



LUND UNIVERSITY  
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# Strategic Planning and Succession in SMEs

A Multiple Case Study on Italian Family Firms

by

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# Abstract

This paper's goal was to investigate the influence of the degree of formal strategic planning on the pre-and post-succession period within family firms of small and medium size. With a qualitative approach, a multiple-case study was utilized to obtain empirical data from 5 family firms in Italy, in which semi-structured interviews with founders, other family members and non-family managers were conducted. The analysis revolved around a mix of cross-case comparison and within-case analysis to ensure the empirics were carefully deconstructed and applied to the central research question. The findings eventually led to the discovery of a low degree of strategic planning having a correlation with lack of family harmony and sense of belonging, or on the other hand a high degree being parallel to a deficiency in education and experience (of the successor) apart from growth. Furthermore, it was found that one of the companies interviewed presented itself as an exceptional case, by showcasing an above average growth, despite and partially favoured by a paucity in family harmony. To finalize the study, a model was developed based on the aforementioned findings and moreover, the role of family conflict as a competitive advantage was introduced as a potential area to further investigate.

Keywords: family business, strategy, planning, succession,

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# 1 Introduction

*“Homo est minor mundus // Every man is a world in miniature” - Boezio*

In this chapter, an overview of the theme in discussion will be provided, to ensure the reader is properly introduced to the context and form a basis to understand the theoretical and empirical analyses in the following chapters. The section will begin with a definition of the element in question (family businesses), followed by a general representation of the theme in the chosen country (Italy). Next the underlying subject (succession) will be portrayed and given relevance to family businesses, showcasing its importance to the type of firms studied. The chapter will then conclude with an explanation on the motivation behind pursuing a study in this field, followed by the research question and the limitations involved in the process.

## 1.1 Background

### 1.1.1 Defining Family Businesses

Research on family businesses (hereafter referred to as FB) has been gaining attention over the years, as studies attempt to understand their role in an economic context and uncover new aspects that portray their resilience over generations. Despite this growth, the academic field however remains relatively young due to a lack of consensus amongst practitioners on what characterizes family businesses. Davis and Tagiuri (1985) simply define it as a business in which two or more extended family members influence the direction of the firm. Others focus on the ownership aspect, stating that a degree of concentration and involvement of family members in the management process (Welsch, 1993), the legal control over ownership (Lansberg et al., 1998) and where at least fifty percent of the voting shares are controlled by one family (Leach et al., 1990) characterize these types of businesses. The general academic uncertainty shows there is no clear and precise distinction that separates FB from non-family businesses (hereafter referred to as NFB), where certain features may differentiate the nature of such firms, whether from a strategic, ownership, management or cultural perspective. To produce a holistic study on FB we will take reference from Chua et al.'s (1999) definition and utilize it as a basis to build our study on: *“The family business is a business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant*

*coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families” (P.25).*

### 1.1.2 Overview of Italian Family Businesses

Due to the nature of the economic environment established in Italy, where micro-enterprises are the prevalent reality accounting for 95.3% of all firms, and large companies account only for 0.1% (Figure 1.1), there is a preponderance of family owned businesses over corporations with high shareholding dispersion. Specifically, these firms form as much as 60% of publicly traded organizations (Il Sole 24 ore, 2017).



*Figure 1.1 Type of firms in Italy divided by number of employees (Istat, 2013)*

According to a study made by EY (2014) more than 85% of the companies in Italy are family firms. Out of those, only 9% of family businesses in Italy have laid out a succession plan for future generations, while 58% of companies have not addressed the issue at all. Data has also highlighted that less than a third of companies survive the first generational change, while less than one-fifth make it through the second generation (PwC, 2014). Italy has been in a stagnating economic situation for the last 10/15 years, in fact the average GDP growth in the period between 2006 and 2016 was -0.6% (Eurostat, 2018). In addition, it should be considered that in January 2018, unemployment was way above the 7.3% EU-average level, lodging at a worrying 11.1%, which is still considerably lower than youth unemployment at

31.5% (Istat, 2018). These factors should be taken into account when evaluating the relevance of family businesses and its related successions in the national landscape. In fact, according to Getz and Petersen (2005), avoiding unemployment is one of the main reasons behind the choice of working in family firms (hereafter referred to as FFs) for the offspring of business owners.

### 1.1.3 The Role of Succession

In examining the continuity of FBs there is the inevitable hurdle of dealing with succession, to promote legacy building and prosperity for future generations of family and non-family members. Alcorn (1982) defines family business succession as the change in leadership within the top management position in which the most critical issues arise. Beckhard and Burke (1983) symbolize the change as the transfer of the baton from the owner to a successor who will have the attributes of a professional manager and be either a family or non-family member. The transition implies a very complex process which must be carefully evaluated to ensure the continuity of the business. According to Brown (1993) unexpected situations, such as the sudden death of the founder of a firm, may pose critical risks for the organization's prospect if a contingency was not implemented beforehand. Recurring research have therefore showcased the underlying implications that affect the proprietor's choice of leaving management to successors.

With increased globalization and digitization, challenges arise in deciding how the type of management will affect the long-term outlook of the family business. A study by EY (2016) has shown that there is both a correlation in decreased productivity with external managers appointed, due to factors such as lack of cultural or emotional fit, and with family members in top management positions, whom may overlook critical elements from a firm perspective or lack solid managerial expertise. The criticality of this decision highlights its dynamic complexities and shows why there is a need to ponder carefully on how to ensure the relevant factors are considered, and the adequate decision-process is carried out. These facts are especially relevant for Italy, since 66% of FFs in the country have the whole management of the company composed by family members, compared for example to 26% in France or 10% in the UK (EY, 2014). In addition, FFs tend to have an attitude of resistance towards external expertise such as consulting or advisory firms and services. On the other hand, it is rather

common that advice or extra knowledge is also collected through personal networks (Mandl, 2008).

## 1.2 Motivation Behind Topic

From an academic perspective, empirical studies regarding family businesses has increased rapidly over the past years, especially within journals holding vast expertise and knowledge in the field, such as the Family Business Review (Figure 1.2). The uncovering of rising intertwined themes and factors, has directed efforts from researchers to understand in depth how firms of this kind thrive or fail under harsh economic environments. With room to further explore the underlying topics regarding family firms, this academic field remains relatively young and thus providing an opportunity to contribute and build on undeveloped themes.

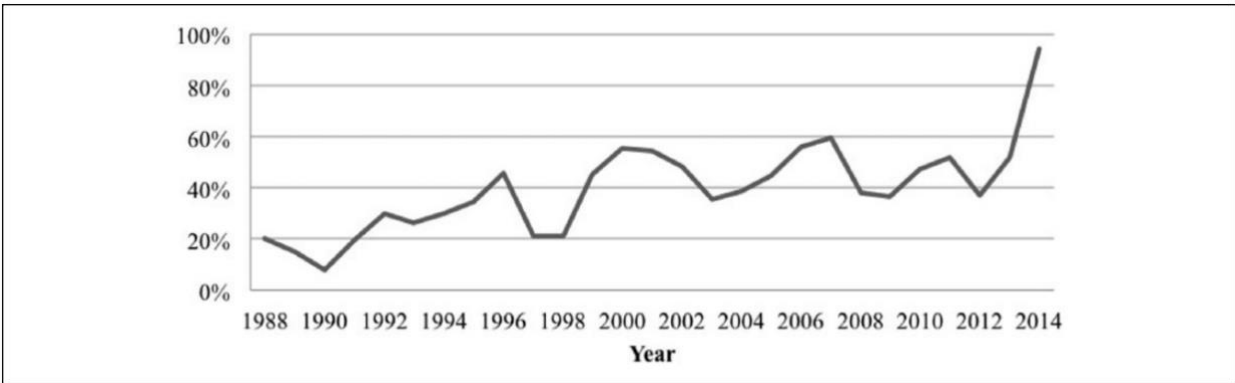


Figure 1.2 Growth of Empirical articles in Family Business Review (Family Business Review, 2016)

Italy has a business environment where FFs are extremely diffused and where external managers are a rare phenomenon, as showcased in the previous paragraphs. Consequently, most of the entrepreneurs must face the succession phase if they intend to pass the control of their company to the offspring. Considering that “*the most critical political process in the life of any institution is leadership succession*” (Tichy, 1996, p.48), it is therefore understandable how, for leaders of family businesses or entrepreneurs, the most important concern is managerial succession (Chua, Chrisman, and Sharma, 2003).

In such a process, one of the priorities, is to ensure the rightful development and implementation of the firm’s strategy. In the pursuit of doing so, Mandl (2008) states that activities such as “*passing on and strengthening social networks contributes to the family’s*

*professional know-how by educating future generations about the social customs of the family business, trade and profession”* (p. 60). In support to educational precautions, there are other multiple measures that FFs do implement or should implement to guarantee the strategic alignment of the successor to the founder and/or the business.

Henceforth, investigating such actions presents an opportunity to delve deeper in understanding the dynamics which affect the long-term outlook of FB, and provide an empirically based research to guide firm owners in Italy in making an informed choice on the degree of strategic planning to be utilized and how such decision would influence the succession and the business itself. At the same time the research can be of academic interest since it can offer space for comparative studies with other countries, a trait considered to be remarkably relevant in family business research (Benavides-Velasco, Quintana-Garcia and Guzman-Parra, 2011).

### 1.3 Research Purpose

Due to the fundamental role succession plays on the longevity of FBs, this paper thus aims at enhancing the conception on how the generational transition in small or medium-sized Italian FFs is influenced, both positively or negatively, by the extent to which strategic planning is implemented in the daily activities of these organizations. In order to clarify the fundamental concept at the core of this paper, the definition of strategy planning utilized throughout the whole thesis, is the one of Hopkins and Hopkins (1997) stating that it “*can be described as the process of using systematic criteria and rigorous investigation to formulate, implement, and control strategy, and formally document organizational expectations*”. Furthermore, in answering the research question, the goal is to on one hand contribute empirical data to the academic field of family businesses and on the other, to provide practical applicability within a managerial context. The study will be finalized by the introduction of a new model (chapter 7.1), basing its relevance on the nuances it generates on the core framework, that is given context in section 2. The research conducted specifically investigates:

*How does the degree of strategic planning affect the intra-family succession in Italian SMEs?*

## 2 Theoretical Model

In order to have a lens through which this whole paper can be viewed, the authors referred to a model regarding non-market-based transfers of wealth and power in the field of family business research. Specifically, the framework is theorized by Churchill and Hatten (1997) and originates from “*the biological reality of parent and offspring being separated by age and business experience, but wedded together by blood and a shared family experience*” (P.53). The structure is divided in four separate stages. These encompass the representation of the four periods in the life cycle, of the two generations involved in the transition: respectively, the owner’s management stage, the children incubation and development stage, the father and son partnership stage and finally the power transfer stage (Figure 2.1).

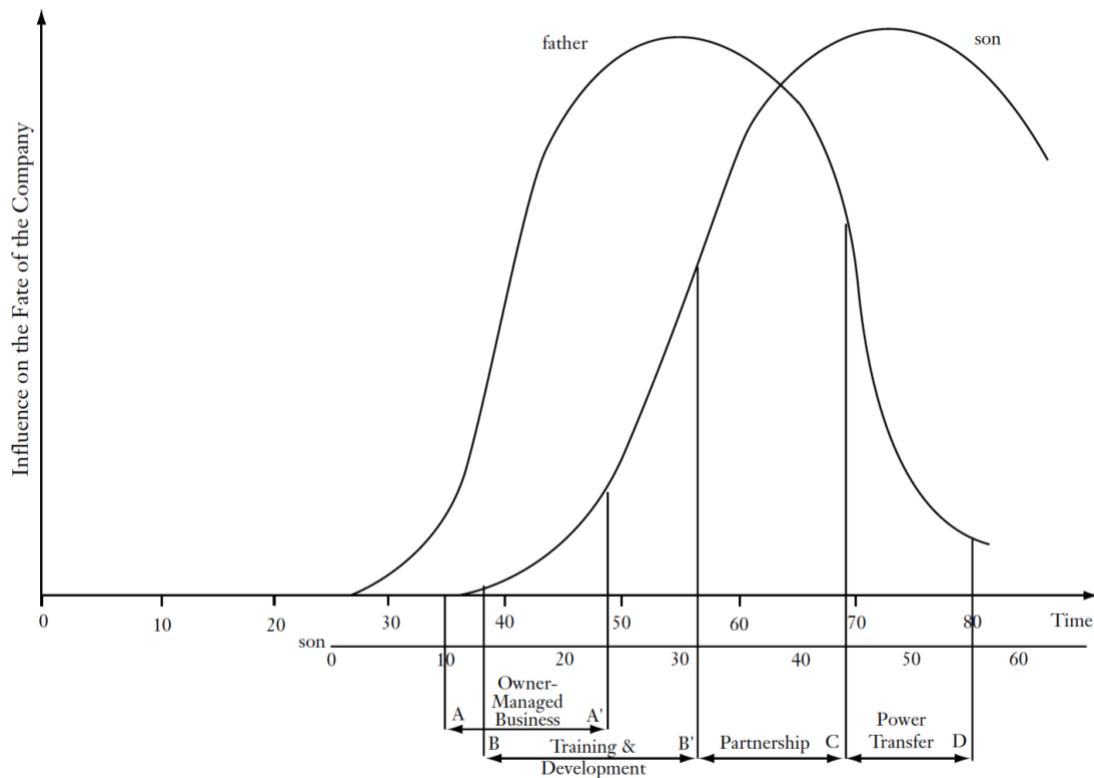


Figure 2.1 Life cycles of the generations (Churchill and Hatten, 1997)



The first stage, the owner-managed business phase, ranges from the creation of the company (A) to the moment in which one of the offspring enters the firm in order to take part in its activities in full-time mode (A'). This period of time differs from the following ones because it is the only one where the family doesn't participate in the life of the firm, that consequently can't be called a family business yet. Obviously, opinions or ideas within the kin have an informal influence on the company but they don't reach the extent of the other three stages.

The second phase instead involves the training and development of the new generation, starting from dinner-room talks (B), continues through the first part-time or summer experiences (until A') and levels up to a higher degree of technical, interpersonal and managerial skills when the full-time employment of the offspring takes place (from A' to B'). The goal during this whole stage of the life cycle of the generations is for the son (or daughter) to absorb as much knowledge as possible in order to be ready to take on a role with more responsibility later on in his (or her) life.

The third stage, the partnership between generations, accounts for the period when the offspring has reached a level of business and managerial high enough for him (or her) to start taking some responsibilities within the firm and to contribute to the decision-making process of the company, at least to some extent or regarding a part of the activities. This phase evolves into a real partnership where all the authority and the ruling are equally shared between the father and the offspring (C).

The fourth and last stage, the transfer of power, ranges from the later part of the partnership stage (C) until the father initiates his retirement and stops having an active role within the firm (D). During this phase, the responsibilities and all the managerial power moves in the hands of the younger generation. Regarding ownership such shift it's not necessarily formal as the focus is more one the operational aspects of the firm's life.

It is worth noticing that in the underlying figure (6), the axis indicating the time frame represents only an example of the possible age assumptions appointed to the father and successor. The focus instead is on the factors that trigger the activities that determine the transitions in each phase (e.g. from owner-managed business to training and development). In addition to the four stages the model presents a list of variables, which influence strongly the dynamics of the framework. The aforementioned factors do have a strong ascendancy on FBs, family relationships and operations within the model itself. Specifically, the variables are

divided in three categories, dependent, intervening and independent (Table 2.1), and they summarize the most important dimensions of FB according to Churchill and Hatten (1997).

*Table 2.1 The different types of variables (Churchill and Hatten, 1997)*

<b>Variables</b>		
<u>Dependent</u>	<u>Intervening</u>	<u>Independent</u>
Family Harmony  Economic Performance	Economy  Technology  Industry	Entry - The stages Distance - Family Relationships Operating mechanisms Personal characteristics

The model as a whole is an excellent tool to support and organize family business research according to Churchill and Hatten (1997), but also a revolutionary approach to the succession of FBs by widening the perspective to a double dimension. This stems from its consideration of both the life cycle of an individual and how it affects the operational, strategic and goal-setting activities of the business (Chang and Lin, 2011). Therefore, in light of such factors, the model was applied in this thesis, throughout both the literature review and the analysis of the primary data.

## 3 Literature Review

The FB academic field, although young in nature, holds a vast knowledge-base of different themes and topics. The congested literature pose significant hurdles if its need to be contextualized as a whole becomes a requirement. In this study, the nature of succession and strategy gain a pivotal role in the thoroughness of exploring the research question established. Therefore, the authors have systematically reviewed the extensive literature and chose the following topics, with the awareness of its utility to understand the entire thesis. The underlying function for this selection, is thus to support the enhancement of the view on how strategic planning influences the intra-family succession in family firms. Based on the previous explanation the chapter was divided in the following themes:

1. Psychological aspects
2. Succession planning
3. Family dynamics and culture
4. Importance of Strategy in Family Firms
5. Corporate Governance in Family Firms

This categorization will provide a sufficient contextual representation of the themes, to facilitate the reader's understanding of the analysis conducted later on.

### 3.1 Psychological Aspects

Since *nepotism* is one of the main issues concerning the decision-making on entrepreneurial succession, the literature explored the various bias affecting it from a psychological perspective. Liu, Eubanks and Chater (2015) suggest that the availability heuristic can generate a decision favourable to a family-related candidate, because of the likelihood of recalling high performance situations from the leader. Additionally, they consider the representative heuristic to affect the choice, due to the higher similarity towards the entrepreneur's offspring compared to an external option. The third concept they considered, revolves around the confirmation bias that can also easily take place when the founder seeks evidence to support a first impression about a candidate that is connected to the family. Anchoring too has been discussed in their paper, and can favour the latter by causing

misvaluated weightings to the features of candidates. Other phenomena that can occur as well are overconfidence or escalation of commitment when the leader is not open to a change of opinion, even given new evidence supporting the external candidate. Finally, affect heuristic can have a strong impact when emotions drive the choice towards the offspring (Liu, Eubanks and Chater, 2015).

The degree to which psychology is involved in the succession process pushed other scholars towards further investigations on the matter. Often this field ends up being not sufficiently isolated in its academic analysis, but rather discussed together with social, political and other factors. As in line with the work of Filser et al. (2013), it is important to remember that *“emotions and conflicts should never be underestimated when considering the succession process”* (p. 272) since they have the potential to hinder the performance of the FFs and it can't be taken for granted to have a vision alignment between the entrepreneur and the successor (Filser, Kraus and Märk, 2013).

Despite the scarcity of literature with an exclusive focus on the topic, there are other aspects of equal importance, worth taking into consideration. In a recent work by Korine (2017), a relevant concept is the fear of mortality, as a factor strongly influencing the choice to be made by the leader. He conceptualises this repercussion to take place mainly, due to the will of leaving a legacy that generates an orientation towards candidates that express coinciding views and being in favor to the preservation and prosecution of the accomplishments of the entrepreneur. Another concept expressed in the paper is the degree to which the candidate has a positive interpersonal relationship with the leader and its team, leading to confidence and trust that creates another pathway towards a choice of continuity.

This view is portrayed by Tagiuri and Davis (1996) as well, who's work expresses that relationships within a family generate a higher degree of trust, motivation and loyalty. The study shows that, from a psychological perspective (focusing on individual ambitions), the personal ties to the business for the founder tend to push him or her to postpone any contemplation regarding the retirement and the succession, perpetuating a utopian idea of an endless life (Korine, 2017). Additionally, Lansberg (1988) explains that, often other stakeholders such as employees, family members, customers and suppliers, do support the founder in its delay of retirement, generating a phenomenon called “succession conspiracy”. A better way of handling the disengagement lays in shifting the focus from the business to the next activity that will be undertaken after retiring, in fact according to Gagné, Wrosch and De

Pontet (2011) leaders that are capable of doing so develop better transition plans and tend to be happier about their life after leaving the company. There might always be the risk of having the founder re-engaged in the business after the retirement, or willing to take part in the day to day operations. Such events as illustrated by Marler, Botero and De Massis (2017) find their roots in the disposition and the willingness of the incumbent towards the succession process, and might manifest itself only after passing on the leadership.

Overall, according to experts in the field of FBs and family members working within them, one of the most troublesome and complex aspects in such organizations are emotions. According to Shepard (2016) they strongly affect both management and governance situations, pinpointing their core role to organizations. For example, in the field of succession they are an essential element that can shift the decisions of the entrepreneur either on the successor and on when and how to retire from the leadership position. Vardaman and Gondo's study (2014) build on this aspect by describing the complexity behind trade-offs regarding decisions affecting internal family dynamics and the business itself. This differentiation is rooted in the strategic intent of the firm, and the consideration towards stakeholders or the preservation of emotional stability amongst family members.

In substance, the psychological aspects of nepotism expressed by Liu, Eubanks and Chater (2015) are widely represented in the Churchill and Hatten model (1997) as they influence both the dependent variable of family harmony, since someone can feel excluded or not considered, and the independent variable of distance in family relationship where the emotional intensity of the latter can play very different roles. The two aforementioned components obviously do include an additional focus on emotions and conflicts highlighted by Filser, Kraus and Märk (2013) in their work. Furthermore, the tendency of pushing forward the moment of transition investigated by Korine (2017) or the unwillingness to let go the control of the company showcased in the paper of Marler et al. (2017) is an extremely relevant factor regarding power transfer, the fourth stage of the life cycle of generations, as it can move its time horizon and affect the occurrence method.

## 3.2 Succession Planning

Succession planning is a critical element that reflects the outlook and continuity of family firms that aim to create a long-lasting legacy for future generations. Alayo et al. (2016)

understand it as the transfer of decision making as well as ownership to the next generation and is one of the most important tasks that these firms must overcome according to Mussolino and Calabrò (2014). Although interest in the field has been rising over the years, as Sharma and Chua (2013) present in their paper, the process however presents a fundamental and complex dilemma in which significant research and theories still appears to be missing.

Giambatista, Rowe, and Riaz, (2005) put in perspective the importance of carrying out decisions regarding succession, being the most critical for the leader of a family business, which is a necessity in order to guarantee the sustainability of the firm's performance. Such decisions are at the core of the prosperity rate of FFs and their inadequacy can be determinant (Cucculelli and Micucci, 2008; Royer et al., 2008; Wasserman, 2003). In fact, the probability of a positive outcome is rather low since approximately 70% of FFs end up failing after the first generation of leaders, as illustrated by the Harvard Business Review (2012).

Preparing this phase therefore requires the identification of crucial factors that facilitate or deter this transition. According to Alayo et al. (2016), who conducted a study on family firms in the Basque Region in Spain, a successful outcome is correlated to a combination of timely engagement planning, a fair selection of the successor (commonly agreed on by the family) and the degree of educational background or expertise the candidate can showcase, to gain legitimacy from employees and family members. These are backed by Aronoff and Ward's (2011) viewpoint in which he stresses the need to approach the matter surgically and consider all alternatives to ensure the best successor is appointed. Dyck et al. (2002) also consider the latter to be a valuable factor, conveying the importance of the successor's skills, timing of transfer, the utilization of effective baton passing techniques for knowledge transfer and the degree of intergenerational communication to succeed in the succession.

According to Lee, Lim and Lim (2003) in the context of a family business, the degree of idiosyncrasy of the firm is directly proportional to the likelihood of an offspring being appointed as head of the business as result of the succession process. The latter is true with the exception of a heavily underqualified family-related candidate, that would risk severely damaging the business. Consequently, a low idiosyncrasy FF would be more likely to have an external manager as successor of the entrepreneur, mostly if the choice is to be done between him/her and an offspring with low competency. Piaskowska and Trojanowski (2014) suggest that in order to avoid being under qualified in a current globalized economy, an effective way

to further develop the skills, the values and the perception of oneself for a successor, is to gain international experience already at a young age during the formative years. In fact, other relevant scholars such as Cabrera-Suarez et al. (2001) and Kellermanns et al. (2004) reinforce the concept by highlighting how the knowledge that can be absorbed from the previous generation is not sufficient, as education and personal experience outside the FF are needed as well.

As a result, on a general note, three recommended areas to touch on for a smooth transition involve the management, ownership and transfer of taxes (Giarmarco, 2012), which White et al. (2004) go more into depth showing a rigorous approach to consider all legal and financial elements. However, from a practical point of view Ibrahim, Soufani and Lam (2004) believe formal planning is often discarded, as the risk of internal family conflict may arise when reaching a consensus. Astrachan and Kolenko (1994) provide context into the reasoning behind this phenomenon that stems from the closely intertwined problems between family and business, inhibiting thus the possibility to create an effective human resource strategy for the formation of the successor. Nevertheless, conflict shouldn't be necessarily considered a negative factor in FBs (Kellermanns and Eddleston, 2004), in fact according to Amason's (1996) only an affective-type one does hinder the firm's decision-making, while a cognitive one does improve it. A more traditional opinion is Long and Chrisman's (2014) as their work explains how a shared vision for the FB directly fosters successful intra-family transitions.

It is worth noticing that in SMEs, even generic strategic planning, although not necessarily related to the succession process, doesn't always take place or when it does it is done only to some extent. There are multiple reasons behind these behaviors, specifically the main ones are limited or non-existing knowledge of strategic management tools. Majama and Magang (2017) showcase these limitations to arise due to the size of the firm, the focus on operational aspects of the business and the preference for an instinct-based decision making process. Nevertheless, when planning the succession event, different types of outcomes can arise from motives underlying the process. These results are based on the combination of different degrees of "family harmony" and "continuity of family business" (Figure 3.1) as conceptualized by Gilding, Gregory and Cosson (2015). Such mixes generate the so called "four Is": Implosion, the least desirable of the four, happens when both aspects are weak. There are some contemplated, as secondary, by literature such as Imposition, where continuity is strong, but harmony is weak, and Individualization, where harmony is strong but

continuity is weak. Finally, Institutionalization happens when both aspects are strong, and it is regarded as the ideal combination. Therefore, the outcomes of the succession process can vary greatly depending on the aforementioned variables and their degree of influence.

<b>Family Harmony</b>	<b>Strong</b>	4. Individualization	1. Institutionalization
	<b>Weak</b>	2. Implosion	3. Imposition
		<b>Weak</b>	<b>Strong</b>
		<b>Continuity of Family Business</b>	

*Figure 3.1 A Typology of Outcomes from Incumbents’ Motives for FB Succession Planning (Gilding, Gregory & Cosson, 2015)*

Additionally, various frameworks have been developed to further understand the underlying layers to optimally carry out such a convoluted transition. Among these Barach and Ganitsky (1995) propose a model focusing on the relationship and interaction amongst family firm participants, from which twelve key factors are extracted to determine whether the process is favoured or hindered.

The extensive literature reaffirms its criticality in the long-term success of a family business, highlighting its importance and the need to carefully evaluate when carrying out strategic decisions. It would be interesting to witness how further contributions to this area of study, from diverse cultures and countries, can help understand more in depth, how this process can be carried out effectively and whether a potential universal formula may be constructed for the health of future family firms.

In overall, multiple aspects of succession planning are interlinked with the Churchill and Hatten (1997) model, for example on the life cycle stages side, the concept of educational background and expertise expressed by Alayo et al. (2016) is definitely involved in the



training and development phase. In addition, the partnership and power transfer stages are indeed influenced by the baton passing techniques applied within the firm, as underlined by Dyck et al. (2002). The dependent variable of family harmony can easily be connected both to the avoidance of formal planning in order to avoid conflicts, as explained by Ibrahim, Soufani and Lam (2004), and to the matrix developed by Gilding, Gregory and Cosson (2015) where it even represent one of the two axes composing the drivers of the FB succession outcomes, therefore resulting a key factor when evaluating the incidence of planning on the matter.

### 3.3 Family Culture and Dynamics

Often in FFs an important aspect that is taken into consideration when evaluating the ideal successor is the ability to keep the family in control. Therefore, choosing a new leader from the following generations, usually meaning one of the offspring, tends to be the most common choice. Kets de Vries (1993) show that this is particularly true in the situation where the transition is happening for the first time, hence from the founder to the new manager selected within the family. He refers to its importance and complexity as a step for most companies, due to the long-term implications on the survival of the organization, its economic performance in the following years and the balances within the family and its members involved in the activities of the business.

FBs have different cultural frameworks which are extremely relevant factors as they strongly influence the intergenerational transition process. These models are grouped in two defined types of succession, as perceived by Ruggieri, Pozzi and Ripamonti (2014): the first with a focus on family and tradition, the second having, as a focal point, the market and innovation. Those varieties are also shaped by family culture, which is one of the multiple distinctive features of FBs having commitment, trust, reputation and know-how (Cabrera-Suárez, De Saá-Pérez and García-Almeida, 2001), whilst also being an intangible source of competitive advantage for FFs by helping such businesses limit shirking and optimize decision making (Campbell and Heriot, 2002).

Personality does also play a vastly relevant role in the dynamics of FFs, for example Dyck et al. (2002) illustrate a characteristic such as proactiveness to be in strong correlation with earlier occurring and better management of the succession process, both when encountered in the founder and the successor. The business world tends to be a very complex environment

already in NFFs, therefore when intra-family relationships take part in a company the degree of intricacy increases. The various issues that are generated from such special circumstances, both of monetary and emotional nature, have the capability to create arguments or clashes inside FFs (Kellermanns, et. al, 2014). In addition, Gagné, Sharma and De Massis (2014) observe conditions such as the perception of being stuck within the business and not being able to either sell the shares or quit the job, could transform into anger and promote internal collisions.

Despite possible conflicts, a family business will almost inevitably face the succession process, therefore the relationship between the founder and its offspring will influence the interest of the latter in being part of the firm. In fact, by Garcia et al.'s (2018) viewpoint, the attitude of sons or daughters towards the FB, their ideas and skills, are all affected by the way they are treated by the parents. Moreover, even if leaders tend to desire a generational transition, they don't always receive positive feedback from the youngest members of the family who contribute ideas, as backed by Sieger et al. (2016) and Zelleweger et al. (2012) implying the fact that less than 7% of the individuals in newer generations are interested in assuming the leadership position in FFs.

Therefore, since joining an organization created by one's family is far from being a common choice, the relationship between the parent and the offspring gains even more relevance in the context of FFs. For example, on the matter Kaye (1996) argues that parental support is inappropriate or even unethical. Such statement finds further explanation in the work of McMullen and Warnick (2015), where it is stated that *"by supporting the child-successor's satisfaction of his or her needs for competence, autonomy, and relatedness, we believe that parent-founders can encourage intra-family succession that simultaneously benefits the child-successor, the parent-founder, the family, and the family firm"* (p.1044).

Furthermore, the successor needs an influential parent, not just indulgent or disregarding, if the goal is to provide him or her with adequate support (Lubatkin et al., 2007). Consequently, Barber (1996) suggests focusing on a fair degree of behavioural ascendancy, and at the same time avoiding the use of emotional manipulation as means of psychological control, would be the best tactic since the latter would be highly harmful to the child-successor, subject to it.

Even if the possible successors are not always interested in joining the FB or taking the responsibilities attached to having the highest role in the organization, entrepreneurs can't choose a candidate simply based on family ties and a general will to accept the investiture. The main features taken into consideration according to the research of Chrisman et al. (1998) are integrity and commitment, while more "traditional" factors such as gender or birth order are recognized as unimportant, therefore showcasing the world of FFs as less stereotypical than normally perceived by the general public.

Having some personality traits often rewarded by entrepreneurs doesn't imply that every founder is positively inclined in the direction of the passage of leadership. As a supporting argument on the matter, De Massis et al. (2016) also explain how family structures influence the lives of FFs, in particular the attitude of the founder towards the intra-family succession process. The paper investigates the existence of a positive correlation between the number of children and the view of the entrepreneur on the transition. Basically, it indicates that more offspring would shift the leader to a more altruist sentiment, giving more importance to issues such as employment and financial independence of the following generation. On the other hand, a negative correlation towards the succession is connected to a higher number of shareholders in the family. According to Kotlar and De Massis (2014) in order for the FF to be deliver high performance, to build legitimacy and to contribute to the good of the family, it is important to stress the utilization of familial social interactions and to discourage an approach based solely on professional social interactions within the FB.

Overall, the family culture and dynamics do intersect with the dependent variables of family harmony and economic performance in the work of McKee et al. (2014) as sources of conflict within the FF. At the same time the independent variable of personal characteristics includes both the key role of personality in the dynamics of a FB expressed by Dyck et al. (2002) and the highlighting of integrity and commitment as core features looked for in order to be selected as a successor according to Chrisman et al. (1998). Finally, the need for an influential parent underlined by Lubatkin et al. (2007) does magnify the relevance of the training and development stage in the life cycles of the generations theorized by Churchill and Hatten (1997).

### 3.4 Importance of Strategy in Family Firms

One side of the strategy in family firms regards the founder himself, in fact according to Sonnenfeld and Spence (1989) there are four exit strategies undertaken by entrepreneurs in FFs when they are about to retire: monarch, general, ambassador, and governor. Each of them has particular characteristics regarding the types of barriers to exit that need to be faced by the founder belonging every single one of them. Monarchs suffer from the loss of the position of power and the related decrease of social prestige (the so called “heroic stature”) but at the same time the sense of leadership and purpose in his work (the so called “heroic mission”); Generals suffer only from the loss of heroic stature; Governors only from the one of heroic mission, while the last one, Ambassadors, are not very troubled by any aspect of their retirement (Table 3.1).

*Table 3.1 Types of retirement styles of CEOs in family businesses and barriers to exit. (Sonnenfeld and Spence, 1989)*

	<u>Monarch</u>	<u>General</u>	<u>Governor</u>	<u>Ambassador</u>
<u>Heroic Stature</u>	x	x		
<u>Heroic Mission</u>	x		x	

The same paper also investigates how such categories are a representation of the mix of personalities between the leader and the successor, consequently defining, or at least impacting, the attitude of the first towards the succession process and the degree of “readiness” he or she has for the transition. Exit approaches directly relate to the independent variable of personal characteristics as the personality traits and the attitude of the entrepreneur inherently affect the type of retirement style, as explained by Sonnenfeld and Spence (1989). While at the same time the topic does fall into the power transfer phase of the life cycles of the generations structured by Churchill and Hatten (1997).

Furthermore on a company level, unlike non-family firms, FFs sustain particular aspects that enable them to thrive over generations, and thus by nature have a different view on the strategy to pursue, forcing them to consider additional elements in the creation of such. Naldi et al. (2007) illustrate this difference by providing a study showing that risk-taking family

firms (as opposed to the more traditionally conservative one), may provide signs of innovation and proactiveness as a result, however this is usually negatively associated to performance. As mentioned earlier, the role of intra-family dynamics (among other characteristics) weighs on the development of this long-term view, and may thus blend the social and business dimension together, henceforth bringing the element of strategy at the forefront of decision-making in FFs.

As showcased in the succession planning section, FFs don't necessarily implement any form of strategic planning in their activities, or they do so in a very restricted manner, the former being rather common (Robinson and Pearce, 1984; Gibb and Scott, 1985; Matthews and Scott, 1995; Chaston, 1998). These issues arise mainly due to non-existing knowledge of strategic management tools, a focus on operational aspects of the business and a preference for an instinct-based decision making process (Majama and Magang, 2017). Despite such common practices, the literature reaffirms how planning for the strategy of a FB does lead to a higher degree of capitalization of the firm's resources, therefore resulting in a superior performance of the company (Hamel and Prahalad, 1989; Peel and Bridge, 1998) and possibly even in a competitive advantage for the organization when considering innovation (Ketokivi and Castaner, 2004). In addition, Kraus, Harm and Schwarz's (2006) study does further corroborate the theory by underlining how a higher degree of formal planning does increase the probability of the firm showcasing growth.

Furthermore, it is worth mentioning that according to Eddleston et al. (2013) the positive effect of strategic planning for the performance of a FF are not homogeneous throughout different generations. In fact, the aforementioned scholars highlight how these practices affect in a deeply positive manner the businesses managed by first and third generations (and beyond), while au contraire having an almost non-existent influence on firms managed by second generations. Nevertheless, if a FF wants its executives to be more prone towards a formal business approach, it is worth being aware of the fact that international experience results, have a positive correlation with strategic decision-making rationality (Azam et al., 2018). Hence, in the interest of the FB, the formative path of a potential successor can be orchestrated in the aforementioned direction.

The nature of a firm and its constituents can thus influence the strategy and the goals of a FF, as previously mentioned, both before and after the succession process has taken place. For example, the approaching of an intra-family transition can strongly destabilize the priorities

and ideas for the future within a FB. In fact, according to Le Breton-Miller et al. (2004), such a passage is often anticipated by an increase in voicing different business objectives from the actors involved in the activities, consequently paving the way for confrontations on strategies and goals previously agreed upon. They also mention that these workings tend to create new objectives for the FF, ergo unravelling the dynamic and ceaseless soul of transitions in FBs.

The same subject is investigated by Kotlar and De Massis (2014), who interviewed different firms in order to showcase the noticeable increase in goal diversity around the period of the succession taking place in FBs, in opposition to windows of time years before or after (Figure 3.2). In addition, the aforementioned authors, underline the importance of introducing and managing goal-setting systems in the period of time when the succession occurs, in order to preserve the wealth creation over multiple generations in FFs.

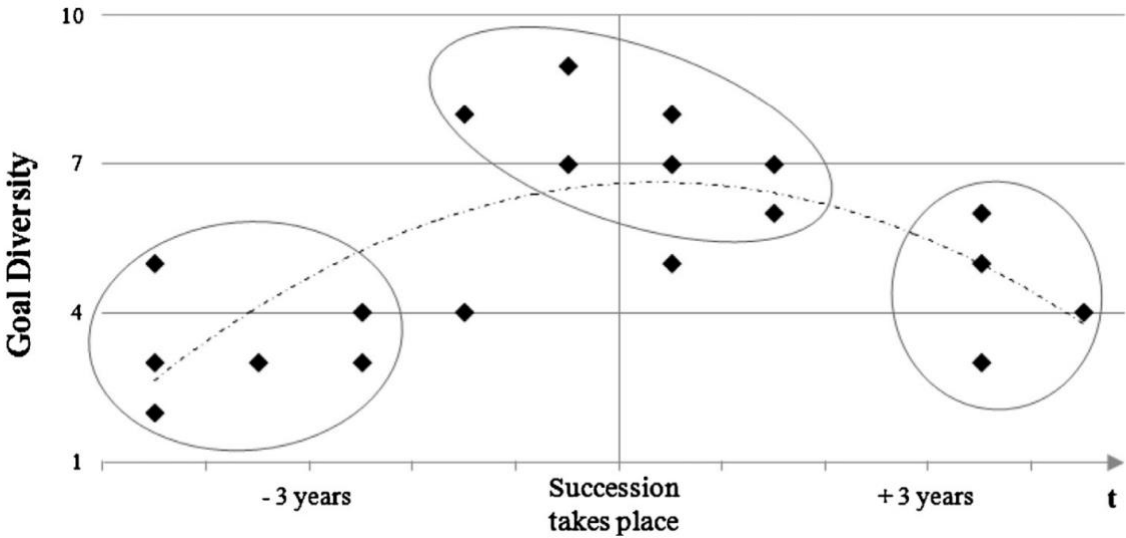


Figure 3.2 Goal diversity in studied firms by stage of intra-family succession. (Kotlar & De Massis, 2014)

Regarding the strategy of a FB it is also essential to keep in mind how it can be influenced by dynamics that are not usually central in NFFs. According to Fang et al. (2018), the scenario revolving around internationalization can vary to a great degree based on which generation is in control of the FF. In their paper, they explain that when the leadership is still in the hands of the founding generations the correlation with foreign expansion of the firm is negative, while on the contrary later generations are associated positively. In the same paper knowledge-based resources and their influences are investigated too. The study shows how

FFs with a high degree of such resources that are still managed by the first generation tend to be more oriented towards its utilization in order to seek internationalization. On the other hand, second or third generations appear less willing to do so. In general, it is pointed out how founding generations FFs are in general less prone to geographic expansion, but more inclined towards it as the degree of knowledge-based resources grows. On the contrary, FB managed by successors are more apt to internationalize, but the level of knowledge-based resources correlates negatively with it.

Another relevant factor, is the entry mode selected by FFs when penetrating foreign markets and its crucial impact on the strategic decisions of FBs leaders. Pongelli et al. (2016) delve into this perspective and illustrate that when the controlling party of the firm is the founder, the most likely scenario is a predilection towards equity mode and an unwillingness to cooperate with external partners. They go deeper in this aspect and show that such an association can be interpreted as a behaviour in support of long-term investments and preservation of family control. Au contraire, later generations, even with the same regard to equity mode, are more open towards the utilization of cooperative forms.

To conclude, the literature about strategy within FFs does strongly relate to the Churchill and Hatten model (1997). When the dynamics of strategy, change upon the approach of the transition phase, as expressed by Le Breton-Miller et al. (2004), they locate themselves as a process starting in the partnership stage until the occurring of the power transfer. In certain cases, even for the first following years, according to Kotlar and De Massis (2014). Similarly, Fang et al. (2018) consider the power transfer stage an essential turning point for the strategy of a FB, since the first generation and the second tend to have different predispositions toward internationalization. Furthermore, the intervening variables of technology and industries do relate with the focal essence of innovation on the outcome of strategic planning, as explained by Ketokivi and Castaner (2004).

### 3.5 Corporate Governance in Family Firms

Becht et al. (2003) refer to corporate governance as the addressing of corporate claimholders, in order to find solutions to any conflicts of interest that may arise among them. A complete understanding of the inherent complexities that stem from the formation of FFs, is still looming large, as academic efforts increase in exploring these dynamics. Giddens (1993)

considers that the predominance of an internal social system, in which family members who have a special bond exert significant influence on the performance of the firm, implies that a different approach to managing internal and external business activities is witnessed, as opposed to traditional NFFs.

A recurring element that justifies these intricacies, and opens doors for further discussion, is the role of stewardship theory and its impact on these businesses. Key (2016) conceptualizes this theory, illustrating that the directors of a firm act in the best interest of their company, fostering a collectivist-oriented environment rather than pursuing personal economic benefits. Davis et. al (1993) provide a thorough overview of the concept in their paper, by examining a model where the motivations behind the choices made by managers are uncovered. The findings show that, in contrast to previous researchers, the intrinsic nature of the stakeholders to perform for the greater good of the company, is triggered by choice rather than determinism. This reflects a plausible attitude in the intra-family relationship dynamic, although the alignment of the successor with the founder may not always be successful.

Building on this, Del Giudice et. al (2013) present a study on southern-Italian FFs undergoing a generational change in the top management facet of the business hierarchy. In the paper, the role of stewardship behaviour was a determinant enhancer for legacy building, regardless of the successor being family or non-family member. The attitude acted as an efficient governance mechanism to facilitate the succession process, by essentially placing importance on the degree of prosperity for future generations of successors. This is similarly reflected in Habbershon and William's (1999) work, in which they stress the criticality of continuity in family firms, and the tendency of the founder to invest in the long-term benefits for family members.

Contrasting studies however, show that this behaviour in FFs can be detrimental and deter growth. Chrisman et al. (2007) have empirically showcased an opposing perspective in these organizations, displaying how certain control mechanisms (such as incentive compensations) are implemented to manage the behaviour of family members. Furthermore, a determinant variable is also the degree of the family's embeddedness in either the family or business system (Le Breton-Miller and Miller, 2009), which will give rise to either stewardship or agency-related behaviour within the firm.



Nevertheless, the issue seems to be rather twofold, according to the work of Gallo and Kenyon-Rouvinez (2005), which emphasizes the distinction of two different systems within FFs, on one hand the business facet deals with the economic and strategic performance of the firm (controlled by a top-management-team, board of directors, etc.), on the other family-based functions reflect the cohesion of the counterparts which take part of a governance structure (comprising of a family council, shareholders' meetings, etc.) The distinction between the two levels therefore has also an influence in the behaviour of certain FFs, who may differ from their competitors, in terms of the degree of efficiency in managing the integration of the two dimensions appropriately. The complex role of corporate governance in FFs is a primary incentive for the rising research being conducted in this field. With certain aspects yet to be uncovered, a thorough understanding of the dynamic social structure of families within a business environment is still missing, and thus gives room for further research. For this paper however, the attitude of the successor and family members within their respective firms were considered under the agency and stewardship lens as discussed previously.

In overall, corporate governance in FFs with the concept of special bond within the family expressed by Giddens (1993) does represent the dependent variable of family harmony theorized by Churchill and Hatten (1997). At the same time the work on economic long-term prosperity by Habbershon and William (1999) intersect with the dependent variable of economic performance, while the role of control and incentive tools in FFs investigated by Chrismann et al. (2007) fits within the independent variable of operating mechanisms, both extracted from the model of Churchill and Hatten (1997).

## 4 Methodology

The following chapter will present the methodical considerations that were applied when collecting the relevant data, the reasoning behind different approaches and the underlying logical substructures to ensure a coherent and holistic study was carried out. The section will begin with the approach taken, highlighting the nature of the research undertaken and the theoretical foundations considered, followed by a design of the sample collection, and the alignment of the analysis of the findings in relation to the research question.

*“How does the degree of strategic planning affect the intra-family succession in Italian SMEs?”*

### 4.1 Research Approach

Since the main goal of this study is to investigate the extent to which strategic planning affects the generational succession in family businesses, the authors have chosen to implement a *constructivist* point of view in the backbone of this paper. In Miller and Crabtree’s (1999) perspective, this criterion encompasses the fundamental role of human subjectivity and the construction of meaning, without completely eliminating the element of objectivity that is. They build on this by portraying the criticality of the participant and their role as story-tellers, which adequately aligns with this approach. As conceptualized in section 3 (Literature Review) the themes related to the research question are inherently complex and require a deep understanding of their dynamics, which can be viewed from different perspectives. Therefore, in line the aforementioned epistemology, the authors additionally consider an *interpretivist* angle when building the research. This type of research is presented by Nordqvist, Hall and Melin (2008) to “*view social reality in novel ways that complicates or challenges dominant taken-for-granted-views*” (P.3) The family business field is a perfect target for this approach, and presents the opportunity to deconstruct incomprehensible behaviours that occur with these type of firms, and build on the constantly growing number of papers.

Intrinsic to the mentioned view, this thesis also relies on an inductive approach, basically working towards inferring a general principle by observing specific cases and consequently

moving from a particular view to a broad one (Zalaghi and Khazaei, 2016). The aforementioned approach is used in order to gain an understanding of how organizational dynamics or social processes work, as it “*provides an easily used and systematic set of procedures for analyzing qualitative data that can produce reliable and valid findings*” according to Thomas (2006). This procedure implies that knowledge is built through the findings, as opposed to being simply revealed from a positivist perspective, allowing the researchers to thoroughly comprehend the nature of the human experience witnessed by the study participants (Stake, 1995). Therefore, the observation of the reality expressed by the five case studies showed a spectrum of patterns and relationships, by which the development of explanations in the form of theories are based on.

## 4.2 Research Design

### 4.2.1 Case Study

As the topic of this thesis focuses on a meeting point between two different fields of business and management research, respectively strategic management and family business research, the authors opted for an approach fitting both academic areas. According to Jennings (2013) case studies are widely used in the former with excellent results, likewise they are also extensively utilized in the latter, since as explained by De Massis and Kotlar (2014) in the following statement “*many of the features and dimensions that make family firms’ resources, behaviours and performances unique are especially possible to capture and grasp through the richness, depth, and closeness of the case study method*”. Based on the high degree of compatibility for both fields such method seemed the best viable option for the paper.

In order to have a higher generalizability of the research, the authors selected an exploratory multiple case study rather than a single one, the difference being the amount of companies taken into consideration (one or more than one). The different cases were grouped together based on mutual features of the individual cases, like for example being part of a group or specimen of a phenomenon (Stake, 2013). In addition, with the aim of being in line with the range of four to ten studies suggested by Eisenhardt (1989) for multiple case studies, the thesis analysed five different firms.

### 4.2.2 Sampling

Adjacent to the method explained in the previous subchapter, there is a fundamental need to provide a clear rationale for the choice specified. According to Eisenhardt (1989), cases are chosen due to their unique elements, that build the foundations to improve the understanding of a particular occurrence. While a single-case study may yield a richer explanation of the phenomenon being studied (Siggelkow, 2007), a multiple case study instead provides a stronger and robust structure for theory building, allowing the researchers to replicate exclusive findings across several settings (De Massis and Kotlar, 2014).

In relation to the context of this paper, succession planning in family businesses pose a hurdle on the nature of the selection of relevant participants. The discussions around how to approach an appropriate population for the study, considered the potential validity of the data and representability of the sample to be chosen. Ishak and Bakar's (2014) paper on sampling strategies for case studies, provide an in-depth discussion on the implications various techniques have on the findings of research similar to this study. Based on their investigation, the authors saw a fit in applying a purposive sampling, as three main elements correlated with the requirements of this family business research: (1) the degree of uniqueness in selecting enlightening cases; (2) the selection of members of a population who are not easy to get in touch with; (3) the selection of cases for an in-depth investigation. An example that justifies the suitability of this sampling strategy is Noriah's (1999) paper, who delves in the topic of social attachment paradigms in Malaysian students in the United States. The goal of the study was to enhance the understanding of patterns that were shed a light on by students' intercommunication with their families and friends. Similarly, this paper investigates the relationship between the degree of strategic planning in family businesses and the consequential outcome on the generational succession. Henceforth, this sampling method will provide the possibility of extracting relevant data that will allow the authors to construct plausible patterns in the findings, that will best answer the research question proposed.

Due to the nature of the thesis being a case study with multiple cases, the sample involved more than one company. All the firms investigated fit within the following criteria: being a family firm founded and run in Italy, the organization being of a size ranging from small to medium both in terms of revenue and number of employees, up to 249 according to ISTAT (2018) as explained in the introductory chapter, the company having undertaken a generational transition from either the founder to an offspring or from the second to the third generation.

Since every firm is to be considered an individual case, with the aim of a subsequent comparison between all of them, a range between one and three representatives for each organisation was interviewed in order to get different points of view on the matter.

#### 4.2.3 Unit of Analysis

In case study research an important element that will impact the validity of the results and the objective of the whole paper is the *unit of analysis*. Its fundamental role in this type of research has steered attention of scholars such as Grünbaum (2007) who highlighted the potential ambiguity that is posed when selecting one. For the application towards this thesis, the authors deemed the “degree of strategic planning” to be a central driver to measure and observe throughout the findings and analysis, thus crystallizing its purpose as a unit of analysis as the study reaches its end goal. This factor will be considered mainly from an organizational-level; however, it will also be applied to an individual-level to further explore social perspectives that will build upon the holistic view constructed.

#### 4.2.4 Qualitative

Considering the contextual environment to be analysed, the research has been based on a qualitative approach to ensure the richness of the findings can be adequately extracted. According to Norman and Lincoln (2005) researchers utilizing this method explore how certain social occurrences are formed and given meaning, stressing the humanistic design of reality. On the other hand, a quantitative approach implies a focus on the measurement of the relationship between variables, seeking to understand the causality in their changes.

Referring to a study by De Massis et. al (2015), on the use of qualitative research methods in the academic field of family businesses, there is an evident underutilization of the approach that is inexplicably common. In fact, a different research conducted by De Massis et. al (2012) shows that 87.3% of empirical studies within the field rely on quantitative methods, which inherently contrasts with the rising qualitative-based papers in adjacent academic fields such as strategy (Fenton and Langley, 2011), organizational studies (Buchanan and Bryman, 2009) and the general management sphere (Alvesson and Deetz, 2000).

To ensure credibility of the data was achieved, a multi-perspective approach was applied in order to gain different viewpoints within each firm considered (Patton, 1990). Interviewing various correspondents would eventually yield enough findings to which triangulation and pattern matching procedures could then be conducted to enrich the contextualized data. This is particularly vital in the family business research field “*where family relationships and business issues are typically inseparable in decision-making*” (De Massis and Kotlar, P.19, 2014) and thus creating the potential to overcome complexities regarding the conceptualization of firm practises and internal processes.

Qualitative research can be utilized to clearly illustrate a phenomena to produce cross-case comparisons and analysis of individuals or groups (Claire, 2010; Norman and Lincoln, 2000; Merriam, 2009). Due to the absence of relevant, raw, numerical data regarding the dynamics of family business successions and the nature of intra-family relationship aspects, this approach was chosen to allow the researchers to immerse themselves into intimate and personal occurrences that involved the subjects of the research.

## 4.3 Collecting Data

The following sections will explain the procedure the authors adhered to, in collecting the primary data for this study.

### 4.3.1 Interview Method

The type of tool selected and utilized by the authors for all the participants was a semi-structured interview. According to Drever (1995, P.1), in this kind of approach “*the interviewer sets up a general structure by deciding in advance the ground to be covered and the main questions to be asked. The detailed structure is left to be worked out during the interview, and the person being interviewed has a fair degree of freedom in what to talk about, how much to say, and how to express it*”.

In total 9 interviews were conducted in Italy over the course of 5 days. The authors applied a purposive sampling method (as mentioned in section 4.2.2) and requested the availability of the selected participants beforehand. To prepare for the potential length of each session, a combination of audio recording and writing notes were utilized as methods to capture the

empirical evidence, and serve as the foundation to which the analysis and discussion would then be based on.

The questions were built with a 5 part structure: the first is a focus on the company and the interviewee in general, in order to collect the information needed to understand the context of every case; in the second part involves an investigation on the strategy of the firm, the degree to which strategic planning took place within the organization and the interconnection of the two to the intra-family succession; the third part questions the respondents on the activities and measures undertaken in order to prepare the successor to the generational transition; the fourth digs deeper on the financial performance of the firm previous and following to the leadership change; the last part instead focuses on the family dynamics and leaves space to the interviewees for additional considerations or thoughts. During the interviews the authors tried to make the process as comfortable as possible and to leave room to digressions and further explanations of the respondents. By applying open-ended questions and consequently using the *critical incident technique*, access to sensible and rich information was successfully gained. Such approach required avoiding any form of interruption of the narrative flow, consequently resulting in great differences of length between the various interviews based on the personality and the attitude of the interviewees on the topic. The duration of single questionings ranged from 15 minutes to 75 minutes according to the aforementioned factors.

The interviews took place in multiple settings according to the availability of the respondents, and were conducted in Italian. With the two authors of this thesis of being of Italian nationality there were no issues to then translate the findings in English. The majority occurred in the offices of the respective companies but also couple ones occurred either at the interviewee's home or in a cafe. In addition, having a pre-existing connection with the interviewees allowed the authors to obtain more honest and confidential information, while at the same time having the ability to dig immediately into delicate topics thanks to the trust already in place. Upon gaining informed consent by the study participants, the answers were recorded and stored in a digital library. This would later enable the authors to execute a thorough data extraction process and begin the analytical phase of the findings.

Conducting interviews however, pose common bias-related complications when gathering data. In Golden's (1992) paper, focusing on the utilization of retrospective accounts as references for past strategies, he illustrates the risk of inaccuracy when respondents are asked to recall certain events in the past, causing potential distortions in the unfolding of events. To

ensure this issue was minimized, or yet eliminated in its entirety, the decision to gain insights from different family members was agreed on by the researchers. This approach would produce a more holistic perspective on the succession dynamics witnessed by each firm, aligning the goal of the study to the findings.

## 4.4 Analysis of Data

Upon the collection of the interview material and the extensive information retained from secondary sources the authors proceeded with the analysis. As mentioned in the previous subchapter 4.2, a multiple-case study method was chosen and thus implied an initial preparatory phase of organizing the raw data.

To begin with, the first step entailed reducing the data, which in line with Miles and Huberman's (1994, P.10) viewpoint, refers to "*the process of selecting, focusing, simplifying, abstracting and transforming the data that appear in written up notes or transcriptions.*" By focusing on the initial research question pivotal to the paper, the authors dissected the extensive audio material and proceeded to rigorously select topics relevant to the purpose of the study. This was successfully achieved by combining the notes taken (on the day the interviews were conducted), with the recorded audio files, yielding an improved version of the relevant data on a document. Inherent to this phase, the authors consequently undertook a categorization procedure, and created a table separating the firms studied and the data retrieved by each, following the reduction step. The goal of this stage was to allow the authors to execute a cross-case comparison, via a visually organized template, outlining the relevant information to be considered subsequently in the main analysis of the findings. The structure of these tables involved the company name on the horizontal axis; on the vertical axis instead, fields demarcating basic information on the firm were inserted (e.g. sector, turnover, staff count, etc.), followed by the interview questions and their respective objectives or outcomes. As a result of this data manipulation technique, a starting point for the analytical process is then established.

Initially a *within-case* analysis was conducted by the authors, to focus individually on each firm studied. Mills et al. (2010) appraise this method, as it allows to gain awareness on how certain links and patterns revealed, influence either the underlying theoretical framework(s) of the paper or the phenomenon focal to the study or the premises established by the authors (as



a result of the literature review). Eisenhardt (1989) also agrees, stating “*the process allows the unique patterns of each case to emerge before investigators push to generalize patterns across cases.*” Henceforth, by exploring the peculiarities disclosed by the participants within each family firm, information regarding the personal experiences and individual perceptions was extracted and reiterated in alignment to the theoretical model used, and to the factors presented in the literature review. Adjacent to this approach, a *cross-case* comparison was initiated by the authors to examine a wider perspective of the succession dynamics between the firms. The latter does in fact represent the core part of the analysis as the patterns encountered were scrutinized more in depth, leveraging its utility as a main path towards answering the research question. In fact, Mathison (2005) backs this view by describing the method as means to making generalizations, consequent to the product of the data gathered from the within-case approach.

## 4.5 Research Quality

In dealing with case study research, academics have placed an important view on the validity and reliability of papers applying this approach. Due to its constructivist nature, the authors deemed important to clarify how this study would ensure these aspects are implemented throughout the research, and thus decided to take reference from Yin (1984) and Campbell's (1975) papers focusing on the four factors to consider for case study research: (1) Construct validity; (2) Internal validity; (3) External validity and (4) Reliability.

### 4.5.1 Construct Validity

According to Denzin and Lincoln (1994) this type of validity is linked to the degree of alignment the authors of a study portray, between what they are claiming to investigate and what is actually investigated. A common method utilized to ensure this is successfully achieved is by establishing a chain of evidence in the data collection phase. Griggs (1987) and Hirschman (1986) back this technique by describing the potential to exploit interview transcripts or notes for cross-checking and quality assurance purposes. In addition to the utilization of this technique by the authors of this thesis, it was imperative that during the interviews, bias was an element to be eliminated, or at least attempted to. Therefore, to increase credibility, at the end of every interview session, the interviewee would revise the

notes taken by the researchers, who were attentive to provide the material in its original form to them as suggested by Miles and Huberman (1994).

#### 4.5.2 Internal Validity

The second most important aspect which determine the research quality in case study research is internal validity (Stuart et al., 2002). This element is found in the data analysis phase, which looks at the links between the variables and the results, scrutinizing in particular their causal relationships (Kähkönen, 2011). For this thesis, the authors made thorough use of cross case pattern matching between the five companies analyzed. By investigating them individually at first, and consequently viewing the findings holistically, the abundance of data was eventually displayed using non-textual illustrations (tables) to ensure transparency throughout the phase.

#### 4.5.3 External Validity

Whilst scholars such as Neuendorf (2002) refer to this factor as the degree to which the results may be tested to other contexts, it is important to notice that there may be confusion between the nature of generalizability implied. Stuart et al. (2002) differentiate the criticism in regards to this as statistical (from sample to population) and analytical (from case to theory). It is by the latter aspect that the authors of this thesis maintained a coherent analysis, by referencing the findings to the literature, to provide context and delineate input from scholars within the academic field.

#### 4.5.4 Reliability

Yin (2003) defines this as the quality of repetitiveness, in particular as the extent to which the study may be repeated and produce the same results. Initially, in line with Nair and Riege's (1995) view, the authors of this thesis recorded the interviews mechanically. Subsequently a thorough research procedure was provided in order to ensure the reader would be comfortable in reading the paper, without encountering biases.

## 4.6 Limitations

The research conducted for this study will focus on the succession process of family businesses in Italy, by investigating the various influences that the degree of strategic planning within the aforementioned organizations implicates. The findings may give insight on how to successfully operate in regards to implementing and setting the strategy of a small or medium FF while increasing the likelihood of a positive intra-generational succession. However, one possible limitation may revolve the primary research conducted will be exclusively carried out in a qualitative manner to a few participants, thus restricting the pool of insight that could have been retrieved alternatively through quantitative methods. This approach however has been chosen due to the sensitivity of the information involved and the difficulties in conducting interviews with several founders of family businesses. An additional constraint that prevents further depth to the research is the short timeframe available and the fact that all the firms included in the paper are located in the same region of Italy, instead of being well spread around the country. Furthermore, findings may be contrasted by new research papers in the future, since the thesis will be submitted in May 2018.

## 5 Family Firms Background

Disclaimer: For privacy reasons, the name of the company and the participants will not be disclosed to ensure anonymity in this paper. This will have no effect on the results and findings analysis of the study. The following companies are all Italian family firms.

### 5.1 Company A

Company A is run by 15 employees and manufactures plastic moulding for a wide array of companies supplying appliances and machinery. The interviewees involved in the study are the founder and the son, who is currently acting as CEO of the family company. The founder initially gained practical experience producing mirrors. After a period of stagnation, and economic downturns, the latter saw an opportunity to enter a new market, after the company he worked for went bankrupt and he was left with a moulding machine. The progressive growth over decades of hard work and dedication, gave rise to a business which now generates around €2.4 million in turnover (yearly). Ten years ago, the founder (80 years old at the time) decided to step down and appoint his son as CEO. The son was involved in the firm's activities at early age, observing and shadowing his father. The inherent interest in learning and absorbing knowledge over the years propelled him to take more responsibility, and become more immersed in the firm's business operations. With the next generational change incoming, the CEO has already prepared his son, and began considering the future direction of the firm, in a market where competition and technological changes has started to gain traction and influence the positioning of the firm compared to peers within the industry.

### 5.2 Company B

Company B is a manufacturing company, designing and producing storage tanks for companies within various sectors. With a total staff of 25 workers, the company currently has a yearly revenue stream of €5 million. The participants involved in the interviews are the co-founder (wife of deceased founder), the daughter, and the son. The business was founded after the purchase of a mechanical plant with already 4 employees included in the acquisition deal. The family has 3 siblings in the second generation. All family members are currently involved

in the daily business activities. The daughter has a background in business studies (during high school) and therefore is responsible for administrative duties (HR, accounting, etc.); the son, currently acting as the CEO, has a background in engineering (gained from a high school specialized in technical classes) and manages the operational, R&D, and production facet. The third sibling (not involved in the interview) is responsible for commercial-related activities such as sales and marketing. According to the founders, the reason behind the early involvement of their offspring in the firm's activities was due to a strong family bond, which consequently enabled the transfer of knowledge serving as a starting point in the formation of the future business leaders. The third-generation siblings are now undertaking an educational development, and are given the chance by their parents to pursue their passions and interest before considering an eventual entrance into the family company.

### 5.3 Company C

Company C is a family run business involved in the production of pastries, and confections. The CEO was the main participant in this study. The company was founded in the early 1900s and has brought forth a traditional artisan signature in their baking processes, that has transcended over three generations of legacy building. Employing 25 workers, with peaks reaching 70 in festive periods (mainly around the Christmas period), the business generates an estimated €9 million in turnover, and receives over half of the income through exports and interest in foreign markets globally. The CEO's visionary initiatives have steered the company to become a renowned institution within its operating region, reinforcing their core values amongst fierce competition within the industry. An entrepreneurial, innovative and international mind-set were fundamental elements that helped mould the firm into the high-quality brand it currently portrays. Early work experiences overseas have equipped the CEO to gain insight on different perspectives, which later gave him a competitive edge over local competitors. With his son recently graduating from a master's degree in business administration, the owner of Company C has encouraged his future successor to pursue a similar development path, and expose himself to an increasingly globalized world. The adequate adoption of technological shifts and the rise of social networks, has allowed the family firm to constantly innovate in the marketing field, engaging in enhanced networking tools contributing to its mission to expand their presence furthermore. This has simultaneously helped them maintain and build their reputation too.

## 5.4 Company D

Company D operates in the chemical industry, supplying diverse chemical-based solutions to small and medium sized companies in the foundries and building sector. The former CEO (successor), and current board member and head of administration was the sole participant in the interview conducted. The business was founded in 1962 by 4 siblings. The company currently employs 53 workers and has a current turnover of €33 million. Substantial growth was mainly witnessed in the last 20 years, where increased presence in foreign markets allowed the firm to focus on the optimization of the quality of their product offerings, and continue building their reputation in the industry. As a difference to her brothers, the successor interviewed is the only one holding a bachelor degree in business management, and thus applied her background in practical terms, by managing the company for a period of time. Currently she has no offspring and is still involved in the activities of the firm, however some disagreements have arisen recently in the decision to involve the third generation (nephews) family members who still lack appropriate educational qualifications and mostly seemed to be immune from accountability for their work within the firm.

## 5.5 Company E

Company E is a family business operating in the distribution and marketing sector, in particular regarding machinery for gardening and activities in outdoor environments. Acting as a reference point within the Italian market, the company collaborates with a Japanese and Swedish supplier. The interviewees involved in the study are the son of the founder (current CEO), and the senior manager (responsible for the management of the workforce, and head of the subsidiary). This business is the biggest compared to its peers who were considered for the study, in terms of size and economic aspects. The workforce totals around 100 employees, with a yearly turnover of €75 million. Growth was witnessed in alignment with market shifts and new staff hired, which provided the firm with opportunities to capitalize on. With extensive experiences overseas, the CEO was able to gain an international mind-set over the years up to his official established position. This propelled the business to maintain strong relationships with foreign manufacturers and resellers, consolidating their competitive positioning in the industry. He has two siblings who are not directly involved in the firm's operations but own shares. His son and nephew (actively working for the business) gained

experience abroad in Japan and Sweden, to learn the processes and products provided by their principal suppliers.

## 6 Findings and Analysis

The following chapter will introduce the empirical findings retrieved from the interviews conducted by the authors. In order to clearly illustrate the extensive amount of raw data, synthetic tables have been constructed to pinpoint and categorize the results in factors and themes, according to each firm considered in the study. Since this paper's theoretical foundation lays on the work of Churchill and Hatten (1997), the aforementioned themes are drawn from three dimensions, from which the empirical findings are grouped. The three categories are: Training and Development (which is a phase from the life cycles of generations), Distance in Family Relationships, Economic Performance (being an independent and dependent variable of the framework respectively) and Strategic Planning, which despite not being a component of the Churchill and Hatten model (1997), has a pivotal role to answering the paper's research question. Extending on this representation, detailed explanations on each theme will consequently be provided, and given context to both the theoretical model and the research aim focal to the study, followed the analysis of the section in question, as closure for each category considered. The objective in this section will therefore encompass an introductory view on what will then serve as a starting point for the discussion chapter, in which a new model will be presented.

*How does the degree of strategic planning affect the intra-family succession in Italian SMEs?*

Each single subtheme was ranked on a scale of Low to High, in order to facilitate the reading of data across the different tables. However, not all of them were quantifiable on the proposed scale, as there were no logical attribution criteria to be represented with (e.g. Successor relation to founder). Nonetheless, the authors agreed on including them within the findings, as they brought value in constructing the analytical process, and giving context in relating to certain characteristics to the degree of strategic planning.

### 6.1 Governance Style

A subject central to the paper investigated through the interviews was the direction of governance implemented. Specifically, the findings verted around four different topics, the degree of managerial culture, formal strategic planning and internationality, but also the



presence or absence of strategic continuity between the first and the second generation (Table 6.1).

Table 6.1 Empirical findings regarding Strategy Planning

	<u>Company A</u>	<u>Company B</u>	<u>Company C</u>	<u>Company D</u>	<u>Company E</u>
<u>Managerial culture</u>	Very low	Low	Medium-Low	Medium	Very high
<u>Formal strategic planning</u>	Non-existent	Low	High	Medium	High
<u>Internationality</u>	None	Low to Medium	High	Medium-High	High
<u>Strategic continuity</u>	Yes	Yes	No	Partial	Yes

### 6.1.1 Managerial Culture

The different companies having different sizes and different features showed as a result different degrees of managerial culture. For example, in case A and B the level was definitely low due to the two being small organizations and being fully run by the families without the contribution of external management employees and with a rather ownership oriented approach. On the other hand, company C (slightly less because of its size) and D had a more managerial and professional way of working and organizational outlook. Specifically, in company D the person interviewed had a very managerial approach to the administration of the company, however the other offspring in the organization didn't, therefore the firm as a whole presented itself only with a medium degree, as shown in the passage below:

*“My father had a certain view on what entailed managing a business, which has been transcended to me. In our eyes, the firm has a social duty towards single or various stakeholders, but that perspective now is not envisioned in our daily activities anymore. As a chemical company there is necessity to ensure top managers have a certain formation prior to taking the role.”* (Former CEO of Company D, 2018)

The highest managerial culture was conveyed in company E, where apart from the CEO, all the professionals at management level were external to the family and the structure of the firm

as a whole and the way it was administered reflected a very high degree of this aspect. The CEO itself described the company as way more managerial than the average firm in the area.

### 6.1.2 Formal Strategic Planning

The level strategic planning in the companies presented itself as very much in line with the degree of managerial culture, with one exception. While in company A and B the amount of formal planning of the firm's strategy was respectively non-existent and low, the firm from case D showcased a medium level of devising. The two organizations that utilized the most strategic planning in their daily activities were company E, as expectable from the size and the degree of managerial culture, and company C which despite its modest size and being an organization more entrepreneurially oriented than managerial, expressed a very high degree of formal strategic planning. Regarding the latter, the CEO went as far as stating that the firm's strategy was his main thought in every day's activities and decision, and that such approach was his competitive advantage.

Based on the research question, the sub-theme "Formal strategic planning" is central in understanding the patterns throughout the whole analysis of the empirical findings. As the aim of the paper is to investigate how the degree of said variable does influence the life of a FF that undertook an intra-family succession, it is recalled multiple times in the upcoming sections. Despite the ulterior relationships analysed in the next parts of the findings and analysis section, the aforementioned sub-theme does present a general pattern in line with the concept explained by Majama and Magang (2017), in fact there is a tendency for strategic planning to positively correlate with the size of the company. Furthermore, small firms rarely recur to formal planning (Robinson and Pearce, 1984; Gibb and Scott, 1985; Matthews and Scott, 1995; Chaston, 1998). This is a clear representation of what the empirical findings show in firm A, B, D and E with the exception of Company C. Although the latter is larger than firms A and B, the deviance is explained by a higher degree of managerial culture, reflecting a more structured manner of conducting daily business activities.

### 6.1.3 Internationality

Concerning the internationality of the firms, the authors investigated both the amount of revenue generated from export by the different companies, but also the international attitude

and the global connections of the organizations. Company A didn't have any exports nor any relationships outside of Italy, therefore it was a fully nationally-oriented firm. Company B did generate around 15% of their sales from purchases outside national border, but didn't really have an international culture in place, therefore resulting in a low to medium degree. Company D presented itself with a medium-high level of internationalization as almost 40% of their revenue was from foreign buyers, even while currently having a local mind-set. The two most international cases were C and E, the former because of its 50% of sales coming from other countries in addition to numerous international experiences of the CEO and his son, at the same time company E has a very high degree in a different manner. In fact, the latter generated their whole revenue within the national borders but had very strong relationships with foreign companies (working as the Italian branch of both a Swedish and a Japanese firm) and both the CEO and the younger third generation had extensive international experiences and overall a very global culture within the firm.

#### 6.1.4 Strategic Continuity

The last aspect investigated around the subject of strategy, in particular the strategic continuity between the first and the second generation in the FFs taken into consideration in the study. Company A, B and E did maintain a strong continuity over the intra-family transition, figuratively following the footsteps of the founders. Company D did partially follow the strategic direction undertaken by the first generation, since there was a change (or at least a will to) towards a more managerial and structured way of doing business. The only company with a strong discontinuity was from case C where the second generation completely changed the strategic direction (with a new focus on marketing and digital channels) of the firm as he considered the previous direction set by the father to be totally wrong and inadequate to the modern globalized market.

## 6.2 Training and Development

Based on the training and development phase of the life cycles of the generations model of Churchill and Hatten (1997), the authors retrieved data concerning the methodology and the time period of entry in the FF by the offspring (the second generation), the type of education received by the latter, other type of experiences undertaken that contributed to the personal

and professional development and finally the degree of shadowing occurred as a training tool. Every company and individual interviewed experience very different development paths as it can be noticed from the underlying table (Table 6.2).

*Table 6.2 Empirical findings concerning training and development.*

	<u>Company A</u>	<u>Company B</u>	<u>Company C</u>	<u>Company D</u>	<u>Company E</u>
<u>Entrance method and timing</u>	Right after high school and military service	Late 20s	Adult, bought the company from his father	After university studies	Very young as assistant to the president
<u>Education</u>	No academic education	Specialized high school technical training	Accounting/commercial high school studies	Business administration degree (but other offspring just high school)	Business/management studies (non-degree)
<u>Experiences</u>	No external experiences	Prior working experience in other companies	Experiences abroad and in other industries	No external experiences	Multiple work experiences abroad within the firm.
<u>Shadowing</u>	Yes, as main development tool	Only for some offspring	Almost none	Partially	Yes

### 6.2.1 Entrance Method and Timing

On the matter of entrance method and timing, all the second-generation interviewees started working full-time in the firm fairly young, but while in company A, D and E they joined right after the completion of their studies (whether simply high school or more), the offspring in company B and C had other experiences prior to the FB. Specifically, the current CEO of company C had a very different approach from all the other firms, as he purchased the organization from his father because he considered the option of coexisting impracticable due to the lack of understanding of the modern market dynamics and the consequential implications on the firm's strategy.

## 6.2.2 Education

Before taking into consideration the educational achievement of the different offspring, it is worth mentioning that in Italy only 10.8% of the population aged 55 to 74 has tertiary education level, compared to the 20.6% of the EU average, and even in the 25 to 54 age group only 19.4% reached a university degree compared to the 33.4% of the EU average (Eurostat, 2018). In this context the offspring interviewed from companies A, B and C didn't have any educational attainment beyond high school, even if all of them attended rather a technical or vocational type of institution, not a classic generic high school (in Italy there are 3 types of high school: vocational preparing students to professions like plumber or electrician, technical revolving around areas such as accounting, commerce or engineering, and classic/generic more centred on literature, languages or sciences). On the other hand, the interviewees from company D and E had more formal business education paths, with a Master's Degree as in case D and multiple courses (comparable to an executive MBA) for case E.

In a hyper complex business environment nowadays, having a high-level education is a necessity in order to be competitive. In the specific case of managing a company, having an adequate business education is a needed to be able to face the market with as many tools as possible. For example, due to the lack of knowledge of strategic management tools, many entrepreneurs or managers in FFs don't utilize any form of strategic planning in their activities, or they do so in a very restricted manner (Majama and Magang, 2017). It is easily understandable how a Business School education would fill this gap and promote the use of the aforementioned tools. The companies investigated in the paper sustained this concept, by showcasing two of them (A and B) where low education levels were in fact paired with low or no strategic planning. Recalling the research of Lee, Lim and Lim (2003), where the degree of idiosyncrasy of the firm predicts an offspring being appointed if not heavily under qualified, it can be assumed that company A and B either considered their business to be highly idiosyncratic or their offspring to have an acceptable level of qualifications for the job.

## 6.2.3 Experiences

In order to further prepare to the takeover of FFs, some of the offspring undertook supplementary experiences before joining the FB. In companies A and D the interviewees didn't have any extra exposure to training environment or activities, while in company B a work relationship with another firm was utilized as development tool. Furthermore, in case C

the current CEO experienced different industries and even lived abroad, differently from case E where the experience abroad was very extensive but matured within the family organization.

Similar to education, the increase in complexity of the global market shifted the need for experiences external to the FF. This phenomenon occurring in the past 30 years, was noticed by almost all the interviewees, nevertheless not all the companies undertook measures in order to tackle the issue. Having experience outside the family firm before joining it, but also taking part in international assignments or developing a global background in other manners, both contribute strongly to the development as managers. Specifically, regarding the latter, according to Piaskowska and Trojanowski (2014) international experience, specifically at young age during the formative years, does have “*a particularly formative impact, influencing one’s identity, values, norms, core self-evaluation and other deep personal attributes, perhaps in a more fundamental way than it influences one’s knowledge base, and in a more fundamental way than international experience acquired later in life does*”. Furthermore, from the material of the interviews it emerged how in two cases, company C and in particular E (excerpt below), high levels of strategic planning did in fact go along with wide international experience, a concept very much in line with the work of Azam et al. (2018), where executive level international experience results in having a positive correlation with strategic decision-making rationality.

*“In terms of experience, I have spent most of my years outside the country, principally in Japan and mostly in Sweden, where I acquired and absorbed extensively from my managers, whom I retain to this present day to be my life teachers. There are two or three from both countries who have helped me during my first 10 years in the lion’s den.”* (CEO Company E, 2018)

#### 6.2.4 Shadowing

The last aspect investigated concerning training and development was the incidence of shadowing in the different FFs. Company A, B, D and E all did shadow the founder/parent in order to acquire knowledge on the firm, even if in case B and D it was a key element only for some of the offspring. On the other hand, in case C the period of shadowing was really short since as soon as the current CEO realized the strategic incompatibility with the father he

decided to switch towards external experiences, coming back later to the business by purchasing the whole organization.

In overall the Training and Development stage of the Life cycles of the generations model (Churchill and Hatten, 1997), specifically in the subthemes of ‘Education’ and ‘Experiences’, does prove its centrality to the research question of this paper. A reason may lay in the work of relevant scholars like Cabrera-Suarez et al. (2001) and Kellermanns et al. (2004), according to whom in FBs, the knowledge that can be absorbed from the previous generation is not sufficient, as education and personal experience outside the FF are needed too. Furthermore, both sub-themes show a strong relationship with the degree of strategic planning implemented in the FF, as noticeable through the empirical patterns analysed in the previous paragraphs. Therefore, the formerly mentioned pattern, does further highlight the influence of Training and Development on succession in FBs.

### 6.3 Distance in Family relationships

Given the central topic and the nature of the firms being studied, family is an overarching role that provide implications on different levels of the management of each company. There are several constituents that determine how certain dynamics operate and the behaviour each firm portrays as a result. This category of information does lay its foundations on the independent variable extracted from the Churchill and Hatten (1997) model. The findings will be disclosed in relation to the main dimensions displayed in Table 6.3 (below).

*Table 6.3 Empirical findings regarding distance in family relationships*

	<u>Company A</u>	<u>Company B</u>	<u>Company C</u>	<u>Company D</u>	<u>Company E</u>
Successor (CEO) relation to founder	Son	Son	Son	Daughter (left position to brother)	Son
Sense of belonging	High	High	Low to Medium	Medium	Medium
Harmony Level	High	High	Low	Low to Medium	Medium
Inclusion of addit. family members	Wife, Sons	Son	None	Nephews	Nephews and Sons

### 6.3.1 Successor Relation to Founder

Amongst the participants of the interview, the authors ensured that the current or former CEO of the company in question would provide the necessary insight to the purpose of the study. As a result, contact was made to the son of the founders of Companies A, B, C and E. While Company D's interview subject was the daughter (former CEO) of the founder, who now has an active role as a Board Member of the organization and is in charge of the accounting department.

### 6.3.2 Sense of Belonging

One aspect researched on, and explained by the interviewees was in regards to the sense of belonging within the family. Despite its sensibility as a theme to delve into, the participants willingly gave their subjective opinion on the matter. Company A and B conveyed the strongest family bond as opposed to its peers. Both the founder and successor of Company A, emphasized the focus on maintaining a healthy relationship among family members as a priority over business matters. Company B similarly showed this aspect due to the higher number of offspring involved. The latter were mostly chosen based on the features of integrity and commitment as commonly done in FBs according to Chrisman et al. (1998). The sense of belonging stems especially from the co-founder who willingly convinced the founder to pursue a legacy aimed at contributing to the future of the family. The approach proved itself successful, in the way the business was managed, with the utilization of family-related social interactions and the discourage of an approach based solely on professional social interactions within the FB, as suggested by Kotlar and De Massis (2014).

*“Back in the days, during the early stages, I was helping my husband working from the office, and I told him that to provide for our sons and daughters, we should think long-term. Even though that would entail piling on debt.” (Co-Founder Company B, 2018)*

Company C instead portrays the extreme opposite, with a history of clashes towards the founder. The current CEO has explained why his success was rooted his decision to pursue an opposite business behaviour to the narrow mindedness of his father. Despite this troublesome



start during his appointment as CEO, he now has given more importance to this aspect by opening up to a future entrance of his son in the business but only after an appropriate training and education outside the firm, as shown in the passage below.

*“He needs to undertake experiences, and he cannot do so around his father. Nowadays there is an ever more need to go outside, see the world, and gain a global mind-set, to then apply in our business. This will bring growth and innovation in the long-term.”* (CEO Company C, 2018)

The attitude from the CEO of company C on the matter, although seemingly rigid and demanding, might as well be an appropriate way of applying the concepts expressed by McMullen and Warnick (2015) on how to encourage intra-family succession. At the same time his behaviour did prove to be in line with the need of the successor to have an influential parent, not just indulgent or disregarding, when the goal is to provide him or her with adequate support (Lubatkin et al., 2007).

In Company D instead the former CEO seems to have a normal stance on the matter, showing that there still is a significant family bond among the members. Company E lastly shows similar signs, although slightly affected by the successor training approach in gaining experience overseas for a period of time.

On a general note, there seems to be a pattern in regards to the way each firm considers the importance of family. Two out of five companies have an overall high sense of belonging, and believe that family members should have the right to one day partake in the business' activities regardless. There is additionally a correlation with the size of the firm, as the smaller ones (A and B) have a higher degree in this dimension. In relation to the level of formal strategic planning, a lower standard (as is the case for Companies A and B) indicates a higher degree of belonging within the family structure. These findings reflect the literature, in particular they confirm the study conducted by Ibrahim, Soufani and Lam (2004), in which family businesses, pertaining to the avoidance of implementing strategic planning, do indeed result in more harmonious environments as internal conflicts are less likely to occur when reaching consensus. Additionally, this suggests that the bond between the family constituents, facilitates this initial process of formation for the chosen successor, which constitutes the training and development dimension of Churchill and Hatten (1997) lifecycle model.

### 6.3.3 Harmony Level

Being family firms, there comes a natural propensity to differentiate business decisions from family-related ones. Involving family members therefore can be either a destructive or productive aspect of these organizations. The findings show that Company A and B are similar under this characteristic. Company A never showed signs of disagreement among the members interviewed, highlighting the smoothness in the succession process. This was further explained by the retired founder stating that:

*“The nice thing I have done is that I involved offspring A’s wife in the firm’s business activities, then to make it even, I took on board the wife of offspring B too. Everything goes very smoothly, there are no arguments as they have to collaborate in order to get things done” (Founder Company A, 2018)*

This was also reflected in Company B which witnessed a flawless managerial transition upon the decease of the founder. Exceptional was the case for Company C’s CEO, who contrastingly disagreed with the Founder during his initial years involved in the firm. As mentioned for the previous dimension (“Sense of belonging”), this sparked a flame in his long-term vision, changing the nature of the business approach as a result. According to the former CEO of Company D, disagreements mainly had roots from herself. Her personal views, from an organizational perspective, contrasted with the founder during the company’s growth. Additionally, a lack of consensus was witnessed towards her siblings whom favoured the early entry of the third generation and personally lacked previous education to gain relevant skills for the eventual managerial position to take on. Company E instead had a more relaxed approach to this matter, with the exception of the current CEO who had a few past disagreements with the decision-making style of his father (the founder).

Similarities to the previous subtheme are witnessed as a result. There is a strong correlation with the general atmosphere of belonging to the family. This category differentiates from the previous, in that the level of agreements and disagreements are observed and conceptualized. It is of causal nature, that the firms with a higher sense of belonging do reflect a stronger overall harmony stance when faced with decisions. According to the authors, this indication directly reflects the lack of criticality in the strategic planning of the firm in question. The implication is that there is a tendency, especially in family firms, to meet a divisive point in which certain decisions need to be made, even of strategic importance to the company, where

a cost to the family dynamics and relationships is incurred. Alternatively, a situation with a perception of being stuck within the business and not being able to either sell the shares or quit the job, could transform into anger and promote internal collisions (Gagné, Sharma and De Massis, 2014), but none of the companies directly disclosed these issues, perhaps due to the sensitivity of the topic.

Referencing the literature provided, Vardaman and Gondo's study (2014) confirms this by considering a socioemotional wealth perspective, suggesting that these conflicts may be a product of reputational strength towards stakeholders. It is arguably by this characteristic that explains why lower harmony levels in Companies D, E and especially C are present. The latter stood out as a clear representation of this aspect, illustrating how a rupture, towards his father, would yield a long-term economic effect of prosperous nature (as demonstrated later in section 6.4.1). On the same line of thought is the concept given by Ibrahim, Soufani and Lam (2004), as previously mentioned, that formal strategic planning is often overlooked to prevent conflicts in the family.

Therefore, this is likely to be the explanation of families with higher level of harmony using little or no formal planning and vice versa. A more particular aspect of the issue is also tackled by Astrachan and Kolenko (1994) with their research on how such phenomena is inhibiting the possibility to create an effective human resource strategy for the formation of the successor. Consequently, the issue does influence multiple aspects: the "family harmony" variable, the "training and development" phase and the omnipresent degree of formal strategic planning.

#### 6.3.4 Inclusion of Additional Family Members

The inclusion of additional family was also mentioned several times by the interview subjects. Company A showed signs of collaboration, by bringing on board the wife of the CEO and the sons. In Company B, the interviewee similarly disclosed the involvement of his son to take part in certain operational tasks. Contrastingly, while interviewing the CEO of Company C, signs of refusal and conservatism were portrayed upon touching on this subject. The participant clearly stated that his son is currently not involved in any activities of the firm. Company D and E both steered towards including several family members, with the latter business having a larger number of members involved.

## 6.4 Economic Performance

In order to further understand the situation of the different companies taken into consideration in the case studies, the authors collected data also about the economic performance of the FFs. Such category of information does lay its foundations on the dependent variable of economic performance extracted from the Churchill and Hatten (1997) model. In the aforementioned category four distinct aspects were investigated, the company's growth, the revenue, the increase in export as a percentage of total sales and the amount of staff employed with eventual increases in the latter (Table 6.4).

*Table 6.4 Empirical findings regarding Economic Performance*

	<u>Company A</u>	<u>Company B</u>	<u>Company C</u>	<u>Company D</u>	<u>Company E</u>
<u>Growth</u>	Gradual	Gradual	Exponential	Strong	Fairly Strong
<u>Revenue</u> <u>(million €)</u>	2.4	5	9	33	75
<u>Export</u> <u>Increase</u>	None	From 0% to 15%	From 0% to 50%	In line with revenue growth	None
<u>Staff</u>	15	25	25 (up to 70 during Christmas)	53	100

### 6.4.1 Growth

Regarding growth company A and B experienced a gradual growth throughout the intra-family transition, progressively increasing their revenue numbers, even if both made clear that increased competition and complexity in the market in the last 20 years pushed them towards a reduction in margins. Company E being a group composed of 2 firms experienced a gradual growth from the main subsidiary, although a very strong increase in sales occurred in the smaller constituent, thus resulting in a fairly strong growth globally. Furthermore, the CEO of firm E didn't specifically mention any particular complication regarding profit margins. On the other hand, company D undertook a strong growth process in the last 20 years, tripling their revenue during the indicated period of time. The best performing subject of the sample concerned company C, that was able to grow 9-fold, the revenue achieved under the founder's management thanks to the current CEO, consequently showcasing a rather impressive progression in around 25 years.

In the years following an intra-family transition, often the success is judged by the growth achieved by the company under the successor's management. Therefore, the increase in sales is considered to be a core metric of the firm's performance, in addition the high degree of competition currently witnessed in the global business environment, consolidation and expansion, are key goals for SMEs. It would seem logical to think that a higher degree of formal planning does increase the probability of the firm showcasing growth, as supported by Kraus et al. (2018) or more generally to improve the performance of the organization, as investigated in two papers by Peel and Bridge (1998) and Hamel and Prahalad (1989). In reality, what emerged from the findings of the cases analysed in this paper, is that the former concept, and consequently the latter too, were verified by the fact that company C, D and E have a higher degree of formal strategic planning, together with a higher growth rate too, compared to the other companies interviewed.

### 6.4.2 Revenue

Revenues were varied amongst the firms and changed accordingly throughout years. Company A has an annual turnover of €2.4m. Company B similarly yields a yearly figure of €5m. As mentioned previously, Company C was the exception out of the five companies. The radical growth allowed the firm to reach €9m in revenues. Company D and E instead are

predisposed towards larger operational activities as they retrieve annual revenues of €33m and €75m respectively.

### 6.4.3 Export Increase

On the side of general growth, some of the various FFs, also experienced an increase in the percentage of sales deriving from export. Apart from company A and E that don't work with any client outside the national borders, company D grew its foreign sales in proportion to its revenue growth, but focusing mostly on EU countries due to the high regulations typical of the specific industry. The organization from case B undertook a change from 0% to 15% of revenue generated outside the national borders, with an additional claim that being their average products very bulky, the option of exporting was really viable only for the smaller ones due to logistic costs pending on the former ones. Finally, company C in line with the extraordinary growth in revenue, went from working totally on the national market to generating 50% of their sales internationally.

Furthermore, it can be noticed how company B, C and D did experience an increased degree of internationalization with the second generation, as a consequence of following the trend theorized by Fang et al. (2018). The increased globalization and the growth in relevance of foreign markets for Italian companies, due to the stagnation of the internal market, were definitely co-causes. Nevertheless, it is very hard to separate the effect of the different phenomena on the issue.

### 6.4.4 Workforce

The workforce characteristics were equally a reflection of the economic image each company portrayed. The amount of staffing was smallest in Company A with 15 people. Company B had 25 employees in total, as was the case for Company C, which hired additional seasonal staff during festivities (amounting to 75 workers in some occasions). Company D instead had 53 employees in total, and Company E has a total of 100 employees as part of the company.

## 7 Discussion

This chapter conceptualizes the main takeaways from the analysis conducted in chapter 6, and give context to the larger academia regarding family firms. A model constructed by the authors, backed by the patterns found that do influence the different phases of the theoretical framework of Churchill and Hatten (1997) will be introduced as an answer to the main research question of the study. This will then be followed by the portrayal of key relationships with papers considered in the literature review. The chapter will then end with the potential areas for further study that will build on the knowledge base of the family business academic field.

*How does the degree of strategic planning affect the intra-family succession in Italian SMEs?*

In light of the research question and the repeated presence of patterns detected during the analysis chapter, strategic planning strongly reaffirms its criticality in the field of succession in FBs. Specifically, its degree of formal utilization, as investigated by this paper in particular to the Italian market, proves to be a cardinal concept due to its influence on multiple aspects of pre and post transition activities and tendencies of Italian family SMEs.

Starting from the fact that this paper does lay its foundations on Churchill and Hatten's (1997) concept as a research framework, it seemed like a natural development to further relate what resulted from the empirical findings and the analysis to the model itself. The final product (Figure 11), as presented in the following sections, intends to showcase the areas that require particular scrutiny in the pre and post succession in family-run SMEs, respectively with high or low degree of formal strategic planning. The aim is not to provide a solution to the various issues but on the other hand to facilitate managers and family members in paying attention to sensible questions according to their level of formal planning in the period of time around intra-generational transition.

In the same paper written by Churchill and Hatten (1997), the criteria for success in research is twofold, respectively "*increased understanding and the ability to predict outcomes*" (p.61). This goal does rely on achieving in depth knowledge of the variables taking part in the investigated areas and the relationships characterizing the latter. The two scholars in question do present a list of variables, divided in dependent, intervening and independent, all

influencing succession. Nevertheless, in neither the aforementioned list nor in the neglected alternative forces mentioned in the paper, does the degree of strategic planning appear. Based on the findings of this thesis and the patterns explored, the authors do consider the latter to be a relevant factor that would deserve to be considered as influential in the FB research field. In fact, strategic planning does have a strong influence on most stages of the life cycles model (Churchill and Hatten, 1997). This paper focuses on a longer time horizon than the pre-existent model, hence extending the perspective even after the “Power Transfer” phase would allow a wider and more holistic outlook on the success of the succession within FFs. This would allow to examine the life of the firm in the years following the transition too.

In order to sustain the academic relevance of the proposed model, the upcoming paragraphs explain the way in which the degree of the proposed driver does shape the various stages (which can be seen in Figure 7.1) of the lifecycle of generations model (Churchill and Hatten, 1997).

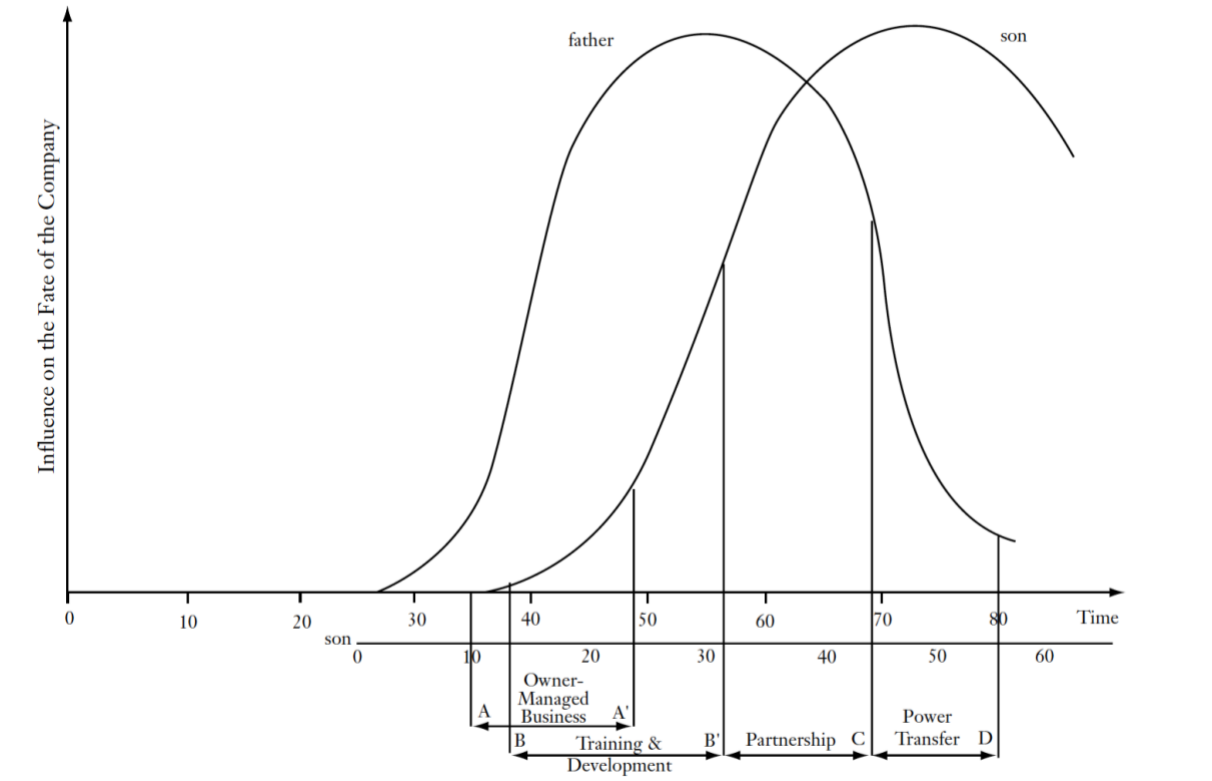


Figure 7.1 Life Cycle of generations model. Source: Churchill and Hatten, 1997

Regarding the first stage, “Owner-managed business”, the influence emerged from the empirical findings is very limited as the research focuses mostly on the successive phases. Nevertheless, since it is positioned between B and A’, and thus coinciding with the first



section of the following stage, “Training and development”, a low level of formal strategic planning does present a connection with issues revolving around lack of education and additional experiences of the offspring.

The second stage “Training and development”, does have a natural association with sub-themes like education and experiences, in fact the two do show a shortcoming in a situation of low planning throughout the whole phase. Diversely, in the circumstances of a FB having a high degree of strategic planning, the influence did present itself with a negative connotation on the matters of family harmony and sense of belonging, in the period of time between the first experiences within the company and the full-time employment of the offspring (from B’ to B’).

The third stage “Partnership”, ranging from the full-time employment of the offspring to the upgrade of the latter to a partner status (from B’ to C), showed a correlation in the findings between a high level of formal strategic planning and a low degree of success in subthemes like family harmony and sense of belonging. Even if the situation in the aforementioned scenario does resemble the previous phase, unlike in the event of a low level of structured strategy formulation, a FB doesn’t incur in any worrisome consequence.

The fourth stage “Power transfer”, does extend from the beginning of the partnership status of the offspring until the formal exit from the FB of the founder or parent (from C to D). In a manner, very much in accordance to the “Partnership” phase, this section of the model presented empirical evidence equivalent to a high degree of strategic planning aligned with a negative situation, in regards to family harmony and sense of belonging. No particular evidence emerged from the analysis regarding a context with stunted formal outlining.

Furthermore, patterns emerge even in the period of time following the fourth phase, precisely from the formal retirement of the founder or parent, until its exit or a potential entrance of third generation family members. In the case of the latter occurring, the phase does include reduced family harmony and sense of belonging in a situation of high levels of strategic planning, as transpired from the findings. On the other hand, if the case presents itself with a low degree of formal strategy formulation, the resulting negatively influenced issue is growth, as based on the analysis.

In light of such a ubiquitous influence of strategic planning on all the phases of the Churchill and Hatten concept (1997), it is safe to say that the predominant factor does present an academic relevance previously unconsidered by the two scholars. Consequently, in order to answer the research question and to recollect the patterns detected throughout the analysis, a model to illustrate the critical aspects of the life of family run SMEs pre-and post succession was developed by the authors of this thesis (see Table 7.1 below).

*Table 7.1 Critical areas of succession based on the degree of strategic planning*

		Family Harmony	Sense of Belonging	Education	Experience	Growth
Degree of Formal Strategic Planning	High	x	x			
	Low			x	x	x

The model illustrated above does unite all the influences of the degree of strategic planning encountered throughout the findings and analysis in section 6. Its purpose extends towards a graphical representation of the results which support in answering the research question central to this study. From a practical point of view, its application as a management tool, which is to support the decision-making in regards to succession, does highlight the criticalities that may arise ante and ex process. The underlying issues requiring additional scrutiny are: family harmony and sense of belonging, in case of a high degree of formal strategic planning. While in regards to a lower degree, the areas demanding particular attention are: education, experiences and growth. It is important to reiterate its role serves as a roadmap, which does not provide a finalized solution, but instead aids in placing a spotlight on the issues requiring additional inspection.

Nevertheless, the findings indicated the non-dogmatic nature of the field revolving around family harmony and sense of belonging, henceforth a lack of the two do not necessarily imply a negative connotation. This view is supported by what particularly emerged in company C, being a very successful FF succession case, in which a lack of the two features may be a depiction of a competitive edge. The firm in question does in fact showcase a high degree of formal strategic planning followed by the consequential lack in family harmony and sense of belonging, as predicted by the new model introduced.

However, the two aspects do not seem to hinder the performance of the company but rather to enhance it and possibly reconfigure itself as an element of competitive advantage. According to the authors, this phenomenon does lay its roots in the shortcoming within the aforementioned subthemes, functioning as a fosterer of formal strategic planning due to the absence of potential conflicts in the strategy formulation. In fact, the latter does often represent a limitation to a more sophisticated decision-making approach, as confirmed by Ibrahim, Soufani and Lam (2004), whom highlights its discarding function in view of dormant clashes internal to the family when reaching a consensus. From a wider perspective, a similar issue was investigated by Kellermans and Eddleston (2004), their work does in fact open up to an interpretation of family conflict not necessarily as a carrier of negative association but rather as a potentially positive factor. According to the same scholars the issue does find its origin in clashes ensuring that “*key information and environmental changes are discussed and understood by the decision makers*” (p. 221). Furthermore, it is important to underline how not all types of conflict do improve decision-making quality, de facto a cognitive one does increase its level but on the other hand, an affective one seemingly erodes it, as portrayed in Amason’s (1996) paper. Nonetheless, the most traditional view on the subject does interpret frictions within FFs as detrimental, like Filser, Kraus and Märk (2013) according to which the former does have the potential to hinder performance.

## 8 Conclusion

This thesis further extends the knowledge on the relationship between strategic planning and the dynamics of FBs by focusing on the period prior and post intra-family transition. However, it also contributes to the underdeveloped field of research on the matter of contrast as a key driver of the decision-making process and its effect on performance in FFs. Substantially, the findings suggest that a lack of family harmony and sense of belonging, may correlate to a high degree of strategy formulation and implementation, while a lack of education or experience (of the successor) and lagging growth, may go along with a low degree. Nevertheless, the former does not necessarily imply a negative connotation, but rather could in specific cases operate as a positive driver of firm decision-making and performance.

Further research revolving around multiple themes touched in this paper could be developed in order to gain a deeper and wider understanding of the phenomena regarding succession in FBs. Specifically, a relevant and interesting topic could be the reasons behind the influence of the degree of formal strategic planning on the factors analysed, as the authors did focus on finding the patterns, rather than on exploring the motive behind the latter. The investigation conducted for this paper was based on Italian FBs, and thus pose limitations with its applicability to alternative geographical locations. As cultural differences play a significant role in the diversity of these type of firms on a global level, it would be of interest to inspect the central theme of this thesis within other comparable settings. In particular, examining the family dynamics environment in another country built on different values, social systems and beliefs, would be suggested, in order to discover new aspects that can influence the various degrees of strategic planning on the succession process. Regarding section 7.2, the authors noticed a surprising lack of academic literature on the potential benefits of a lack of family harmony or alternatively on the strategic role of conflict in managerial decision-making. Hence, the hope of this paper is to foster the interest in the aforementioned topics in order to have other scholars researching the subject and increasing the understanding on this particular kind of dynamics in FBs.

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# Appendix A

## Interview guideline

- 1) In which sector does the firm operate in?
- 2) What is the current revenue of the firm?
- 3) In term of the strategic direction pursued by the firm, was there any consideration towards foreign markets? If so, how and to what extent?
- 4) How much staff is currently employed?
- 5) In your opinion, was there a strategic change after the intra-family succession?
- 6) To what extent did you feel you held contrasting views with the founder (or parent) in regards to strategic decision-making? If so, how did this influence the environment within the firm?
- 7) In what way did you feel you were prepared as a successor?
  - a) (If not the successor) What is your opinion on the degree of preparation the successor undertook?
- 8) Could you give insight into how the overall economic performance changed before and after the succession process?
- 9) Please feel comfortable to elaborate on factors (regarding family dynamics) that, in your opinion, deem to have somehow influenced the succession process and the atmosphere within the firm.
- 10) Are there any additional thoughts you would like to add on any aspects previously explored?