FIRST PART
FAMILY BUSINESS

Defining and Classifying Family Businesses

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(Salvatore Esposito De Falco)

1.1. Family business: defining aspects

The term family business [1] still lacks a homogenous, clear-cut definition owing to its highly heterogeneous organizational structure. Indeed, the specialized literature has clearly highlighted that "there is not a single definition of family business which is exclusively applied to every conceivable area, such as to public and policy discussions, to legal regulations, as an eligibility criterion for support services, and to the provision of statistical data and academic research" (EC, 2009).

The lack of homogeneity in defining family businesses has inevitably led to a wide range of shortcomings in this field of research, particularly in an international context where the dynamics of family business and cultural behaviors strikingly differ across countries and over time (Astrachan et al., 2006). Chief among these shortcomings is the inability to identify the distinctive elements characterizing family-owned businesses and to determine how they actually influence business behavior, performance, decision-making, and growth strategies. Indeed, the term family business evokes various nuances, hardly attributable to any absolute theoretical standard. For example, besides encompassing small, medium, and large family businesses, the definition also includes businesses that have undergone first, second, and several generational changes (Chrisman, Chua, Sharma, 2005).

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[1] The terms "family business", "family firm", "family company", "family-owned business", "family-owned company", and "family-controlled company" will be used interchangeably throughout the handbook to refer to family businesses.

Furthermore, the lack of a widespread and well-established definition of family business has also determined a dearth of empirical and comparative research. In the former case, the inability to define family businesses, along with a lack of substantial data, has definitely worked in favor of qualitative and descriptive data of single case studies. In the latter case, the lack of a universal consensus among researchers on the peculiar elements pertaining solely to family-owned businesses has rendered the currently available data incomparable.

In an effort to provide a general overview of the challenging issues faced by family-owned businesses in Europe, the European Commission has recently defined the term family business as follows:

"A firm, of any size, is a family enterprise if:

> – The majority of votes is in possession of the natural person(s) who established the firm, or in possession of the natural person(s) who has/have acquired the share capital of the firm, or in possession of their spouses, parents, child or children's direct heirs;
>
> – The majority of votes may be indirect or direct;
>
> – At least one representative of the family or kin is involved in the management or administration of the firm. Listed companies meet the definition of family enterprise if the person(s) who established or acquired the firm (share capital) or their families or descendants possess 25 per cent of the right to vote mandated by their share capital" (EC, 2009, 10).

Theoretically, the above definition embraces the core features denoting family businesses. First and foremost, dimension is not a crucial determinant of family business classification. Second, unlisted businesses do not necessarily have to own the entire capital of the firm. Indeed, owing the majority of the share capital is enough to ensure control over the business. On the other hand, listed businesses require only 25% of the share capital. Third, family businesses may be founded by one or multiple founders who do not necessarily have to be belong to the same family. Third, achieving an effective inter-generational succession does not require the involvement of the founding family. Indeed, a business is considered a family business so long as the family who acquires it is an entrepreneurial family. Fourth, the control over the business can be ensured either directly through holdings or indirectly through other solutions. Finally, it is necessary that at least one of the family members play a role in the governance or management of the enterprise.

Undoubtedly, the concept of family business has been expanded so as to include all its multi-faceted aspects. This choice was dictated by the need to overcome the challenge of harmonizing its kaleidoscopic nature through few and less stringent criteria. Therefore, a definition that would bring under the same umbrella the diversity of the different types of family businesses has been accepted as the best solution. Having said that, we propose the following definition of family business:

"**An enterprise may qualify as a family business when one or more families, related by blood ties, affinity, or solid alliances, control the enterprise**".

In particular, this definition, by incorporating all the different aspects of family businesses, embraces the following inclusion criteria:

– One or few families possessing executive power, despite not holding the absolute majority of venture capital. A large family business is a case in point;
– Family members who do not directly represent or constitute the majority of the board, but who indirectly influence the decision-making processes of the company by nominating the company's trustee administrators.
– Family members who are not directly involved in the management of the company (*e.g.*, businesses operating at the third or fourth generation) but who indirectly govern the company by nominating its directors.
– Two or more families, who despite being connected only by strong alliances have control of the company.

1.2. Classification of family businesses

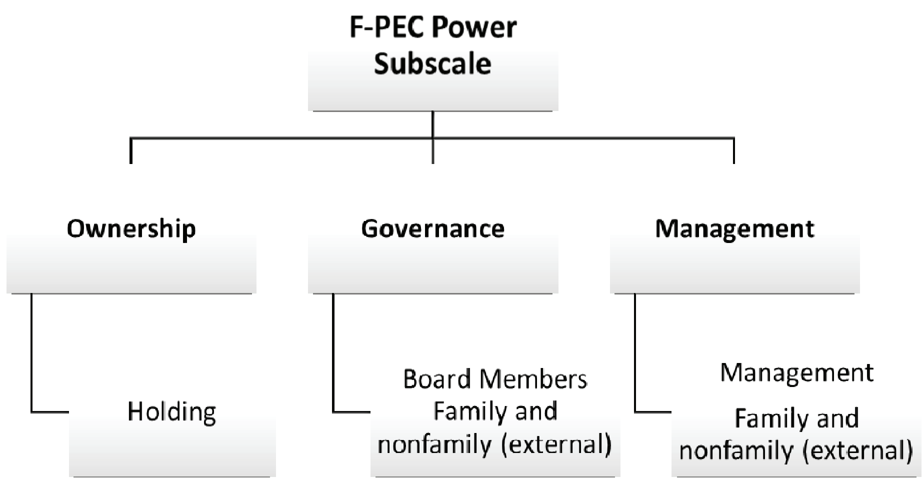
In the literature, some authors define family business based on family ownership. In such cases, much attention is given to the level of influence of one or more families on both ownership and management (Ferrero, 1987; Corbetta, 2010). Others, instead, have elaborated the principle of "conditioning" as a major determinant. In brief, the actual influential power that one or more family members may have over major decisions (Davis, 1983) becomes a major defining attribute of family businesses.

In line with the latter classification, other authors have expanded this definition and adopted a multi-parameter based approach (Astrachan and Shanker, 1996). This approach measures the family's level of influence and involvement on the basis of specific criteria, including the actual control over strategic decisions, as well as the will or intentions of the founders to keep the business in the family. Thus, to quantify the level of family influence on key decision processes, these authors created the so-called Family-Power, Experience, Culture (F-PEC) scale. In particular, this assessment scale is made up of three subscales: power, experience, and culture. The first is assessed according to the level of family influence on both ownership and management; the second is measured in terms of succession; the third is determined by the extent to which family values reflect business guidelines. What follows is a detailed description of all three-assessment parameters.

Power

The power parameter assesses family influence on specific business aspects, *i.e.*, ownership, governance, and management. In turn, each aspect is linked to particular family aspects within the business, *i.e.*, the family's share capital (holding), the number of family members serving on the board (governance), and the number of family members serving as managers (management) (Fig. 1).

Figure 1 – F-Pec Power Subscale

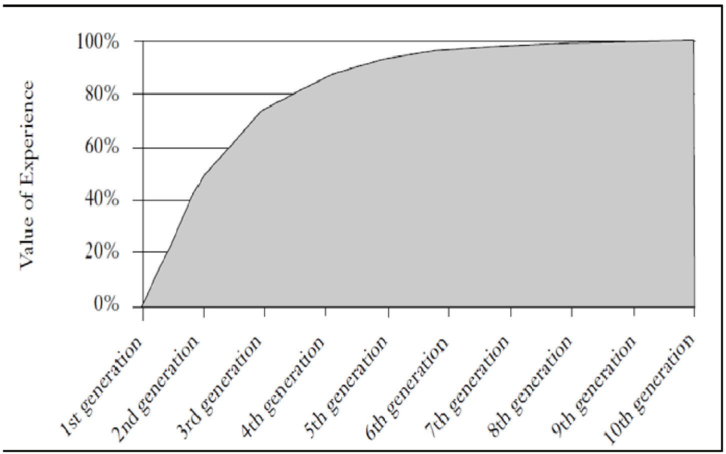


Source: ASTRACHAN, KLEIN, SMYRNIOS, 2002.

Experience

One of the main issues family businesses have to deal with is the transfer of business governance from one geration to the next. Succession, if adequately planned, can have a strengthening effect on the family business. One reason is that each succession adds valuable experience to the family and the firm. However, at each new succession, such phenomenon may gradually decrease and eventually plateau (Fig. 2).

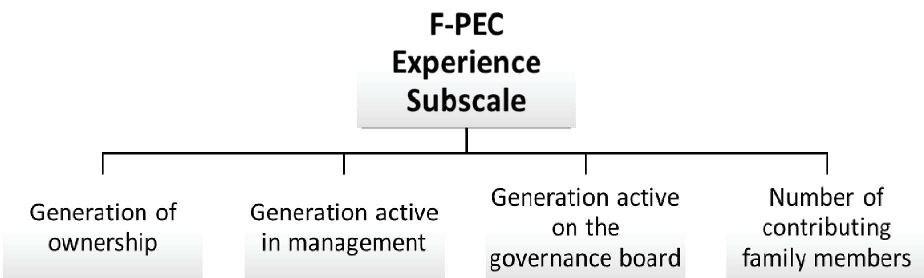
Figure 2 – Experience curve of multiple generational succession process



Source: ASTRACHAN, KLEIN, SMYRNIOS, *op. cit*., 2002.

As clearly depicted in Fig. 2, the curve of experience is less steep from the third generation up to the eighth generation and flattens thereafter. Furthermore, experience may also depend on the number of family members involved in the business - the higher the number of family members involved, the higher the impact of experience on ownership, governance, and management will be.

Figure 3 – F-Pec Experience Subscale



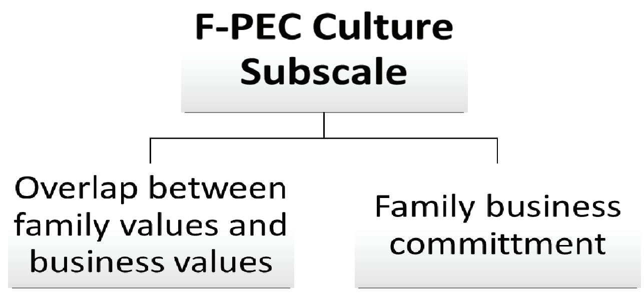
Source: ASTRACHAN, KLEIN, SMYRNIOS, *op. cit.*, 2002.

Culture

The importance of culture to the success of a family business is apparent given that a business is considered as a family business when both the family and the business itself share the same set of cultural values.

In this regard, the F-PEC scale determines the extent to which family and business values overlap-values that, in turn, will determine the family's full commitment to the business. Such principle is clearly conveyed by Carlock and Ward (2001) when they state that "(…) the family's commitment and vision of itself are shaped by what the family holds as important (…) for these reasons, core family values are the basis for developing a commitment to the business*"*. Therefore, the higher the number of family members on the board is, the more influential the family business culture will be.

Figure 4 – F-Pec Culture Subscale



Source: ASTRACHAN, KLEIN, SMYRNIOS, *op. cit*., 2002.

A second classification of family business combines objective and subjective elements (De Mattè and Corbetta, 1993).

In particular, the typical objective elements, including the legal conditions of ownership and management, are combined with the more subjective ones, including identity and sense of belonging-both of which reflect the emotional and behavioral aspects of the business (Montanari, 2008).

Actually, the objective and the subjective aspects of a family business can be evaluated through the following criteria:

− Objective criteria: They include quantitative variables such as the percentage of voting rights held by the family, the number of generations involved in the business, and the number of family members involved in governance.

– Subjective criteria: They include qualitative variables such as the level of identity, the overlap between family values, rules, and expectations on one hand and the business objectives on the other, and, finally, the level of interdependence between the family and the business.

Despite these insightful attempts to define the term family business, the definitional issue still needs to be addressed. Clearly, an exhaustive and a correct definition must take into full account the major role played by the physical aspects involved in these types of businesses. The reason is that the level of complexity increases even further when dealing with artisan companies rather than listed companies.

A possible solution to harmonize these additional differences is to adopt a theoretical family-owned system that broadly encompasses both family businesses whose members have full ownership and control, and families businesses whose members possess partial ownership but enough share capital to ensure company control. Therefore, a third classification can be based on the level of family control. The family business can thus be categorized as follows:

– *Wide*: *i.e.*, modest family involvement requiring the family to exercise control over governance;
– *Medium*: *i.e.*, medium family involvement in control over governance, in terms of both governance and ownership;
– *Tight*: *i.e.*, generational involvement in both management and ownership, with well-established roles and responsibilities in governing activities.

Consequently, different types of family businesses emerge:

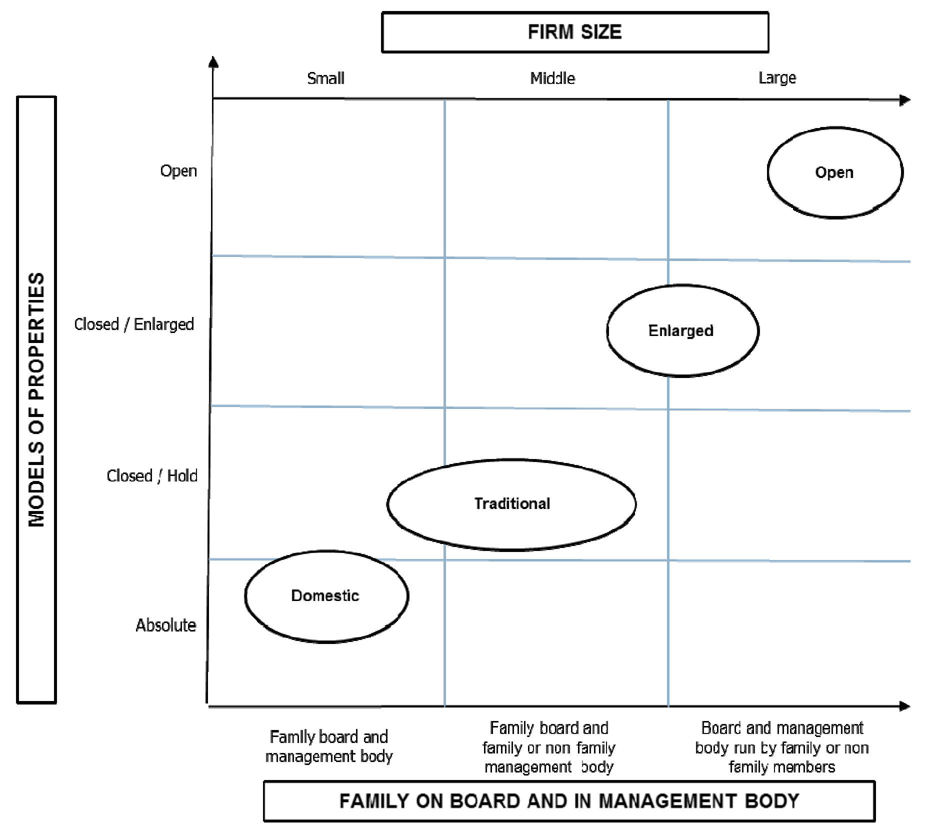
– Family businesses including only first-generation family members or members of second or subsequent generations.
– Family businesses with high involvement (above 10-15 people), with medium involvement (between 5 and 10 people), or with low involvement (below 5 people).
– Family businesses in which just one or two family members have decisional power over other family members, or family businesses in which decisional power is more equally balanced.
– Family businesses with either young or more consolidated leaderships. In the latter case, the family business has been run by the same leadership team for several years or is undergoing a transition process at the end of which new leaders will take over.
– Family businesses that include small-medium-large and very large-sized businesses.
– Family businesses in which multiple family members are involved in different managerial positions, or only in executive, presidential, or board positions.

– Family businesses in which the sense of identity is either strongly present and acknowledged or less strongly so.

– Family businesses strongly embedded in their territories of origin or less strongly tied to a single geographical area.

– Family businesses that have either a high, a scarce, or an inexistent level of internationalization.

Figure 5 – Classification of Family business



Source: Our elaboration.

Thus, given these classifications, we here provide a taxonomic classification of family businesses by grouping them into three specific family business models:

– The model of ownership, which can belong to either one or two people, whether or not they are the founder's heirs.

– The presence of family members on the board of directors and in the management bodies of the firm a model which reflects the diversity of interactions between family members and business, depending on the involvement of family or nonfamily members.

– The size of the business - a model that reflects the heterogeneous organizational structure.

By crossing these variables, four types of family businesses emerge:

– Domestic family-type business;
– Traditional family-type business;
– Enlarged family-type business;
– Open family-type business (Montemerlo, Preti, 2004, 68-77).

1.2.1. Domestic family business

A domestic family business is run by a single and absolute owner: the owner-founder or founder-entrepreneur. By and large, these types of family businesses display a strong overlap between ownership and management. Accordingly, they are characterized by a paternalistic leadership style precisely because they are directly run by one single owner who behaves just like a paterfamilias (Alzona, Iacobucci, 2005, 2009). The firms are usually very small and have a very simple organizational structure. The elements that qualify them as domestic businesses, namely their small size and strong ownership structure, do indeed favor the establishment of an authoritarian and highly centralized governance.

The dynamics and governing structures of a domestic family business are very simple, as the development processes and decision power are in the hands of one single person rather than in large management groups.

Consequently, the management body, if present, is composed solely of family members and of very few outside collaborators. Likewise, the staff is made up of family members and of very few nonfamily employees. Hence, the domestic family entrepreneur professionally runs the entire business on his/her own, taking on all the responsibilities and risks related to his/her leadership and management.

The success of a domestic family business depends on its ability to adapt quickly to changes thanks to its extremely flexible organizational and decision-making context. One of the advantages of these types of family businesses is indeed the fast decision-making process. Being exercised by one single person or by very few family partners, they are able to respond quickly and effectively to the ever-changing market demands. Furthermore, because their main target is the local market, owners can easily establish closer relationships with their customers, thereby becoming more competitive than larger businesses thanks to their ability to provide more efficient services**.**

However, being very small businesses, they do not have substantial assets nor the ability to attract highly qualified employees. Their main financial assets derive from equity or from debt capital. Consequently, the family members receive most of the business earnings.

The invested capitals often constitute a relevant share of the family's financial assets. The remaining part is hardly ever invested but in low risk activities. There exists, therefore, an almost total overlap between the business and the family, which oftentimes causes non-transparent economic practices. Some of these practices include compensations for family employees whose remuneration policies and procedures hardly ever comply with market conditions.

An example of a domestic family business is the artisan companies. Indeed, these types of family businesses are more commonly passed down through the generations from parents to their offspring and tend to be rather small. The most characterizing aspect of artisan companies is the full involvement of the owner in the productive process, mainly together with the production team itself. Therefore, the owner of such types of businesses exemplifies the owner-entrepreneur model. Their competitive model is that of niche markets, whereas their competitive dimension is local. More specifically, since artisan companies are rooted in the territory, the skills of both the founding owners and their employees are closely intertwined with the local values, as well knowledge, of the territorial community.

A good example of an artisan company is Isaia a men's, tailoring company founded by Enrico Isaia in 1957. Today, it still represents one of the most renown artisanal tailoring companies. What gives this company an edge over other similar businesses is the hand-craft and custom-made tailoring, which is deeply rooted in the local artisanal knowledge and tradition. Its major strengths have been its ability to promptly change and adapt to the new market trends and its customer-centered approach, which has been made possible thanks to the establishment of a trustworthy relationship between the owner-entrepreneur and his/her customers.

1.2.2. Traditional Family Business

The traditional family business is based on a very controlled ownership model. This means that the ownership of the business is concentrated in the hands of one person or very few people. In these types of businesses, the family directly partakes in the managerial processes. The business, which ranges from small - to medium - sized companies, is typically handed down from the founder to the subsequent generations.

Its actual growth is influenced by the behavior of the entrepreneur-owner, or by the authoritarian owner, depending on his/ her entrepreneur-owners skills. Unlike the entrepreneur-owners of domestic family business, the entrepreneur managers of traditional family businesses are more inclined to delegate other family shareholders [2], thereby rendering their behavioral patterns less extreme. Interestingly, the entrepreneur/owner's self-realization, desire for independence, and motivation for success are intertwined with the motivations for success, accomplishment, and strong willingness to participate in the growth and development of the family business of the shareholders, if present.

It is indeed in these types of businesses that the roles of ownership and control most often overlap. In particular, this overlap leads to the establishment of governing bodies completely controlled by the family members, who, regardless of their formal roles, hold crucial positions in governance practices [3]. In fact, in these firms, it is possible to find governing bodies such as Family Board, Family Assembly, and Family Agreements. Furthermore, it is also possible that preliminary decisions may be discussed at unofficial meetings - known as Family Council - which summon almost all family members. In such cases, the Family Assembly is called upon to ratify the decisions previously discussed and approved by the Family Council.

The Board of Directors is mainly composed of family members. They therefore determine all the dynamics and the relations between the firm and the business. In the event of unresolved conflicts between family members, external collaborators may be hired to mitigate the unresolved conflicts. Their other roles include offering family members experience-based advice and expertise not present within the family circle. This is often the case, for instance, when the family business is run by a manager lacking skills in specific areas and therefore needing qualified advice and assistance from external collaborators.

In short, the Board of Directors plays a pivotal role in balancing the power of the entrepreneur-owner by keeping under check any form of authoritarian leadership. In the event that this were to happen, family members resort to the support of external components of the Board of Directors so as to tamp down the leadership and the power of the entrepreneur owner. In practice, just as it happens in large businesses, independent administrators play intermediary roles between minor and major shareholders.

As opposed to domestic family businesses, in traditional family businesses

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[2] By contrast, in the domestic family businesses, since the relation between family-ownership and firm hinges on authoritarian values, granting the company's property to a single individual is considered the most appropriate way to govern the business. Cfr. S. ESPOSITO DE FALCO, G. VAGNANI, 2008, 165-168.

[3] Such governance bodies do not exist in the home-based family businesses. This is why roles cannot overlap, there being only one and only governing role, covered by the founder-owner.

the Board of directors and the other governing bodies comprise both family and non-family members. This difference clearly shows the gradual acceptance of the traditional family business to open to external administrative and managerial competencies. In general, such interlocutors are banks, which hold the necessary resources for growth, and/or nonfamily collaborators, who possess the necessary managerial and professional skills.

Nevertheless, given the strongly centralized control, traditional family businesses do not leave much room for a more democratic form of decision-making process, even when the ownership system is extended to nonfamily members. In effect, the reason why family-run businesses decide to resort to external nonfamily members is to obtain investment. Once this objective has been reached, the family often regains its shares. An example of such phenomenon is the types of agreements between financial institutions and family businesses. In these cases, a bank may agree to finance the traditional family business in exchange for quota shares and board appointments. Subsequently, once the family has paid back the loan, it buys back its shares and restores its board of directors to its original configuration.

Concerning nonfamily collaborators, it often happens that when a company is run by a single owner, a trust-based collaboration ensues between him/her and his/her collaborator. As single collaborators move from administrative positions to much higher and challenging ones, they begin to be perceived as true family members, thereby enjoying the confidence of the entire property.

Actually, nonfamily collaborators play a rather vague professional role within the traditional family business. A case in point is when the owner-manager, being unable to delegate his/her powers, prefers to entrust his/her powers in the hands of a trustee who will act as his/her alter ego.

Traditional family businesses, which operate both at the local and international levels, have generally a medium competitive intensity. Interestingly, diversification is not their market strategy, as their competitive strength hinges on their specialized manufacturing.

During the growing and evolving stages of the business, families may not have sufficient financial resources to follow through with their projects and may therefore have to open their share capital to new shareholders. Undoubtedly, this poses additional issues for the entrepreneur founder, or family partners, to maintain the control of the company. Therefore, the family resorts to legal forms to reduce the risk of hostile takeovers (e.g. cooperative associations or limited partnership), including agreements on voting rights in family assemblies, and the use of statutory provisions that limit the selling of shares or guarantee pre-emptive rights.

An example of a traditional family business is **Marinella**, a renowned necktie family firm whose origins date back to 1914 - the year in which the founder Eugenio Marinella inaugurated his first historic store in Piazza Vittoria (Naples, Italy). The firm, which started out as a traditional domestic family business, has long been competing internationally despite having always been faithful to a strategy of concentrated marketing and to a wholly-run family business. Marinella is a classic example of a successful family-run business that has proudly preserved, over the century, proprietorship and management in one single person, starting from the founder up to its current successor. Such characteristic clearly reflects its entrepreneurial, rather than managerial, nature and its ability to orient its business toward the emotional profiles of consumer goods - the key strength of this family business. Another major feature is Marinella's ability to merge tradition with innovation. Indeed, overtime, the structure of the firm's management body has now partially expanded to include external entities especially in logistic areas, a hallmark of the firm's will to continue to develop and grow.

1.2.3. Enlarged family business

As the name suggests, the extended family business is characterized by an extended proprietorship model, *i.e.*, the ownership of the capital is divided between more than 5-6 family members, including nonfamily members, if present. Whereas the size of the organizational structure is in between a traditional and an open business, the actual physical size ranges between medium and medium-large sized firms. Most of these businesses are either of second generation if they derive from more than one family, or of third generation if they derive from a single family.

As opposed to open firms, the organizational structure is less complex for a number of reasons including shortened hierarchies, a well-balanced assignment of responsibilities even among members at the intermediate organizational levels, flexible coordination, and, finally, a cohesive and fully embraced business culture.

Extended family businesses are akin to open businesses in that they too operate on a wide market, even at international levels, and have an organizational system made of more articulate government bodies and coordination mechanisms. Despite these similarities with open firms, extended family-run businesses do preserve some aspects of traditional family businesses, among which the importance of the family's control over governing activities.

The peculiar organizational structure determines how the owner will exercise his/her decision-making power. For example, in some cases, the family exercises both ownership and control; in other cases owners dilute their ownership among different individuals while continuing to hold the highest percentage of shares.

In another model, the business is run by both family members and outside professional managers. This model seems to operate at its best when the organizational structure is characterized by a net separation of competences. In these cases, the family members deal with all the technical competences related to the core business, whereas the hired managers deal with the technical, managerial, and marketing issues.

The advantage of such hybrid system is that it creates a balanced relationship between the entrepreneurial culture and the managerial culture. In effect, the creative-intuitive behavior of entrepreneurs works in tandem with the more rational and planned behavior of managers, a strategic synergy that ensures the success of the firm. Overall, under these circumstances, the extended family business undergoes a managerialization process while continuing to maintain its decision-making power, most of the times held by the founder and his/her successors.

The governing bodies are composed of a much higher number of family members, compared to traditional firms. This gives rise to a differentiation of family roles: some have a proprietorship role, others cover governing roles, and others manage to cover both ownership and control. However, this type of ownership and control may cause generational drift and *cool off* of family shareholders.

Generational drift of family ownership refers to the gradual increase in the number of family members involved in the business. To keep intergenerational conflicts under check, the family implements the so-called Family Agreements. The purpose of these agreements is indeed to regulate ownership succession and/or the transfer of share capital to only one or more heirs.

Cool off of family shareholders refers to a substantial dampening of emotional ties or affinities among the governing family members as the business is passed down from one generation to the next. The negative result of such phenomenon is the attenuation of business identity.

However, besides the higher number of family members and, particularly of nonfamily members involved in ownership, various other aspects render extended family businesses different from the more traditional ones. For instance, the Board of directors is much more structurally articulate and complex and always includes collaborators outside of the family circle. Therefore, the overall governing body is generally more complex owing to the presence of professional managers and independent administrators. Similarly, the board of statutory auditors is in itself another novelty as it is made up of independent collaborators/consultants, who are generally appointed by the minorities.

The overall outcome of these dimensions is the formalization of organizational structures, *i.e.*, the creation of an articulate business structure capable of integrating and of aligning governance with the business strategies.

The decision-making process that external managers are asked to undertake is aimed at obtaining the consensus of all the major shareholders (family owners) and of other investors (bank systems).

Luxottica is an example of an enlarged family-run business. Indeed, while a strong family coalition headed by its founder and owner (Del Vecchio) still controls key aspects of the business, professional managers (Andrea Guerra and others) also play a major role in the decision-making process. In particular, Luxottica is a typical example of how some extended family businesses try to overcome the difficulties of having to combine ownership and control with family succession without affecting the overall performance of the business.

An interesting aspect of Luxottica is the structure of its share capital. In particular, Delfin s.r.l. (a holding company created to facilitate succession while preserving the family business structure) holds Luxottica's outstanding stock. Its capital is subdivided into equal shares of 16.38% between Del Vecchio's children. Other nonfamily members also own substantial amounts of the company's share capital, including Armani, and Deutsche Bank. Therefore, it is clear that Delfin's main role is to control all the company's assets so as to protect the family from conflicts of interests when planning succession. By virtue of this holding, managing core issues concerning the company business can be dealt with in a more fluid manner while, at the same time, safeguarding the ownership and control rights of children in case of death or inability of major family representatives to run the business.

Regarding the company's managerialization process, it is worth noticing that Andrea Guerra, the company's former CEO, has been unanimously appraised for his superb managerial skills For example, in the 10 years that he served as CEO, he was able to raise the company's annual revenues from € 3 to 7 billion by stipulating contract agreements with a major company like Google (Google Glass) and by buying back licenses from company's of the highest caliber as Giorgio Armani, Prada, D&G, and Ralph Lauren.

Despite these major successes, the company's ownership configuration could be a potential source of conflict between ownership and management. One possible explanation is that the control of the capital by the family members is such that when the fiduciary relationship between the ownership (Del Vecchio) and the manager is undermined, the owner can pull the reins of the governance without consulting the other majority shareholders.

1.2.4. Open Family Business

In the open family business, which generally includes medium- to large sized companies, the family preserves the control of the company but hands over the ownership to a non-descendant. The Board of Directors and the governing bodies comprise both family and nonfamily members. In particular, the involvement of nonfamily members allows the family members to sustain higher growth rates than those financeable with their own share increase.

From an ownership perspective, this type of family business is characterized by a "non anonymous" ownership, very often belonging to the family circle, that persists even when it is extended. Consequently, the forms of control exercised by the economic actors are adapted against the increasing complexity of the organizational structure. In particular, extending the share capital to nonfamily partners can bring about conflicts between family and nonfamily partners. One potential consequence is the family's partial loss of independent decision-making power. Indeed, under such circumstances, the family may decide to abandon such managerial model and adopt one that would guarantee major transparency, as required by the new saving shareholders. The following three examples will better explain this process:

– To abandon policies that would engender tensions and conflicts between family members and business (e.g., employment and remuneration policies that would privilege family members only;
– To form governing bodies in which nonfamily members would have equal representation;
– To adopt transparent and efficient procedures that would enable nonfamily members to be constantly informed on the company's financial outcomes.

Therefore, in order not to lose the control over governance, the family ownership is handed over to external entities, including foreign entities or trust. This explains why open family businesses, to better deal with growth, resort to group-based organizational structures. In this way, they can keep ownership separate from management, as it happens in large corporations in which such separation occurs through managerialization. Accordingly, in some open family businesses, one finds forms of family control in which ownership rights are strongly held by the family thanks to control holdings. Indeed, these holdings control numerous industrial and commercial subsidiaries and handle all business fiscal operations, thereby facilitating the mechanisms of succession Zattoni, 2006).

This peculiar form of governance allows open family businesses to grow without having to undergo a complete managerialization, as it commonly happens in large Anglo-Saxon corporations. Therefore, the handing over of power from individuals to corporate groups, typical of public companies, translates into a dominant coalition that is fully controlled by the family. Under such circumstances, governance faces a very challenging negotiation process not only between ownership and management, but also within the highly complex family and nonfamily ownership systems. The latter is made up of multiple nonfamily shareholders most of whom are driven by speculative interests to increase share prices, or rather, by achieving a higher retribution of profits through allocation of residual rights.

The negative perspective of this type of organizational structure is that tensions and conflicts often arise between the controlling family coalition and the nonfamily shareholders, most of whom are anonymous and minority shareholders. This is why it is paramount for open family businesses to regulate ownership rights between family and nonfamily members by means of efficient contract agreements. Simply put, in cases where the ownership structure is highly fragmented (Berle and Means), the speculative interests and profit-oriented objectives will lead to a managerial organizational structure. By contrast, in cases where family ownership is preserved, speculation will be overrun by the family's strong desire to ensure the long-term survival of the company.

Fiat, a former holding company which subsequently became a corporation, clearly exemplifies the open family business structure. In the early 1990s, it required a strong increase in share capital. Thus, the family yielded part of its control to a voting trustee, to which Mediobanca, Generali, Deutsche Bank, and Alcatel belong. Nonetheless, the company managed to remain in control thanks to the Giovanni Agnelli and Co. S.a.p.a.z. This group, in fact, holds a totalitarian control over the IFI (the financial holding of the corporation), through the issue of voting shares with a limited voting right of 47% of the share capital. By doing so, the Giovanni Agnelli and Co. S.a.p.a.z. by holding 53% of the IFI share capital (which, again, despite its 100% of ordinary shares, 47% of them have limited voting rights) manages to control this financial holding. The same thing happens with the IFI - which, despite holding 63% of IFIL ordinary shares, has a high percentage of shares with limited voting rights, a factor that automatically decreases the amount of shareholding and thus of control benefits - and between IFIL and FIAT. In conclusion, shares having limited voting rights allow the leader of the group, Giovanni Agnelli and Co. S.a.p.a.z., to preserve the total control of the company, granting IFI and IFIL only a minimal number of share capital. Thus, influx of external capital flow into the company allowed FIAT to fulfill the requests of nonfamily shareholders and to adopt legal codes and business communication rules equal for all shareholders. Furthermore, a major managerialization process has taken place, as exemplified by the Marchionni's leadership. Nonetheless, as of today, such leadership remains restricted and is under the influence and control of the family coalition.

1.3. References

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