

A Work Project, presented as part of the requirements for the Award of a Master Degree in
Management from the NOVA – School of Business and Economics.

BETTELLA S.R.L:

How to drive a family firm

MARCO BETTELLA

2989

A Project carried out on the Master in Management Program, under the supervision of:

Professor Alexandre Dias da Cunha

May 26th, 2017

ACKNOWLEDGEMENTS

Firstly, I would like to thank my advisor, Professor Alexandre Dias da Cunha for the support during my path to become a Family Business enthusiast, for his amazing work as a professor and especially as a mentor. He has been an inspiration to the completion of this work.

Moreover, I would like to thank my family and friends for the continuous support towards the completion of my studies and in all my choices, making it possible for me to achieve my goals.

ABSTRACT

The case describes the steps that led to a potential partnership between a small family business and a large multinational company working in the motorcycle industry.

The aim of the study is to introduce to students, concepts of Family Business Theory by analysing a real life case of a family business. In particular, it will first analyse the firm by applying the Agency and Resource-Based Theory to assess the evolution of the company was the partnership to be carried out. Moreover, it will analyse the importance that non-family executives have on structured family businesses.

Key words: *Family governance, Non-Family Managers, Agency Theory, Resource-based view of the firm*

INTRODUCTION

It was a typical sunny day of June 2005 in Padua, a city in the north-east of Italy. Piergiorgio Bettella, the founder of Bettella S.R.L. was about to start his typical day in the office of the company he founded almost 30 years before. But that typical day was about to change.

Being involved in the motorcycle industry for quite some time now, Piergiorgio had the chance to create and cultivate an extended and solid network of contacts. And it was from one of this connections he had, that, that day, he met with Antonio Parisi, one of the founders of Sparco S.P.A. Sparco is an Italian company, specialized in auto parts and accessories headquartered in Volpiano, near Turin. They are the leaders in producing racing items such as seats, steering wheels, harnesses race wear and helmets. Sparco is and was an institution in the car industry, boasting many important partnerships in the industry, like McLaren Formula 1, Citroen, Peugeot and (the most famous and successful of them all) Puma. Sparco was in fact experiencing a period of extreme notoriety given by the success of the Puma partnership. Together the two companies were producing and selling a racing like shoe (Exhibit 4), that had a great success between the younger generations. Thanks to the partnership Sparco became a well-known company all over the world, shifting from a niche market to a more heterogeneous customer base. Not only that, but also the larger profits derived from the partnership, greatly helped the small Italian firm to become an international reality capable of attracting larger capitals and partnerships. At the time of the deal, Sparco was a well-established firm looking for opportunities to continue the expansion process.

In fact, Sparco was a well-known brand in the four wheels' automotive industry, but the objective of the two founders was to successfully become an institution in the larger motor industry. The first step to achieve this goal was to successfully enter the motorcycle industry. That's the moment when the two firms accidentally met, from a random conversation between Parisi and a friend who happened to be actively involved with the Bettella's family.

The first idea was to merge the two companies under the common brand Sparco. But Piergiorgio's attachment to the company he founded and its stubbornness, made the merging very hard to be carried out. Therefore, the two parties tried to work out a partnership. Sparco wanted to understand the possible profits of successfully entering another segment of the industry, while Bettella wanted to take advantage of the notoriety of the Sparco brand to gain more market share, always considering the possibility of a merger in the future.

After many days of conversations and more than a dozen meetings, the two parties finalized the details of the partnership. The agreements entailed the design, development and commercialization of technical products for motorcycles at a global level.

If carried out to the full of its potential, the partnership, could represent a turning point for Piergiorgio's company. Hence, the mind of Piergiorgio was filled with thoughts about the future. The partnership with a large and famous company like Sparco would bring a great deal of attention on the company. Not only that, but it would hopefully mean a great insertion of capital, that could bring the company to a quick and large expansion. But were the family and Piergiorgio ready to steer the wheel of a large company? And who would have the responsibility to follow the path of its founder?

THE FOUNDER AND THE COMPANY

Piergiorgio Bettella (Exhibit 1) was born in Padua, a medium sized city in the North East of Italy. He studied accounting and soon inherited the passion for motor sports from the oldest members of his family.

His Dad Luciano owned a scooter¹ shop (opened in 1951) in the downtown of the city, where they would sell scooters and the associated spare parts. His oldest brother, Giovanni, divided

¹ A scooter or motor scooter is a motorcycle with step-through frame and a platform for the rider's feet. (Source: wikipedia.org)

himself between working in the shop and racing with cars, motorbikes and every kind of motorized machines.

Growing up, they gained knowledge of the industry by working part-time in the shop with their dad. At the time the business was very profitable as it was the golden era of scooters and the spare parts business was even better. Motorized machines had the tendency to break easily and often needed the attention of a mechanic. Moreover, between the younger generations, it was developing a new fashion: *tuning*². It consisted in modifying motorcycles to make them more powerful and improve the performances on the road. This brought large profits to those that sold the spare parts and tuning equipment. It was especially during this time that the two older brothers, Giovanni and Piergiorgio, learned and developed their knowledge of the scooter and the industry. This was the first fundamental step for the development of the future venture that the two brothers will embark on.

In fact, in 1976, the two brothers (and the third brother at a later stage) founded the C.R.C. Bettella³, with an initial investment of roughly 35.000 Italian Lire (160.000 € today). Born as an exclusive distributor of the Dellorto Carburettors for the North East of Italy, the company exploited the necessity to cope with the inability of producers, focused on producing the parts, to effectively follow the requests of the after-market⁴. Being a service company, the core business was based on the availability and fast delivery of the products that the clients were forced to buy from distributors.

In 1983, through a small financial holding (owned by the three brothers), Piergiorgio became the sole administrator of the company, changing the configuration of the company into a limited liability company (Bettella S.R.L.⁵), and developing the business until the actual core based on

² Hobby involving modifying the engine of a scooter/motorcycle to improve its performances

³ "Centro Ricambi Carburatori": carburettors spare parts centre

⁴ The market for spare parts, accessories, and components for motor vehicles.

⁵ Bettella Società Responsabilità Limitata: Limited Liability Company

scooters performance parts. At that time, to continue a profitable business was not a choice but the best way to procure a solid and continuous income.

In the first years of the company, the strategy was to attract more and more clients willing to license the distribution exclusively, in exchange for a rapid and effective service of distribution. It is worth remembering that at that time, transports were very slow, the IT structure almost inexistent and most of the corporate processes were handled by hand. This made it necessary for distributors spread all across the national territory to exist. In fact, 40 years ago, the need for outsourcing was not based on a cost reduction principle, but more on the velocity of the distribution and the closer contact with the clients. Very different concepts than those applied today, like the centralization and automation of processes.

On the other hand, this type of business did not need any special knowledge or specific competence. It was sufficient to have some basic math and business/management knowledge to be able to profitably carry out the day by day activities profitably. Thus, the easy replicability of the business, allowed for a large number of competitors to enter the market.

For this reason, in 1981, following the rapid success and the collaboration with Gruppi Pinasco S.R.L., the company developed multiple carburettors kits complementary to the thermal groups of Pinasco. The kits were officially presented at the International Motorbike fair of Milan (1981). This was the first strategic change, the production of a “private label” elaboration, sold under the C.R.C. Bettella brand. This change in the strategy allowed the company to cross the regional and (especially) national borders. The exclusive distribution of third parties’ products business will continue parallel to the production of products with the family brand until 2004, when the core business effectively became the development of Pinasco branded products.

THE PINASCO ACQUISITION

In 1999, after many years of collaboration, Bettella finalized the acquisition of Gruppi Pinasco S.R.L. It was the first acquisition and it was very successful. After that, Piergiorgio tried many other similar operations, but this one was by far the most successful of them all. The rationale of the acquisition was to incorporate all the products developed by the two companies under the same brand, and since the most known and recognizable brand was Pinasco, all the products were re-branded Pinasco.

In the 80's Pinasco was the leader in the business of spare parts to enhance the performances of Vespa⁶'s. But in the 90's, with the advent of imported Japanese scooters, the new laws and regulations and the increased technological advancements of the industry, the landscape of the business looked completely different.

At first the deal seemed a risky operation. In Italy, the fashion of tuning between youngsters was decreasing due to the aging of the younger generations that were the main clients in the 80's. Moreover, technological advancements were making the products sold by Bettella obsolete and due to the increased electronic components, scooters were becoming less and less modifiable. But Piergiorgio saw an opportunity in a niche market that was slowly emerging all over the world. By exploiting this niche market since the beginning he was able to cut himself a big market share in the global business.

NEW PRODUCTS: THE NEW CTO

However, in 2002, the company was suffering an economic downturn. The reasons were mainly tied to a lack of innovation of the products. For many years the company was producing the same products without introducing any new disruptive innovation. But nobody internally had

⁶ The "Vespa" is a scooter model sold by Piaggio. It was patented in 1946 by the aeronautic engineer Corradino D'ascanio.

the knowledge to develop these new products. In fact, during the acquisition of Pinasco, the engineer that developed the products had not been replaced. This implied a lack of innovation that was slackening the business.

Therefore, not finding the resource in the family, the company was forced to hire an outside manager to cope with the necessity of innovation. The choice fell on a young engineer with a great passion for the industry. The benefits of the choice were very quick. He immediately started developing new kits for Vespa's that became an immediate success. The company was now experiencing a period of renewed appeal towards its customers. The peak was reached when the company developed the entire engine for the Vespa. Not only that, but the passion of the new team member spurred Piergiorgio to work even harder on the company and undertaking new initiatives to grow the brand awareness. More than that, the company started to partner with two wheels racing teams to promote its products during endurance races, where the customers could admire the power and reliability of the products.

The new manager, became so valuable that many times over it replaced the CEO in many institutional events like fairs or meetings with clients and suppliers.

FUTURE GENERATION: CLAUDIA AND MARCO BETTELLA

Piergiorgio and Barbara got married in 1987. Together they had two children, Claudia, the oldest and Marco (born respectively in 1988 and 1993). Since a young age, they used to go to the offices where Piergiorgio was working and spend many hours there, playing with the many boxes and packaging materials around. As the time passed, and the two grow, they got to live the company from the inside, bonding with the employees. Also, when the two became old enough, they started helping out around the office and especially during the many fairs where the company would show case all the new products. At the beginning it was mostly an occasion to spend some time in a different environment, but as the two grow old, this occasions become

more and more a real job. This inclusion in the family business environment developed a sense of continuity in the minds of not only the employees but also the various stakeholder (suppliers, agents, clients) working at close contact with the family, creating the expectation of succession of the two siblings.

Claudia, being the oldest of the two, was the first one to graduate from high school. She decided to enrol at Bocconi University to please her fathers' wishes and to follow her passion for fashion. Therefor she started studying Management for Arts, Culture and Fashion at the above mentioned university. At the completion of the undergraduate degree she decided to continue on that path successfully graduating in the Master in International Management at Bocconi.

From a young age she always showed to have clear in mind what she wanted to do in the future, and she always worked very hard for it. But, at the same time this meant a gradual detachment from the family business as she was trying to undertake a radically different path from that of the motorcycle industry. As a consequence, she stopped working during the fairs and accepted a job offer to work for a company leader in the fashion industry.

Slightly different was Marco's journey. Contrary from his sister, he never showed great studying abilities (he never liked to study), but he showed to be more suitable to do the working life and environment, showcasing to be very efficient and to hold very good leadership abilities. His studying career has been a constant up and down. First, he had to transfer in high school to avoid failing the year, but then (under the suggestion of his father) he decided to enrol in the exchange program. He spent one year learning English and French in Canada, where he was faced with many issues that helped him mature. And it was there that he decided that he would go to university. But, while he wanted to enrol in Business Administration much like his sister, his father wanted him to wage the engineering career. Piergiorgio, in fact, farsighted as he is, was fondling the idea of having Claudia managing the business and marketing areas of the family business, while leaving Marco in charge of the research and development of the

products. Unfortunately, Marco, given his time spent abroad and following his dreams to work in the Sport Industry, decided to undertake the path that he believed was most suitable to himself, choosing to enrol at Bocconi University (just like his sister) in the Bachelor of International Economics, Management and Finance. After graduation, Marco decided to embark in a new experience and moved to Portugal to study International Management at the NOVA School of Business and Economics.

Unlike his sister, he kept helping out around the company when his father asked. He often participated to the motorcycles fairs with his father, giving that sense of continuity to the family business to the stakeholders. The knowledge of the English language gained during the many experiences he had, became very valuable during the international expansion of the family business and especially during the boom of the social media era that started with Facebook and Twitter. In fact, Marco's first job, was a position as Community Manager at a small start-up in the centre of Lisbon. After that, Marco accepted a position as Business Analyst for a multi-billion-dollar company leader in the optical industry.

Piergiorgio always supported and accepted the decisions of the two, but he also never hide the wish to keep the business in the family and let it grow with it. On the other hand, Claudia and Marco never express their wish to take control of the company.

TEACHING NOTE

OVERVIEW

The case is based on actual events that took place from 2005 in Padua, when the Bettella's family, a small family business working in the motorcycle industry, was faced with the decision of signing an important partnership with Sparco S.P.A. The agreement involved an initial investment of roughly 110.000 euros and also the payment of royalties for the usage of the brand Sparco. The family is worried that Piergiorgio alone (the founder), will not be able to cope with the increased attention that will inevitably derive from the growth spurred by the new partnership.

It is an analytical case study, where the students will be faced with many relevant theories of Family Business. Firstly, by applying the Agency and Resource-Based Theories, the students will have to analyse the current type of firm Bettella is now and how it will evolve if the partnership is to be carried out successfully. After, students will be asked to apply their knowledge in order to analyse the actions of the founder with respect to Non-Family Managers. Lastly, students should list and explain what are the main incentives that a family business can exert to retain the NFM's in to the family business.

The three questions will embed many concepts and theories developed during the Family Business course, such as: family issues (mainly socio-emotional attachment), nepotism, owner issues, succession and business related issues.

TARGET AUDIENCE

The suggested audience for the case study are undergraduate students taking an intermediate level Family Business course for the first time. The case, in fact, touches many points related

to family business issues, like succession, socio-emotional wealth, nepotism and non-family manager's participation in the business. To be able to proficiently answer all the questions in object, students reading the case, should already be familiar with the Gibb Dyer's diagram and some basic knowledge of Family Business theory.

As often happens with family business related case studies, this case can also be applied in explaining concepts related to Small and Medium-sized Enterprises (SME). Students taking SME courses, will in fact be faced with the theoretical concepts of Agency Theory, Resourced Based Theory, the impact of ownership structure and the meaning of responsible ownership.

LEARNING OBJECTIVES

After reading the case, students must be able to correctly apply the Agency and Resource-Based Theories to the case and be able to analyse, diagnose and explain the current and future structure of the firm, based on its performance. Subsequently, they should be able to correctly define stewardship and analyse how the concept applies to the case.

Moreover, students must be able to define non-family managers and their role in the family. They should explain what are the benefits of non-family managers as well as the drawbacks and define what are the best practices of retention of NFM's.

SUGGESTED QUESTIONS

1. By referring back to the Gibb Dyer Jr.'s Diagram, and given the current performance of the company, what type of family firm is Bettella S.R.L.? Is the partnership going to significantly change the position of the company in the diagram? If yes, why?
2. Explain the role of non-family managers. What are the benefits they can bring to a family organization? By referring to the case, define the type of behaviour of the owner

and the NFM in the case by using the “Options of behaviour of a non-family executive and a family business owner” matrix.

3. List and explain precautions that family manager should adopt in order to retain NFM’s in the family business.

TEACHING PLAN

After the students read the case and the related recommended readings, the instructor should lead the class by dissecting the case together with the students. The instructor should address question to the students and extrapolate all the important points. The analysis should start by underlining the company’s history and the steps that led to the partnership. The family’s genogram (Exhibit 1) should also be analysed at this point, in regards to further discussion about the succession plan, to analyse values and vision of the family. *(15 minutes)*

Then, the professor should lead the conversation to analyse the opportunities of the partnership and asking the students to give their first opinion. Subsequently, the professor should ask to apply the Gibb Dyer Jr.’s diagram (Exhibit 2) to analyse its positioning before and after the partnership. In doing so, the students should refer back to the Agency Theory and the Resource-Based view of the firm. *(25 minutes)*

Secondly, the professor should introduce the third question. By analysing the information given in the case, students should draw conclusions on how non-family managers have changed the business. Moreover, they should go more in detail on how non-family managers can impact family dynamics of the firm, pointing out the benefits and the disadvantages. Lastly, they should analyse the actions of principal and agent by using the “Options of behaviour of a non-family executive and a family business owner” matrix (Exhibit 3). *(20 minutes)*

Thirdly, following the discussion on Non-Family Managers the class should discuss the best practices that family managers can implement to retain the talented NFM’s. In particular, the

class should discuss how NFM's should be motivated in order to ease the retention process (**15 minutes**).

To wrap-up the class, the professor should tell the students how the case developed after the events narrated in the case. Moreover, he should point out the most important information and argument the importance of the family issues seen during the class. (**15 minutes**)

ANSWER TO DISCUSSION QUESTIONS

QUESTION 1

First, let's consider the firm's performance by applying the Agency and Resource-Based theories with particular attention to the four quadrants of the Gibb Dyer Jr. diagram (Exhibit 2). The above mentioned diagram is constructed on two dimensions: agency costs (1), that is linked to the concepts of Agency Theory, and family assets/liabilities, referring to the Resource-Based Theory.

Agency Theory studies the relationship between principals and agents in business. The goal is to reduce agency costs, that are the costs that can rise by unaligned goals or different aversion levels to risk between principals and agents. In family firms, this can become particularly true. According to Jensen and Meckling (1976), if both parties in the relationship are utility maximizers, we can infer that agents will not necessarily act in the best interests of the principal. The principal can limit these divergences by establishing appropriate incentives and incurring monitoring costs, that are the costs incurred to limit the incongruent actions of the agent. In addition to monitoring costs, Jensen and Meckling also defined bonding costs, that represent the cost borne by the principal to make sure that agents will not take actions that could in any way damage the principal or his best interests.

When taking into consideration the case in hand, and by analysing the given information, we can define the agency costs of Bettella S.R.L. as low. The main reason for this to be considered true, is given by the firm's size, with only two family members actively employed in the company, and very few employees. The second reason is trust. In fact, the interest of delivering the best service and product is intrinsic in the family culture, and has always been a source of competitive advantage for the company.

In family firms, *nepotism*, can lead to higher agency costs. However, in this case, there is no evidence that suggests nepotism will generate any agency costs. In fact, both Claudia and Marco, have never been clearly involved in the business (despite having worked for their father in more than one occasion). They both chose to follow their own path and gain experience by working in industries different by that of the family firm. The choice was supported and in some cases suggested by their father Piergiorgio, which constitutes another reason to not consider nepotism an agency cost.

The Resource-Based Theory, instead, is based on the concept that, the effective and efficient application of the internal resources of a firm enables it to gain and sustain a competitive advantage. Introduced for the first time by B. Wernerfelt in 1984 (“The Resource-Base View of the Firm”), the Resource-Based theory suggested that is more feasible to exploit external opportunities using existing resources in a new way rather than try to acquire new skills. Moreover, two different kind of resources can be defined: 1) tangible resources – physical things that can easily be bought in the market and thus give little advantage to firms in the long run. 2) intangible assets – everything else that has no physical presence and is hard to measure but can still be owned by a firm (reputation, trademarks, intellectual property, etc.).

Intangible assets are the main source of sustainable competitive advantage, and it’s especially important for family firms. In fact, family firms usually build up on their peculiarity to sustain a competitive advantage. Their concentrated ownership structure allows long-term investments in people and innovation. The desire to protect the family name (name on the building effect) leads to high quality of services and products. And many others.

The two assumptions that validate this theory are that resources must be Heterogeneous and immobile. *Heterogeneous* means that skills, capabilities and resources differ from one company to another. If not so, we would find ourselves in a perfectly competitive market. But real world markets are not perfectly competitive, thus to gain competitive advantage, firm must be using

different bundles of resources. Immobility, instead, assumes that resources cannot be easily transferred from company to company. Brand equity, processes, knowledge or intellectual property are considered immobile resources.

In all firms, we usually identify three types of assets: human capital, social capital and financial capital. Bettella's human and social capital is highly knowledgeable, and most importantly is very loyal to the company and its owner. Credit to this has to be given to Piergiorgio's skills in creating a bond between the family and its employees, that thus are willing to put in more effort and to be more flexible. Moreover, the knowledge and skills of the CTO Vittorio, are a valuable asset considering the continuous technological advancements of the industry. On the downside, Piergiorgio shows a very autocratic style of leadership, that in the long-run and with the possible insertion of his son and daughter in the company operations, could ruin the equilibrium crafted thus far.

Operating in a very competitive and niche market, the company has always striven to gain market share. Luckily, the knowledge and curiosity of Piergiorgio led him to continuously search for new opportunities and partnerships to keep growing the business.

The difficult competitive landscape also reflects on the financial capital of the firm. Piergiorgio, in fact, has been the sole leader of the business for many years, providing a good style of life to the whole family. But to pursue the many financial investments faced by the business, he put all his personal assets at risk. These risks and sacrifices that the family had to sustain, indeed created an even stronger bond between all the members of the family.

Having analysed the family firm from the Agency Theory point of view and from a Resource-Based view, we can now identify the position of the firm in the Gibb Dyer's Diagram (Exhibit 2). Most of the times firms do not have a "pure" categorization in the diagram, indeed most of the times, they are of hybrid nature (i.e. they belong to more than one category at the time). The family firm in analysis is no exception, and its current positioning stands between a *Clan* and

Mom and Pop firm. As discussed above, the agency costs of the firm are relatively low, due to non-conflicting goals and the small number of family ties involved in the business. Moreover, financial assets are low, but the expertise of the founder, together with the expertise gained by his son and daughter during their years of study and work outside the family company, suggest a bright future for the family enterprise. On the other hand, the family liabilities are high, since all the resources involved in the company are coming directly from the family and vice versa, being, therefore, involved in very high risks of failure.

If the family is able to identify the type of family business they are involved in, and modify their structure by changing their capital structure, the family would certainly be able to evolve in a better quadrant and become a more efficient company.

Consequently, by accepting the deal, the company would not necessarily improve his positioning. In fact, the burden of all costs (research and development but also inventory and distribution costs) would fall on the family that will also have to pay royalties for the use of the brand. Even though the partnership would surely mean a large expansion in terms of customer base and sales, it does not imply that the business will evolve in a better and more efficient one. On the contrary, the capital structure of the family business would surely become heavier and less flexible to changes.

QUESTION 2

Let's begin by defining Non-Family Managers (NFM's). NFM's (external, outside or professional managers) are defined as executives not having a blood or a marital or adoption relation to the family owning the firms (Klein, 2007).

Family businesses often face the necessity to hire outside managers. The reasons for this to happen are multiple and can vary from the need to plan succession, thus realizing there are not suitable heirs to the family business (or they don't want to be involved in it), or simply to cope

with the lack of skills inside the family (as in the case of the Bettella's family). Also, limiting management positions primarily to family members (nepotism) may lead to hiring sub-optimal people who cannot be easily dismissed (Dunn, 1995; Whyte 1996), and can lead to greater conflict because of non-merit-based promotion criteria (Leyton, 1970; Wong, 1988). Moreover, the hiring of NFM's is usually a direct consequence of the growth of a family firm. Many studies affirm that as family firms become older and more established, the likelihood of bringing a greater number of NFM's into the firm increases (Lussier and Sonefield, 2007; Klein, 2007). In family business theory this is defined as the professionalization process (Dyer, 1989; Klein 2007).

On the other hand, what attracts NFM's to family firms can be many, starting from the opportunity to work in a non-bureaucratic environment, to create wealth, to be close to the top tiers management as well as the opportunities to work in a family friendly environment or for the respect towards family culture.

NFM's can be considered a double edged sword in family business as they can entail many benefits but at the same time they can damage the equilibriums that characterise family firms. In particular, starting from the benefits that were evident by analysing the case, NFM's can provide skills and ideas that enable the family business to grow. The hiring of a young and passionate CTO with a great respect for the company and the founder, has been a bold move. In fact, the new energy brought by the NFM was able to bring back the passion in the heart of the founder, rejuvenating the family business both from a product and marketing stand point but also from an emotional point of view.

Other benefits that NFM's can bring to the family firm consist on serving as the CEO alter ego during institutional events but also inside the company, by transferring family values and visions to employees and stakeholders. Again, by referring back to the case we can see how the hiring of a NFM has served to elevate the values and especially the vision of the family firm.

Moreover, as already mentioned above, NFM's can help to strengthen the company by assisting with strategic planning and by facilitating succession. In fact, it's not unusual for family firms to hire NFM's in order to bridge the succession between two generations. NFM's can act as mentors, supporting the successor in taking the guide of its own company (Klein, 2007).

On the other hand, NFM's can result in the so called "creative destruction". Creative destruction happens when the role of NFM brings the company to experience an abnormal growth weakening the managerial and financial control of Family Managers. The direct consequence of the fear of losing control of their own firm, leads Family managers to discourage any creative and innovative action from NFM's.

The relationships between Family Managers and Non-Family Managers, can be also viewed as an extensions of the Agency Theory.

Family managers are supposed to be more attached to the family firm, pursuing emotional objectives, while NFM's tend to be more economically-driven (Gomez-Mejia, Haynes, Nunez-Nickel, Jacobson and Moyano-Fuentes, 2007; Berrone, Cruz and Gomez-Mejia, 2012). This definition of FM and NFM, perfectly resumes the conflict analysed by the Agency Theory. By the research of Davis (et al., 1997, p. 39) we can identify four quadrants (Exhibit 3), that define the options of behaviour of a non-family manager and a family business owner. Firstly, let's assume that both FM and NFM can behave either as steward or as agent. When both parties behave as agents they will find themselves in a mutual agency relationship (1st quadrant). This type of behaviour will minimize the potential losses. As described by the Agency Theory, this type of behaviour entails costs on both the principal, that has to adopt controlling measures to ensure that the company's well-being is put in front of personal satisfaction.

On the opposite quadrant both parties behave as stewards (4th quadrant) sharing a high goal alignment. In this case, potential performance is maximized, the owner trusts the agent and vice versa, leading to a maximization on long-term outcome.

The other two quadrants will define the situations in which either the principal or the agent behave as steward or agent, in which either one of the parties will feel betrayed.

Quadrant 1 and 4 can be considered the two equilibrium situations and depending on the case one of them can be optimal. In the case of the Bettella's family situation, we can apply the same concepts.

Starting from the analysis of the new CTO, we can identify his behaviour as belonging to the steward category. In fact, in the case is often mentioned his passion for the industry and the products built by the company even before his meeting with the founder. Therefore, we can imply that his motivation is not related to achieve personal success or accumulate personal wealth, but is tied to the good of the company. On the other hand, the founder, that understood the drivers of the new manager, reveals a complete trust on the other parties' actions. He appreciates the energy and the motivation of the agent.

In conclusion, we can define the behaviour of the two parties as belonging to the 4th quadrant.

QUESTION 3

As already mentioned, NFM's can bring many advantages to family business and vice versa. But at some point, NFM's should realize that they will never reach the top levels positions in the firm. Once, NFM's realize this, they are tempted to take advantage of their experience to exploit new opportunities where they can get higher rewards. As trivial as this statement may sound, it represents one of the main issues that family businesses have to face.

Thus, what can FM do to retain talent in the company?

First, and most importantly, they should be treated as part of the team. They should be treated with respect and recognition and at par with the family managers inside the firm (while family managers should be treated like employees in the work place). In this regard, working climate

should be periodically assessed to avoid the creation of unwanted tensions between family and non-family managers. They should also be involved in decision making processes.

Moreover, FM's should define clearly what will be the possible career paths in the company. Together with this, they should adequate compensation that should always benchmarked and comparable to that of the industry.

Lastly, family managers should adopt the help of long-term incentives to retain NFM's. A strong motivator can be to compensate NFM's offering equity ownership in the company or by employing phantom stocks⁷. Or offer bonuses tied to the permanence of the NFM's in the family business or bonuses tied to long-term objectives.

EPILOGUE

By the end of 2005, all the documents that sanctioned the closing of the partnership had been signed. The Bettella's family invested more than 50.000 euros in research and development of brake pads for scooters and another 110.000 euros in production. Unfortunately, after an immediate success, the partnership generated more than 250.000 euros of loss for the company in just more than 3 years (the worst investment ever made by the family). The problem was mainly related to products. In fact, the brand Sparco was renowned for developing breakthrough innovations while the products that were commercialized did not achieve the expectations of the consumers. This lead to the overstocking of products that soon became outdated.

On the other hand, the new products developed by the new hired CTO, and sold and the Pinasco brand, became a major success. Nowadays, the company is a solid reality in the world of the scooters, with more than half of its profits coming from outside Europe.

⁷ Phantom stock: employee benefit plan that gives selected employees many of the benefits of stock ownership without actually giving any company stock. (Source: investopedia.com)

EXHIBITS

Exhibit 1: Genogram

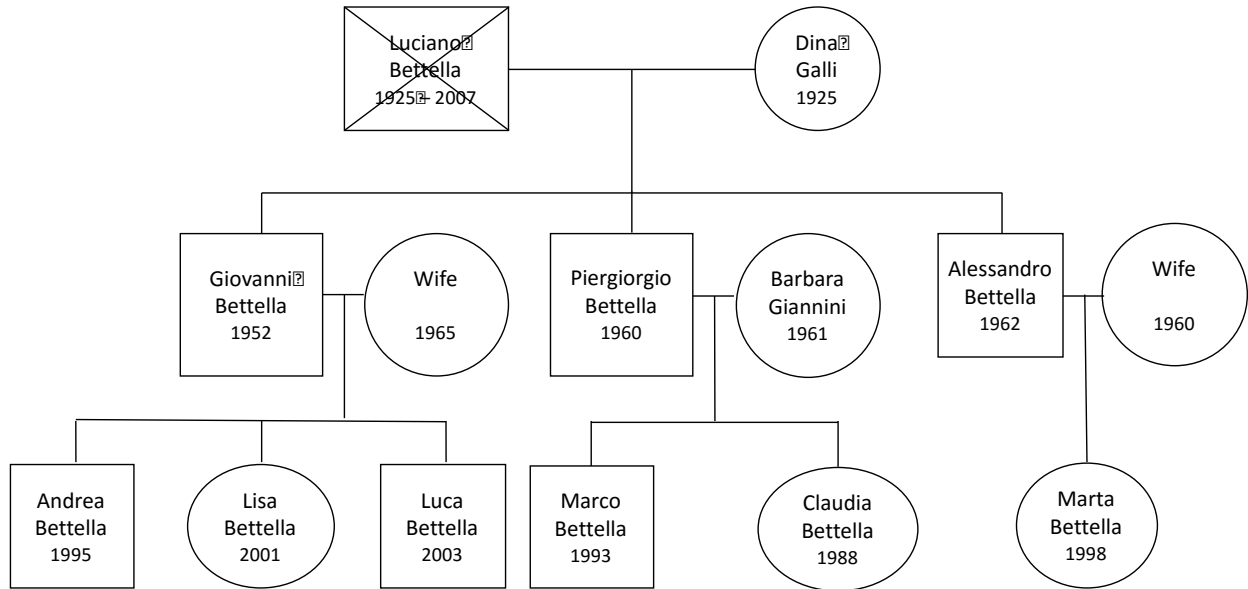


Exhibit 2: Typology of Family Firm, W. Gibb Dyer Jr.'s diagram

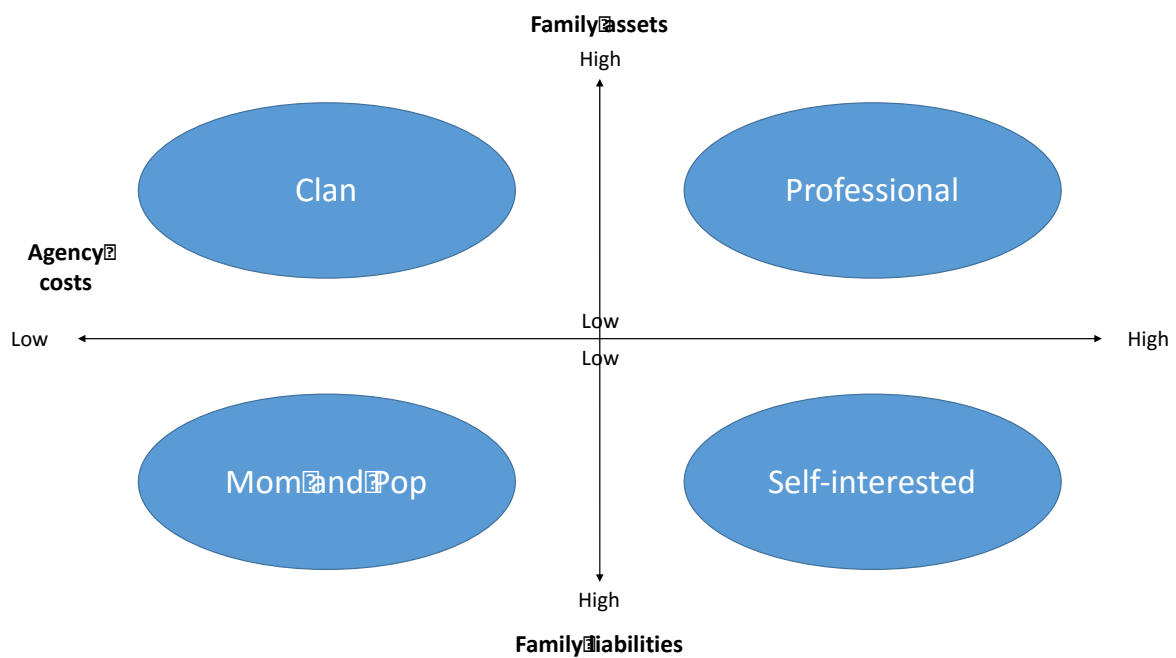


Exhibit 3: Options of behaviour of a non-family executive and a family business owner (Source: Davis et al., 1997, p.39; Klein, 2005, p. 194).

		Family business owner options	
		Agent	Steward
Non-family manager options	Agent	Minimize potential costs Mutual agency relationship 1	Agent acts opportunistically Principle is angry Principle feels betrayed 2
	Steward	Principle acts opportunistically Manager is frustrated Manager feels betrayed 3	Maximize potential performance Mutual stewardship relationship 4

Exhibit 4: Example of Sparco's partnership product with Puma



REFERENCES AND RECCOMENDED READINGS

REFERNCES

Published Articles:

González, Maximiliano. 2012. "Family Firms and financial performance: The cost of growing." *Emerging Markets Review*, 13: 626-649.

Ward J.L. 1997. "Growing the family business: Special challenges and best practices" *Family Business Review*, Vol. 10, no 4

Minichilli A., Corbetta G. and MacMillan. 2010. "Top Management team in family-controlled companies: "familiness", "faultline", and their impact on Financial performance", *Journal of Management Studies*, 47:2

Books:

Corbetta, Guido & Salvato, Carlo. 2012. "Analyzing Family Firms: Tools and Contents." In *Strategies for Longevity in Family Firms*, ed. Roberto Grant, 31-50. Milano: Palgrave Macmillan.

RECCOMENDED READINGS

Published Articles:

Dyer Jr. William Gibb. 2010. "Are you the right type of Family Business?" *Organizational Dynamics*, 39(3): 269-278.

Lansberg, Ivan. 1993. "Twelve tasks in succession." *Family Business Magazine*, May 30, 1993.

Gomez-Mejia, Luis R.; Cruz, Cristina; Berrone, Pascual & De Castro, Julio. 2011. "The bind that ties: Socioemotional Wealth Preservation in Family Firms." *The Academy of Management Annals*, 5(1): 672-674.