businesses (FBs) are among the most double-sided and differentiated phenomenon in the entrepreneurship and strategic management research areas. In Europe there are more than 14 million of FBs, representing around the 50% of the total EU GDP and employing around 60 million of people in the private sector (European Family Businesses, 2018). According to AIDAF (2018), in Italy around 85% of the total number of business are FBs almost equally distributed between medium-large size and

small-medium size one. These numbers, together to the long-term perspective commonly of FBs, highlights their relevance as strategic resource for the local growth and development (KPMG, 2018).

There is not a common and widely accepted definition of FBs (Siebel and zu Knyphausen-Aufseß, 2011; Gibb Dyer, 2006), neither there is a common legislative framework (European Family Business, 2018). FBs are mainly characterized by: the small size; the capacity of being risk averse; the poorly structured and formalized management practice and the family influences in determining the innovation and internationalization paths (IFC, 2011).

FBs have proved to be both successful and resilient (Kachaner et al., 2012), thanks to their specific business longevity factors mainly related to risk tolerance degree, prioritization and long-term vision (KPMG, 2018). Other typical FB strategic resources are commitment, knowledge continuity, reliability and pride (IFC, 2011). The identification of common features allows developing an organic and institutional (Besharov and Smith, 2014) research and practice frame in addressing FB' strategic and managerial features. However, the diversity of competitive behaviors, performances and longevity of FBs call for more integrated perspectives, which allow deepening the understanding of FB specific features and their drivers factors.

Several Authors (Cesaroni and Ciambotti, 2011; Nordqvist et al., 2014) identify a three-stage model, which represent a typical FB evolution: Founder(s), Sibling Partnership and Cousin Confederation. Non-all FBs follow the same evolution and fundamental is the role and visioning of the founder. This perspective is also linked to the contributions deepening the succession processes and the inter-generational impacts on FBs' strategic and organizational dynamics. Kraus et al., (2018) address the different behavioral configuration of FBs, depicting three main configurations of innovative behavior: i) resistant to change, proactive and risk-averse; ii) innovative, proactive and risk-averse; and iii) innovative, proactive, open-minded to external non-family managers but risk-averse.

All these variables, dimensions and stages can assume different mix, underpinning specific FB development process, as an output of different factors "specific to both the family and the social, cultural, and economic environment of the region in which the family resides" (Chrisman et al., 2005).

According to Besharov and Smith (2014), FB hybridity is related to a combination of several institutional logics. Basically, FBs are the resultant of two institutions: the family and the business. Different combinations of these – and the systemic interactions among family, its individual members and the business (Habbershon and Williams, 1999) – determine multiple FB models. Thus, FBs can be considered as systems of interconnected and interdependent three components (ownership, management and "familiness"), which influence the business ongoing process in term of resources,

strategies and paths (von Schlippe and Frank 2013; Nordqvist et al., 2014; de Araujo et al., 2015; Cano-Rubio, Fuentes-Lombardo and Vallejo-Martos, 2017).

FBs' performances depend on the *distinctive familiness* generated by the family business system (Vallejo-Martos, 2014). Success or failure of FBs as well as overall business growth decisions - including internationalization - is related to familiness (Chrisman et al., 2005; Pongelli et al., 2016). In these terms, familiness can be considered a dynamic capability (Teece et al., 1997) allowing FB strategic and organizational flexibility, embedded in the specific processes affected by internal and external contexts. Familiness can be represented in six clusters of resources grouped in: *human* (experience/insight and skills); *organizational* (learning and decision-making); *process* (relationship and network). The impact on performance is related not to the resource itself but to the management of the "paradoxical nature of each resource" (Irava and Moores, 2010). All familiness' resources might have double-sided impacts; for instance, founder' reputation represents a key strategic resource but it might hinder subsequent generation capability to sustain it or base their own.

2. Familiness as FBs' Strategic Management Dimension to create shared value

The principal FBs features are: simultaneous roles, shared identity, lifelong common history, emotional involvement and ambivalence, private language of relatives, mutual awareness and privacy, meaning of the family company (Tagiuri and Davis, 1996; Cubico et al., 2010). Familiness has bivalent attributes, so representing the source of advantages and disadvantages of FBs (Tagiuri and Davis, 1996). Consequently, FB' governance systems are called to manage multiple institutional logics and the dynamic complexity of the conflict - strategic and managerial - between family and business dimensions, improving both innovation and control mechanisms (Greenwood et al., 2011; Ediriweera et al., 2015).

Assuming a principal-agent perspective, different models of FB governance system can be drafted, according to the grade of involvement of the family. The most commons are: i) the perfect match between family business ownership and management; ii) the exclusive family business ownership and the non-family management; and iii) the mixed family business ownership, where the family held the majority. The separation between ownership and management creates cost-agency conflicts (Siebels and zu Knyphausen-Aufseß al., 2011). At the same time, the mixed typology deals with the potential conflicts among family members in different roles (Siebels and zu Knyphausen-Aufseß, 2011; Songini and Gnan 2013; Kraus et al., 2018) that affect the relationships among them and influence the internal/external networks.

In analyzing FB governance it is important to valorize these relationships, as in the stewardship perspective (Davis et al., 1997). According to Miller and Le Breton-Miller (2006), stewardship in FBs can have three forms: continuity, community and connection.

Continuity refers to the intention to ensure the longevity of the firms, which in the long run benefits various family members. The aspiration of continuity can induces community and connection, as a result of strong relationships with external stakeholders (Miller and Le Breton-Miller 2006; Arregle et al., 2007). FB typical long-term orientation facilitates the long-term relationships with suppliers, finance system and other stakeholders in order to build and dynamic re-define unique resource configurations (continuity and connection) (Siebels and zu Knyphausen-Aufseß, 2011). The relevance of re-thinking the value creation processes at the intertwine of intra- and inter- organizational borders is one of the pillars of the corporate shared value (CSV) perspective (Porter and Kramer, 2011). The capacity of FBs to define and realize growth and innovation processes - quite differentiated and unconventional - also during critical period can be understood by integrating familiness with a CSV perspective. CSV offers a new perspective in interpreting and guiding value creation and relative strategic and managerial processes valorising both the firm resources and the re-configuration or relationships along the value chain. Employing a shared value perspective enables the reconsideration of the overall value creation processes within a multi-actor and multi-level perspective. This is achieved, in the CSV model, by three possible actions: i) rethinking markets and products; ii) redefining value chain performance; and iii) developing clusters. All the three proposed actions could valorise the familiness dimensions along the continuity/connection continuum and in turn, the FB' sustainable competitive advantage. Familiness attributes and resources can allow FBs to establish robust and reputation-based collaborative relationships with a wide variety of stakeholders and fosters the creation of shared value through the reinforcement of strong relationship with the local territory, the coopetition opportunities with other businesses, and, the renewal of managerial practices, the ability to catch potential customer needs or those to understand market dynamics and conditioning drivers (Sharma and Vredenburg, 1998). CSV applied to familiness dimension allows building a more integrated FB strategic management frame able to catch such differentiated FB features, behaviours and performances. It also allows a further shift of the FB research area to the *corporate social opportunity* (CSO) approach where social and economic growth and innovation processes: are strongly embedded within business strategies; are driven by competitive dimensions and not by philanthropy or externally driven; benefit contemporarily organizations and society; generate a win-win game (Moon and Parc 2017).

3. Familiness and shared value creation: the Antonelli Case Study

FBs are aimed at creating socio-economic value for the family, also during the crisis periods, focusing on resilience more than performance (Kachaner et al., 2012). Familiness expresses FB bivalent attributes, managing and combining several institutional - family and business- logics (Besharov and Smith, 2014). Distinctive familiness derives to specific internal/external factors and represents the key strategic determinant driving FB governance system. The Antonelli case study represents a qualitative longitudinal analysis allowing describing the firm competitive, strategic and organizational processes evolution in the last decade. The case study allows deepening the understanding of familiness as strategic dimension explaining the FB growth and innovation processes assuming a corporate shared value framework. The three main CSV processes (rethinking markets and products, redefining value chain performance and developing clusters) above mentioned has been activated along the decade allowing the firm to realize and sustain a sustainable competitive advantage, boosting at the same time corporate and social value. The case study also allows addressing the resilience dimension (activating strategic innovative options after a serious earthquake on 2009) as well as the continuity (of mission and vision in a long-term perspective), community (with families playing different roles) and connection (networks activated along the value chain) aspects. The case study offers elements related to the intergenerational/succession aspects (passing, after 2009, from the 1st to the 2nd generation and leveraging on the reputational and entrepreneurial resource of the 1st).

Many meetings and interviews been based on the STEP project interview protocol guide (Nordqvist and Zellweger, 2010) focusing to governance mechanism, familiness-drivers and succession process constrains have been realized with Antonelli CEO; data analysis (mainly on balance sheets) and PESTEL (Johnson, Scholes and Whittington, 2008) desk-research has also been carried out. The case study has also valorized the information, evidences and outputs gathered over time within a stable University-Company collaboration, started since 2010.

Antonelli is a small Italian family business, which works in the food sector (Table 1). It has a revenue of less than 2 million of euro, has the legal form of the limited company (from 1985) and is a micro business, employing less than 10 persons.

Family Business	Founded	Latest Active Generation	Share owned by family	Position held by family	Country/ Region	Industry
Antonelli Food Srl	1976	2nd	100%	CEO, Owner, Director	Italy/ Abruzzo	Food

Table 1 - *Antonelli's main characteristics*.

It started by working with the fresh handmade pasta, adopting a differentiation strategy in term of product lines. Nowadays, it is working in the fresh handmade pasta, traditional and bio, plus in the condiments and sauces, adopting a correlate diversification strategy (Antonelli's business differentiates the packaging dimension for businesses, consumers and seasons). Products have a middle-high positioning in term of value for money.

The founder and its family are mainly involved in the commercial area, meanwhile the others work in the production and/or in the physical distribution of products. The local area -Abruzzo Italian Region- has been the main basin of consumers till 2009, the earthquake year, principally working for the retail purchase channel. After the earthquake with the people emigration, Antonelli choose to **rethink markets and products**. An international mass retail channel, opened to local producers the opportunity to sell their products in its store. Not many producers accepted/have been able to accept the challenge for a) lack of visioning, and/or b) lack of managerial competences, and/or c) fear of loosing the firm identity and/or, d) the strategic, organizational and operational flexibility. Antonelli instead decided to accept the opportunity and invested in the construction of a new larger productive site in L'Aquila (continuity, community and connection). The layout site has been optimized making it U-shaped; in this way, the firm infrastructure represents a business facilitator in terms of security and quickness of the operations flow. The production is daily made, preferring the duplication of products market pulled. The new production allows fresh products to have a conservation of 45 days. Once the product is packaged, it is conserved in the cell fridge till the orders are receipted and dispatched. Every morning the orders from the local restaurants, which are loyal customers are dispatched before 8 am. The commercial area is also responsible for the product positioning in the mass retail channel, thus it is easier to arrange it for the local market, in term of dislocation of sites and personal contacts (**redefining value chain performance).**

Although the roles are not explicitly formalized, Mario Antonelli (2nd generation) has mainly the strategic task of developing new business opportunities, using also the relationships with mass-retail distribution channels. Antonelli's strength points are procurement, operations and marketing (handmade process and link to traditions - continuity, connection). The weak point (now by-passed by the new firm's strategies) was the ability to access to new market related to the small size (structural entry barrier) and the difficulties to build commercial agreement with the mass retail channels in term of transaction power (strategic entry barrier).

From the presented results it is possible to obtain some important elements to investigate the external influencing drivers on familiness. Constraints and opportunities for the business are linked to the constraints and opportunities of network of relationships in which the firm is embedded, and to the sectorial and unpredictable conditions. Thus, a strong trustworthy relationship between the business and the others external actors represents a source of competitive advantage for the business, and a source of shared value (developing clusters leveraging on continuity and connection). This relationship can be based on complementary resource-capabilities, knowledge exchange, sites proximity, and, "investments in relation-specific assets" (Gibb Dyer, 2006).

The strong commitment with the local area has been clearly expressed by Claudio (1st generation): "I am contributing to rebuilding my City with my way to act and react"; it determines and influences the organizational culture of the business (continuity and community). This challenge generates a) strategic changes in term of market and investment and, b) operative changes in term of location and product line. As an example, the FB changed the pasta machinery flow to extend the expiration date from 7 to 45 days. In FBs the strong relationship with the local area determines and influences the development path of the capabilities useful for the sustainability of the businesses. As stated by Mario (2nd generation) "before earthquakes of 2009 the main market was in L'Aquila and it absorbed all the production". The firm did not perceive the necessity to look over, a) for a perception problem b) for the characteristic of their product thus the fresh hand-made pasta, which expired after seven days from the date of production. The external, unpredictable natural catastrophe changed the rules of the game. Claudio said that the economic weakness of the L'Aquila province was already before the earthquake, but then there was no longer a city. The earthquake swept away everything, and these people thought of joining their forces (coopeting instead of competing -changing method) especially for the lack of quick public interventions in terms of financing and supporting the existing businesses (continuity, community and connection).

The role of Mario changed with a gradual increase of tasks, from production assistant to distributor, to member of the directorial team. He said: "I was 'working' in the business since I was 6 years old. My role was to break eggs from 6 to 8 am, before going to school, and after school I continued it". Concerning the succession, there was not a perfect theoretical generational succession, but the transformation from an individual business to a limited company when the founder's son decided to continue the family business activity. There are neither intergenerational nor intragenerational conflicts. For the directorial belong the founder and his three sons, but effectively two of them are working in the FB. There is a perfect balance of roles because only one of the sons is interested in

continuing the business activity, meanwhile the other considers the activity as would an external collaborator. About the intergenerational conflict it is not present because there is a mentoring relationship between the founder and his son (continuity, community). This contributes to grant the continuity and sustainability of the FB because the founder and his son have the same concept and commitment for the business activity. This cross-generational continuity started even before the formalization through the change of the legal status.

The Antonelli *distinctive familiness* has valorized all -human, organizational and process- familiness resources in driving the company competitive and strategic re-configuration processes in the last decade, starting from the critical challenges emerging after the serious 2009 earthquake. The effective governance of the familiness resources - potentially bivalent - has been driven by a systemic shared value perspective, assumed as a driving frame from all family members (and roles).

Rethinking markets and products, redefining value chain performance and developing clusters was decisive for the business reconfiguration, in term of development and growth paths. Nowadays, Antonelli extended his commercial network in a neighbor Italian region, and caught new market opportunities through the diversification in correlated business (condiments, sauces and others). Fundamental has been the visioning of the founder and his active role in the business representative associations (leveraging on continuity and community) coupled with the innovations on markets, clusters and value chain configurations implemented by the second generation, assuming a systemic shared value perspective.

4. References

AIDAF (2018). [online] Available at: www.aidaf.it/en/aidaf-3/1650-2/ [Accessed 27 Dec. 2018].

Arregle, J., Hitt, M., Sirmon, D. and Very, P. (2007). The Development of Organizational Social Capital: Attributes of Family Firms. *Journal of Management Studies*, 44(1), pp.73-95.

Besharov, M. and Smith, W. (2014). Multiple Institutional Logics in Organizations: Explaining Their Varied Nature and Implications. *Academy of Management Review*, 39(3), pp.364-381.

Cano-Rubio, M., Fuentes-Lombardo, G. and Vallejo-Martos, M. (2017). Influence of the lack of a standard definition of "family business" on research into their international strategies. *European Research on Management and Business Economics*, 23(3), pp.132-146.

Chrisman, J., Chua, J. and Steier, L. (2005). Sources and Consequences of Distinctive Familiness: An Introduction. *Entrepreneurship Theory and Practice*, 29(3), pp. 237-247.

Cesaroni, F. and Ciambotti, M. (2011). *La successione nelle imprese familiari*. Milano: FrancoAngeli.

Cubico, S., Togni, M. and Bellotto, M. (2010), Generational transition guidance: support for the future of family firms, *Procedia - Social and Behavioral Sciences*, 5, pp. 1307-1311.

Davis, J., Schoorman, F. and Donaldson, L. (1997). Toward a Stewardship Theory of Management. *The Academy of Management Review*, 22(1), p.20.

de Araujo, T., Bucher-Maluschke, J. and Pedroso, J. (2015). Systemic Principles in the Study of Family Businesses. *Systems Research and Behavioral Science*, 33(2), pp. 259-264.

Ediriweera, A., Armstrong, A. and Heenetigala, K. (2015). Governance in Family Business: A Literature Review. *Journal of Law and Governance*, 10(2), pp. 36-46.

European Family Businesses (2018). [online] Available at: http://www.europeanfamilybusinesses.eu/, [Accessed 27 Dec. 2018].

Frank, H., Lueger, M., Nosé, L. and Suchy, D. (2010). The concept of "Familiness". *Journal of Family Business Strategy*, 1(3), pp.119-130.

Gibb Dyer, W. (2006). Examining the "Family Effect" on Firm Performance. *Family Business Review*, 19(4), pp.253-273.

Greenwood, R., Raynard, M., Kodeih, F., Micelotta, E. and Lounsbury, M. (2011). Institutional Complexity and Organizational Responses. *The Academy of Management Annals*, 5(1), pp.317-371.

Habbershon, T. and Williams, M. (1999). A Resource-Based Framework for Assessing the Strategic Advantages of Family Firms. *Family Business Review*, 12(1), pp.1-25.

IFC International Finance Corporation World Bank Group (2011). [online] Available at: www.ifc.org/wps/wcm/connect//FamilyBusinessGovernanceHandbook_English.pdf, [Accessed 27 Dec. 2018].

Irava, W. and Moores, K. (2010). Clarifying the strategic advantage of familiness: Unbundling its dimensions and highlighting its paradoxes. *Journal of Family Business Strategy*, 1(3), pp.131-144.

Johnson, G., Scholes, K. and Whittington, R. (2008). *Exploring corporate strategy*. New York: FT/Prentice Hall.

Kachaner N., Stalk G. Jr. and Bloch A. (2012). "What You Can Learn from Family Business", *Harvard Business Review*, 90 (11), pp.102-106.

KPMG (2018). [online] Available at: https://home.kpmg.com/content/dam/kpmg/xx/pdf/2016/11/hidden-growth-within-familybusinesses.pdf [Accessed 27 Dec. 2018].

Kraus, S., Kallmuenzer, A., Stieger, D., Peters, M. and Calabrò, A. (2018). Entrepreneurial paths to family firm performance. *Journal of Business Research*, 88, pp.382-387.

Miller, D. and Le Breton-Miller, I. (2006). Family Governance and Firm Performance: Agency, Stewardship, and Capabilities. *Family Business Review*, 19(1), pp.73-87.

Moon, HC., Parc, J. (2017). [online] Available at: https://www.researchgate.net/, 10.13140/RG.2.2.14112.89604 [last accessed 27 Dec. 2018].

Nordqvist, M., Sharma, P. and Chirico, F. (2014). Family Firm Heterogeneity and Governance: A Configuration Approach. *Journal of Small Business Management*, 52(2), pp.192-209.

Nordqvist, M. and Zellweger, T. M. (2010). *Transgenerational entrepreneurship*. Cheltenham: Edward Elgar Publishing.

Pongelli, C., Caroli M.G., Cucculelli M. (2016), "Family business going abroad: the effect of family ownership on foreign market entry mode decisions", *Small Business Economics*, 47(3), pp.787-801.

Porter, M. E., and Kramer, M. R. (2011). The big idea: Creating shared value. *Harvard Business Review*, 11 (30), pp. 3-17.

Sharma, S. and Vredenburg, H. (1998). Proactive corporate environmental strategy and the development of competitively valuable organizational capabilities. *Strategic Management Journal*, 19(8), pp.729-753.

Siebels, J. and zu Knyphausen-Aufseß, D. (2011). A Review of Theory in Family Business Research: The Implications for Corporate Governance. *International Journal of Management Reviews*,14(3), pp.280-304.

Songini, L. and Gnan, L. (2013). Family Involvement and Agency Cost Control Mechanisms in Family Small and Medium-Sized Enterprises. *Journal of Small Business Management*, 53(3), pp.748-779.

Tagiuri, R. and Davis, J. (1996). Bivalent Attributes of the Family Firm. *Family Business Review*, 9(2), pp.199-208.

Teece, D., Pisano, G. and Shuen, A. (1997). Dynamic capabilities and strategic management. *Strategic Management Journal*, 18(7), pp.509-533.

Vallejo-Martos, M. (2014). Institutionalism and the Influence of the Cultural Values of the Family Subsystem on the Management of the Small-Medium Family Firms. *Systems Research and Behavioral Science*, 33(1), pp.119-137.

von Schlippe, A. and Frank, H. (2013). The Theory of Social Systems as a Framework for Understanding Family Businesses. *Family Relations*, 62(3), pp.384-398.