Understanding the Family Businesses: A Case Study from Brazil

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SUBMITTED TO THE MIT SLOAN SCHOOL OF MANAGEMENT IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF

MASTER OF SCIENCE IN MANAGEMENT
AT THE
 MASSACHUSETTS INSTITUTE OF TECHNOLOGY

JUNE 2017

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Submitted to MIT Sloan School of Management
on May 12, 2017 in Partial Fulfillment of the
requirements for the Degree of Master of Science in
Management.

ABSTRACT

This thesis demonstrates through a case study of a 3rd generation family business, the strengths and challenges of family businesses. It focuses on common problems facing family businesses such as family member interference, conflicts, and the absence of a succession plan. It also explores the various definitions of family business, the relevant research and data, cultural influences, and the unique benefits of family businesses. The case study is of a successful global Brazilian family business that was formed over 50 years ago by a family of immigrants that came to Brazil at the turn of the twentieth century. The family business grew from a small village market to a major international transportation, fruit production and export firm. The study highlights the importance to family firms of succession planning. It also illustrates how family businesses propel the economic growth in today’s capitalist global economy, especially in emergent nations. Some of today’s most powerful global firms started as family businesses and many are still under family control or family influence. Finally, this thesis offers some recommendations to next generations to help families understand how to perpetuate their businesses.

Thesis Supervisor: John Van Maanen
Title: Erwin H. Schell Professor of Management & Professor of Organization Studies
Dedicated to my wife, Daniela, my son Luiz Eduardo and my daughter Ana Carolina, for have made my life make sense.
Acknowledgments

This Research was only possible because I had the privilege of being guided by a great professor and mentor John Van Maanen, who patiently helped me to overcome the challenges of writing a case study, and the language barriers faced through this journey. His experience and knowledge made a huge difference in my MBA studies at MIT and will influence my career and my future as a world citizen and family business leader. I will never forget his advice. Thank you very much Professor John!

I also extend many thanks to Senior Lecturer Peter Kurzina, who helped me with the research and shared his experience and data collected during the Seminar on Family Business brilliantly taught in the MIT Fall season of 2015.

Much appreciation extends to all my colleagues from MIT Sloan Fellows Program - SF17 - an amazing group of friends whom I will carry forever in my heart and in my professional networks.

Lastly, I'd like to thank my wife, Daniela, and my two children Luiz Eduardo and Ana Carolina, who traveled with me to the US and supported me throughout my studies. I could not have accomplished this work without their love and support.
“A man may die, nations may rise and fall, but an idea lives on”.

John Fitzgerald Kennedy
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Chapter 1
Understanding the Family Business and Its Role in the Global Economy

1.1 - Introduction

In this chapter, I define family business (also called family enterprise, family-controlled enterprise, family-controlled company or firm) and broaden the definition to include businesses where family members own/control shares or exercise influence over the business. This broader conceptualization provides an actual view of the family business and widens the data pool when quantifying the number of family businesses and their impact on the economy of nations and the broader global economy. I explain why it is important to understand this concept for family members who own shares and for employees, suppliers, customers, partners, investors and financial institutions — in other words, for all stakeholders involved in the family enterprise. Finally, I present an analysis of the risks and advantages involved in investing in a family business.

1.2 - Definition of family business

The family business is the oldest form of business and the foundation of today’s global economy. However, the terms family business and family ownership have many definitions, (FFI – Family Firm Institute, 2016) the simplest being “any business in which two or more family members are involved and the majority of ownership or control lies within a family” (Inc.com, 2017). Other definitions are broader. (FFI – Family Firm Institute, 2013). Some see family involvement in a business as the only requirement of a family
business, but most scholars agree that family involvement means ownership and management (Chua, 1999). Others define a family business as one with a family successor (Hatten, 1997). Essentially, a family business involves an interaction between two unique but connected systems—the business and the family—with inexact boundaries (Inc.com, 2017).

Farms are the earliest forms of the family business; families owned or rented the land and produced livestock, dairy products, fruits and vegetables and other agricultural products that they consumed and sold. Family businesses can range from the corner “Mom and Pop” grocery store to global corporations. Traditionally, family businesses have been seen as those operated by a particular family for more than one generation. Based on this definition, a company with a sole founder without heirs would not be considered a family business, as is true for a company in which a family is only an investor, without any involvement in the daily business operations (Lodi, 1986). Family businesses can involve various combinations of family members including spouses, nuclear family members, and extended family members, and they can span multiple generations. Family members can play various roles in the business, from stockholder (majority or minority), board member, CEO, CFO, working partner, advisor, and non-management employee, to name a few.

While most definitions of family business are based solely on the control exercised by families over the business, this study does not consider mere family stock control, a cross-generation timeline, or decision-making control, despite their relevance, as the only qualifiers of a family business. Other factors such as generational control and succession, are equally important. These are discussed in detail later in this study. Unfortunately for family-owned businesses, some scholars, investors, and lenders may view family
involvement with the firm as a problem that can weaken or destroy the enterprise. This suggests a possible bias or misunderstanding of family enterprises. As an example, consider Morgan Stanley's efforts to weaken family control on the New York Times company in 2005 when family management did not respond the firm's suggestions as to how to boost the stock prices. (Barrett, 2015).

It is important to note that in most of the cases, family businesses, company and business values are commonly identified with the family name or with a major entrepreneur or founder whose image is associated with the rise and development of the business. For example, the business’s success is often attributed to a brilliant founder (e.g. Thomas Walton, Walmart Co.).

Based on my experiences as a co-owner of a third-generation family business in Brazil, I have found that financial institutions require higher interest rates and more collateral for family-owned firms than public companies with similar financial data. If asked about this possible bias, bankers I have known swear that they are not biased and justify their behavior by saying that higher rates are due to the lack of transparency of the financial reports of some privately held family-run companies. Also, investors may tend to shy away from investing in family businesses because they may feel more secure investing in public corporations due to transparency and easy access to information and clear corporate governance rules. This may be one reason why family enterprises desire to go public, to have access to cheaper loans and capital and to gain more investors.

In my view, family business is a business organization or enterprise that is controlled by families who exercise reasonable influence and hold certain decision-making powers for strategic decisions and the conduct of business. They are able to
influence the corporation's profits, direction and outcomes (Carlock, Kets de Vries & Florent-Treacy, 2007). This is not dictated by specific share ownership or stock control. Some families or family members can hold minority shares, but due to historical, contractual or various other reasons, can still exercise a major and decisive influence over the business.

1.3 - The current limited view of the family business

A family can be defined by consanguinity (by blood ties or via marriage), although this is not imperative as adopted children are also family members and many inheritances and legacies are left to people linked to families merely by emotional bonds. Examples include servants, caregivers or close friends who, due to emotional bonds, "integrate" into the family and are often considered members. In some cases, they become heirs to family property. Many times, these non-blood family members enjoy a degree of influence far greater than other family members. (Hoerder, Van N. Meerkerk, & Neusinger, 2015).

What matters is the family members' political control, power, leadership and capacity to influence the business's decisions and not mere share control that makes a business a family business. Similarly, emotional bonds are as important or more so than consanguinity in linking 'family' members. Thus, the term family is expanded to emotional ties between people which can hold as much or more weight than actual blood ties. Since families can include persons connected through emotional ties, then family enterprises are widespread.

It is largely thanks to the labor and dreams of tireless entrepreneurs that many
"family-like" businesses take form; they face the same sort of issues as do family businesses. For example, many startups that arise in university research centers like Cambridge, Massachusetts, home to teaching and research institutes such as MIT and Harvard, and in Silicon Valley, based in Palo Alto, California, home to Stanford University, have many characteristics of young family businesses. Young entrepreneurial partners often see each other as "family" as many formed friendships at the university, took classes together, and share the same interests and goals. Working in startups, they spend hours together, often working 80 hours a week, to launch the business. After work they often socialize together, play sports together, have fun together, and some even are roommates. Thus, through these shared life experiences, they form strong ties. Similarly to family businesses with deep emotional ties, these companies can face difficulties similar to actual family businesses.

1.4 - Why understanding family businesses is relevant

It is evident that family businesses have been and continue to be of great importance in the global economy. Family businesses are currently recognized by corporate, academic and government entities, as well as by economists and economic policy makers, as the leading source of jobs and wealth creation, both in developed economies and in developing or emerging nations. For example, Germany's employment rate increased by nine percent (approximately 300,000 jobs) from 2006 to 2010, and was generated by the 500 largest family enterprises. Over the same period, public companies were responsible for more than seven percent of job losses (Gottschalk, 2011).
Due to a lack of consensus defining a family-controlled business, the available data on family businesses are highly inconsistent and are based on the range of criteria used to define a family enterprise. Thus, in order to measure the economic effect and access the available data, we will use the most popular current definition by Kets de Vries's: "Family businesses are business organizations in which decisions and leadership are influenced by one or more families" (Carlock, Kets de Vries & Florent-Treacy, 2007). Carlock et al. go on to show that more than 95 percent of businesses in Asia, the Middle East, Italy and Spain are controlled by families. In more developed economies such as France and Germany, more than 80 percent of the companies are considered family owned or controlled, while in the United States, the most fragmented market and the global model, families directly or indirectly control more than 70 percent of the country's businesses.

Essentially, the great majority of large corporations began as a family business. When they reached a certain level of maturity, perhaps they became a joint-stock or public company or were acquired or incorporated by another. Yet in many of these public companies, the founding families continue to exercise a certain degree of influence. Some of the most successful companies worldwide have been or still are controlled or influenced by families, such as France's Michelin, Peugeot and Carrefour, India's Tata, Sweden's Tetra Pak and Ikea, Switzerland's Roche, Germany's BMW and Henkel, Italy's Barilla, Ferrari and Benetton, Holland's C&A and Heineken, the UK's Sainsbury's, Canada's Bombardier, South Korea's Hyundai, Japan's Toyota and Suntory, Brazil's Itaú-Unibanco, Votorantin, Gerdau, and the U.S.'s Cargill, Mars and Wal-Mart, among others.

The importance of family corporations worldwide is highlighted in the Global Family
Business Index. (Center for Family Business, Univ. St. Gallen with Ernst & Young’s Global Family Business Center of Excellence. 2015). The index lists the 500 major family controlled corporations globally, along with their locations, economic sectors, and revenues, among other key statistics. The Center for Family Business defines family businesses as private companies in which the families *hold more than 50 percent of the shares with the right to vote* and, for public or listed firms, those in which families *control at least 32 percent of the shares and have voter rights*.

Statistics listed in the Global Family Business Index (*familybusinessindex.com*) illustrate the power of family businesses globally. *Figure 1.1* shows the percentage of family businesses per economic sector. *Figure 1.2* lists family companies across continents and *Figure 1.3* shows family business data distributions over time, including the corporation’s year of establishment, revenue and economic sector.

*Figure 1.1: Family Enterprises globally grouped by primary, secondary, tertiary economic sectors.*

![Figure 1.1](image)

Figure 1.2: Family Enterprises globally grouped by continental distribution.

<table>
<thead>
<tr>
<th>ECONOMIC SECTOR</th>
<th>REVENUE</th>
<th>SECTOR</th>
<th>EMPLOYEES</th>
<th>FOUNDING YEAR</th>
<th>CONTINENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>$400 bWlon revenue</td>
<td>North America</td>
<td>$100 bmillion revenue</td>
<td>1620</td>
<td>Europe</td>
</tr>
<tr>
<td>Asia</td>
<td>$10 billion revenue</td>
<td>Oceania</td>
<td>$10 billion revenue</td>
<td>1800</td>
<td>South America</td>
</tr>
</tbody>
</table>


Figure 1.3: Family Enterprises distributed by opening date by time, economic sector and revenue.

Diagram

Merck, founded in 1668, according to the Family Business Index site data, is one of the oldest family-controlled companies worldwide (see Figure 1.4). Merck’s longevity contrasts with the widely cited statistics about family business survival rates that indicate that only about 30 percent survive to the second generation: The survival rate continues to decrease by the 3rd, 4th and 5th generations. (Ward, 2004). This is a statistic widely disseminated in the media. (e.g. Strauss, 2016).

Figure 1.4: The Merck corporation, initiated in 1668, is an example of longevity of the family business.

Appendix A lists the largest 150 companies included in the 500 Global Family Business Index. Members of the Family 500 index account for an amazing combined $6.5 trillion in annual sales, enough to be the third-largest economy in the world (surpassed only by the U.S. and China) and employ nearly 21 million people (Zellweger, 2015).

If we consider only the United States of America, of the US Fortune 500 companies ranked, more than one-third are family-owned. In considering the 400 wealthiest Americans, according to Forbes, 44 percent of those listed had or have wealth related to a family enterprise (Dolan, 2015). Additionally, businesses controlled by families represent as much as 30 percent of all global companies and corporations with revenue higher than US$ 1 billion (Kachaner, Stalk & Bloch, 2012).

While many of these family companies are no longer controlled by the families nor have family-related management, the notion of family is still an integral part of the culture of many formerly family controlled companies. Some families still exercise influence over the corporate culture, leadership style, product and/or corporate decision making. Take, for example, Italian car manufacturer Ferrari, which, until early 2016, the family had exerted strong influence over the business even though Fiat-Chrysler acquired the firm in 2014, and the Ferrari family held only 10 percent of its shares (CampdenFB, 2015). But the family's culture and influence remain a fundamental element of the company, such as its "racing spirit" which motivated Enzo Anselmo Ferrari, its founder, to develop high-performance automobiles; In 2016, Ferrari finally splits from Fiat-Chrysler. Today, its engines remain powerful and emit a distinctive high-pitched sound that exudes a
command of the road. It would seem the influence of families on the behavior of individuals and groups within the organization has a lasting effect on corporate culture (Dyer, 2003).

1.5 - Are family-controlled enterprises a good, bad or neutral investment opportunity?

Economists and policy makers in developing nations have adopted the view that governments must support their economies by investing in jobs creation, by attracting more investment (from abroad), and by providing incentives to entrepreneurs to create companies to help boost economic development. As a result, entrepreneurial activity has rocketed in recent years, especially in emerging or developing economies (Bernato, 2014). Along with government incentives for entrepreneurial development, there has been a rise in family-controlled enterprises (Wharton University of Pennsylvania, 2016; Bjornberg, Elstrodt & Pandit, 2015). And revenues are up. According to McKinsey & Company forecasts, in emerging nations alone, more than 4,000 family businesses are expected to reach sales revenue of over $US 1 billion per year by 2025 (see, Figure 1.5). Should this forecast materialize, family businesses will represent more than 40 percent of all major companies in the world worth a billion or more in revenues, and almost 90% of firms worldwide. This is likely to occur primarily in nations from Asia and South America. In the same study, McKinsey & Co., created a way to measure the “organizational health outcomes” of family businesses by scoring some organizational characteristics such as

---


direction, leadership, culture, innovation, accountability and others (see Figure 1.6). They found that the outcomes of family businesses were better or equal to other non-family companies in the same markets (Bjornberg, Elstrodt & Pandit, 2015).

Figure 1.5: Expected growth on number of family enterprises with revenues bigger that $1 Billion, on emergent markets in the next 15 years.

A growing number of family-owned businesses in emerging markets could hit $1 billion in sales from 2010 to 2025.

Companies with ≥$1 billion in revenue, number of companies

<table>
<thead>
<tr>
<th>Region</th>
<th>2010</th>
<th>2025</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emerging-market family-owned businesses</td>
<td>5,797</td>
<td>8,057</td>
</tr>
<tr>
<td>Other emerging-market companies</td>
<td>1,339</td>
<td>1,503</td>
</tr>
<tr>
<td>All developed-market companies</td>
<td>1,288</td>
<td>858</td>
</tr>
<tr>
<td>Total</td>
<td>7,941</td>
<td>15,003</td>
</tr>
</tbody>
</table>

Source: Bloomberg; company websites; EXAME magazine's 2013 Melhores & Maiores list; Jeune Afrique's Top 500 African Companies; Kavalue; Mexico's Secretariat of Finance and Public Credit; PRIME news agency's rating of Russian family-owned businesses; Prowess; Zawya; McKinsey Global Institute analysis

Figure 1.6: Organizational Health Outcomes Score Index of family businesses compared to non-family owned businesses in the same markets.

Family-owned businesses in emerging markets have organizational-health outcomes better than or comparable to those of non-family-owned businesses in those same markets.

<table>
<thead>
<tr>
<th>Organizational Health Index Scores</th>
<th>Asia, n=62,216</th>
<th>Central and South America, n=45,654</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direction</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Leadership</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Culture and climate</td>
<td>10</td>
<td>-1</td>
</tr>
<tr>
<td>Accountability</td>
<td>2</td>
<td>-1</td>
</tr>
<tr>
<td>Coordination and control</td>
<td>5</td>
<td>0</td>
</tr>
<tr>
<td>Capabilities</td>
<td>3</td>
<td>-1</td>
</tr>
<tr>
<td>Motivation</td>
<td>7</td>
<td>2</td>
</tr>
<tr>
<td>Innovation and learning</td>
<td>4</td>
<td>0</td>
</tr>
<tr>
<td>External orientation</td>
<td>5</td>
<td>2</td>
</tr>
</tbody>
</table>

1Difference statistically significant at 95% confidence level.
2Emerging markets only.


For these reasons, family businesses have been very attractive to investors, especially in Brazil, Russia, India and China, (the BRIC nations). India, which has a comparatively high percentage of family businesses, has seen an estimated 70 percent of private investments in recent years directed towards family businesses (Bjornberg, Elstrodt & Pandit, 2015).
Interestingly, family-owned companies with perceived problems of low degree of transparency and inflexible leadership have caught the attention of investors who see opportunities for adding value through improved corporate governance, restructuring organization and increasing financial control. Like all investments, investing in family companies carries risks. The best known are the absence of succession planning and low transparency. However, according to some new studies, the return on investments has surpassed the risks. The results in such investments have generally been impressive. The growth potential and value of investments in family companies is immense especially in developing economies (Hemmadi, 2015).

Furthermore, globalization, the opening of markets and democratization of many emerging developing nations has greatly reduced or eliminated institutional risks for investors. Many such nations now have institutions and laws that are far more reliable than in the past. Politicians and policy makers apparently are coming to understand that foreign investors need a guarantee that their investments will be safe and policies will be fair. Brazil, India and Mexico are good examples of countries that are following that path.

Family firms enjoy many advantages, as highlighted below on Figure 1.7, such as agility in decision making, staff loyalty and commitment, more credibility in the community, continuity of long-term vision and investments. Figure 1.7 also shows some disadvantages and weakness. But I believe that the dividing line between the success and failure of most family businesses lies in the transition between generations. Resolving this issue properly can lead to the success and perpetuation of the family company.
Figure 1.7: Main strengths and weaknesses of family businesses.

Family Businesses: Common Weaknesses
* Conflict of interest between Family and Company
* Internal disputes for power within the organization
* Lack of financial planning and cost control
* Undue use of company resources by family members
* Resistance to modernization and the implementation of new procedures, ideas and technologies
* Nepotism and employment of family members with the absence of meritocracy
* Inflexibility and centralization of leadership positions
* Informality and a lack of transparency in financial statements
* Succession problems, family members' excessive attachment to the company

Family Businesses: Common Advantages
* Agility in decision making thanks to lower levels of bureaucracy
* Loyalty and dedication of staff
* Credibility of the family name at a national level, conferring economic and political advantages
* Respect from the local community
* Continuity of share control and corporate culture
* Dedication to the continuity and maintenance of the business even in difficult times (i.e., the family business's sense of duty to its community)
* Careful strategic management of the enterprise — long-term vision
* Family and Employees love for the company — Family values entrenched in the organization
* Close relationship of firm management with all shareholders
* Intimate knowledge of the local market and economy

Source: This expresses the author's understandings and information collected during this research and under my personal and professional experience).
Yet, many investors understand that the leadership transition period is the opportune moment to invest in a family enterprise and perhaps take it over. This usually occurs when the founder dies and the company is leaderless due to a lack of succession planning. In fact, due to problems and disputes for power in company successions, less than 30 percent of family companies make it to a second generation (Stalk & Foley, 2012). Often, when a company's founder dies, the new generation running the business is blamed if the enterprise does not succeed. In many cases, they may be blamed unfairly. The biggest villain sometimes may be the founder who built the business and who, ironically, makes the poor decision by failing, for example, to relinquish power due to health problems or an inability to adapt to changes or a refusal to create or accept a succession plan. The secret to the family business's success is to know when to let go and pass the reigns to the next generation (Aileron, 2013).

It is widely believed that young family businesses generally have a lean structure with low costs. Some need only improved governance and management in order to perpetuate the firm. Indeed, the potential for growth and increased value of family companies is impressive, and offer an excellent option for investors, family offices or other family investments structures, private banking, holding funds, pension funds or private equity funds (Larrabee, 2013). Figure 1.8 shows the return on an investment over 12 years (1997 to 2009) (Kachaner, Stalk & Block, 2012). We can clearly see the advantage in return on investments for family businesses compared to non-family business.
The Long-Term View of Family-Business Performance

Though family-run companies slightly lag their peer group when the economy booms, they weather recessions far better.

One approach to helping grow a company is by going public. This makes the company more desirable for investors, increasing the chances of elevated profit margins. These expectations usually make the IPO profitable for both sides. For investors, this is the best moment to invest — when this asset has not yet reached its due value or when it presents potential for increased worth. In this way, the alliance of family entrepreneurs and experienced investors will probably add value to the business. The family contributes its passion, vision and hard work and the investors offer financing, experience, transparency, and financial and administrative control tools.
In sum, it would seem that by taking the necessary care, families can maintain their businesses for successive generations. Likewise, they can make their business more attractive to external investors or even for acquisition, especially in emerging markets. (Bjornberg, Elstrodt & Pandit, 2015) (Hemmadi, 2015). But there are numerous obstacles in the way of family businesses. These are explored in the next chapter.
Chapter 2
Family Business Obstacles: A Literature Review

Having defined the family business and some of its variations in Chapter 1, I will now examine the unique characteristics of family businesses and the complex environments in which they operate. In this chapter, I review some of the literature on the major challenges facing family businesses and attempt to clarify some of these challenges. Finally, I present some tools and theories that help us understand how family businesses can best address these challenges.

2.1 - General obstacles facing family businesses:

The research on family business problems has attracted the attention of researchers for many decades. In his classic study, Donnelley (1964) identified four main weaknesses in family businesses:

- **Conflicts of interests**, or conflicts between the family’s private interests and the firm’s best interests;

- **Poor profit discipline**, a lack of interest in providing a stable annual profit margin; family firm leaders do not focus on quality and improvement because they tend to place personal interests and family pride before the business’s best interests;

- **Immobile marketing**, or the difficulty that family firms face in taking advantage of market opportunities and growth potential; and
- **Excessive nepotism**, which refer to the family business leaders’ mistrust of ‘outsiders’ or an overriding sense of family duty or responsibility, which can result in unqualified family members running aspects of the business.

In several books, Carlock and Ward (2001) and Carlock et al. (2007) extended the key issues family firms to include:

- **Capital**: The ability to control and wisely allocate resources in order to meet the requirements of the business and family;

- **Control**: Management of power and leadership, with roles and limitations of involvement for directors, the executive board, and other family and non-family stakeholders;

- **Family Culture**: Maintenance and transmission of family values to the business;

- **Family member Involvement** in the firm: The planning and definition of career paths with clear criteria for employment in the business, advancement and termination; and

- **Family member Favoritism (Nepotism)**: Management must be careful to define job requirements and responsibilities and to hire and promote only family members and others that meet these qualifications.

- **General Conflict**: Conflicts often result from family members over-stepping boundaries, and from differences in opinion, political or social views, personality traits, and management style.

Family members must understand and acknowledge these challenges and create mechanisms to address them (e.g., explore reasons behind them and various solutions
such as corporate governance rules). Further, they must learn how to separate their personal interests from the company's success (Baumoel and Trippe, 2016).

Many studies support the view that family businesses face a high risk of failure and have difficulty perpetuating the enterprise (Beckhard and Dyer, 1983; Dyer, 1989; Kuratko, 1995; Kets de Vries, 1996). It is widely accepted that, as said in chapter 1, nearly 70% of family-owned or family-controlled businesses fail in the transition to the second generation. And less than half of these second-generation businesses will not survive to the third generation (Stalk and Foley, 2012 and Aileron, 2013). The non-profit organization, Conway Center for Family Business, notes that only 12% of family firms will still be viable in the third generation and only 3% will survive to the fourth generation and beyond (Fernandez-Araoz, Iqbal, and Ritter, 2015; Conway Center for Family Business, 2017). In general, studies show that the most important factor influencing the continuity of family businesses through generations is succession planning or lack thereof (Christensen, 1953; Dyer, 1986; Ward, 1987, Lansberg, 1988, Handler, 1994).

After the 1990s, improved access to information and technology helped family businesses. This fact was noted especially in nations like Brazil, Russia, India and China (BRICS). Additionally, with more data and information available, new studies with better data were conducted. And new results appear to contradict older concepts and statistics.

A good example of the emergence of new concepts and findings on family business is the work of Miller and Le Breton-Miller (2015). They realized that in some special cases family businesses surprisingly tend to “live longer” than non-family businesses. A primary reason for this longevity is that family businesses plan and operate on a long-term (multi-generation) horizon and are not seeking short term gains or to build
and then sell the business (a relatively recent short-term business strategy). Other research shows that many family businesses, in fact, seems to outperform non-family firms and have a better success rate in terms of profitability and longevity over time (Anderson, Mansi & Reeb, 2003).

Miller and Le Breton-Miller (2015) also explain why some family businesses fail. They find that some family firms tend to operate without upgrading their operations, decision-making processes and management approaches even when their apparently rigid approaches may be driving the firm into the ground. For this reason, family businesses are seen as unable to keep up with the times due to the entrenched thinking of the founder and his/her family. Family business founders are also seen as holding the firm’s reins too tightly and for too long. In short, some family firms are seen as worn out mechanical clocks, ready to stop ticking due to the family’s inflexibility, short-sightedness, and infighting over control (Miller and Le Brenton Miller, 2015). Along these lines, some family businesses are also seen as poorly administered (Levinson, 1971).

However, the older studies fail to consider that all family firms are unique. Many of the resources, culture and values of family firms are also unique. In fact, such unique features may provide them with a competitive advantage (Barney, 1991). Some intangible resources, such as knowledge, know-how, reputation, cultural values, beliefs, habits and traditions, can also add value (Hall, 1992).

This negative view and the “high failure rate” findings of the past has created a stigma for family businesses (Stalk & Foley, 2012). This stigma is often captured by proverbs such as “Shirtsleeves to shirtsleeves in three generations” (USA); “Pai rico, filho nobre, neto pobre” (“Rich father, noble son, poor grandson”) (Brazil); “Padre bodeguero,
hijo caballero, nieto pordiosero” (“Father Merchant, son gentleman, grandson beggar”) (Mexico); “Dalle stalle alle stelle alle stalle” (“From the stables to the stars to the stables again”) (Italy); “Fu bu guo san dai” (“Wealth never survives three generations”) (China).

As a third-generation family business owner, I have experienced this lack of confidence in family enterprises. I have had to deal with the doubt and hesitation of investors, lenders and other stakeholders when seeking funding for our firms. Also, when applying for loans, I have faced higher-than-average interest rates and higher collateral requirements than non-family businesses.

2.2 - Family interference in the business: Culture and conflict

Because family members work in the business and/or have grown up in the business, and/or are simply shareholders who benefit from the profits of the family business, they may confuse the domains of Family, Business and Ownership. Some may move between these three distinct realms as if they have no boundaries. To illustrate the interaction and the impact of family on a firm, the “Three-Circle Model of Family Business” is useful (Tagiuri & Davis, 1982). The Three-Circle Model, shown in Figure 2.1, illustrates the distinct circles of Family, Business and Ownership. This model has been supported and used as a foundation to understand family interaction within business by many of the researchers in the last 30 years (e.g., Walsh, 2011; Kets de Vries, 1996; Gersick, Davis, Hampton and Lansberg, 1997).

Some family members, including those who formally work for the firm or are shareholders holding no formal position in the firm, may interfere with its day-to-day
operations. They may try to infuse their ideas and make decisions in areas in which they have no responsibility and often, little, if any, expertise. Family members holding positions in the firm, can also engage in boundary crossing when they meddle in company divisions, in areas beyond their assigned sphere of influence. This can become burdensome for managers, can lower company morale, create leadership conflicts, organizational problems, and negatively impact the business.

Family business stakeholders would benefit by examining this three circle model to better understand the purpose of these boundaries. Keeping the Family, Business and Ownership domains separate can reduce conflicts and mitigate the risks to the successful operations of family businesses. Figure 2.2, developed by Walsh (2011) illustrates a variation of this model.

Figure 2.1: Three-Circles Model of the Family Business

The Ownership and Business circles, considered the management domain by Walsh (2011), are common to both family- and non-family-owned firms. The family is the main system (circle). The family’s movement around these systems — sometimes crossing these established boundaries — is quite often the cause of conflicts between individuals, family members and employees. It may impede collective interests and consequentially cause failures in the business.

Walsh (2011) provides an illustration (Fig. 2.2) of a multigenerational family business where the family interferes in the circles of Ownership and Business (Management). The correct management of the “Family Component” is a key factor in the successful perpetuation of the family business. The “Family Component” is also considered the most powerful component in the conflict equation developed by Baumol and Trippe (2016).

Figure 2.2: Variation of the Tree Circles Model of the Family Business.

According to Levinson (1971), the majority of conflicts usually revolve around the needs (objectives and expectations) of the family versus the needs (opportunities and threats) of the business. Another family business researcher, Ward (2004), also found that the most critical issues facing family firms are family-based issues which can affect the smooth operations of the firms more so than business-based issues.

Culture plays a strong part in family businesses (Lewis, 1996). Each family business is unique, with diverging goals, management practices, corporate cultures, and various other characteristics (Barney, 1991). Different families hold different concepts about how the business should be run, have different styles of leadership, and come from an array of cultures and family backgrounds. These influences make each family firm unique (Hall, 1992). Other studies explain that family businesses can have various combinations of ownership and function in different business development stages (Gersick et al., 1997).

However, family businesses have at least one common trait: the family exercises some level of influence on the business, especially in terms of leadership and succession (Dyer, 1994). Yet, the degree of interference, control and management style will vary greatly in accordance with the family culture. For example, a family with Italian origins will likely have a different business culture and values compared to that of a Japanese family.

In order to understand how families negotiate change across generations, a cross-cultural study (Jaffee and Grubman, 2016) proposes a division of the world’s regions based on three main global cultural patterns:
• **Individualist culture**: Focused on individuality and creativity, along with personal dignity; common in Western cultures, including the United States, Canada, Great Britain, Northern Europe and Australia;

• **Collective harmony culture**: focused on collective coherence, reinforced by social influences and reciprocity; common in East Asia including China, Hong Kong, Singapore, Korea and Japan; and

• **Honor Culture**: Based on hierarchies, maintaining personal and family reputations and social respect; common in Latin America, Southern and Eastern Europe, the Middle East, India, Russia and Africa.

Understanding these three cultural patterns is crucial to comprehend the differences, transitions and dilemmas that family businesses may face.

Similarly, the Lewis Model (Lewis, 1996) also offers a culture-based division of styles. Lewis proposed that worldwide cultures fit in one of three categories as illustrated in Figure 2.3:

1) “Linear-actives” — cultures that tend to carefully plan, schedule, organize, and do one thing at a time in a linear fashion (e.g., Germans, British and Swiss);

2) “Multi-actives” — lively, passionate, emotional (“warm to hot”), impulsive, loquacious people who tend to do many things at once, plan their priorities based on a the relative thrill or importance that each appointment promises (vs. a time schedule) (e.g., Italians, Latin Americans and Arabs);

3) “Reactive” — prioritize courtesy and respect, listen quietly and calmly to their interlocutors and react carefully to others’ proposals (e.g., Chinese, Japanese and Finns).
This lens of culture-based behavior could be used to examine family businesses, and could explain why families from countries like Italy, Spain and Brazil ("Multi-actives" - lively, passionate, emotional ("warm/hot") often struggle more over intense family conflicts than family businesses from countries such as Germany and Switzerland ("Linear-actives" - cool, pragmatic) and reactive cultures such as in China, Japan or other countries in Asia.

The studies do not assume that one cultural type is better or worse than another. Nor do they assume that a family business from one culture is destined for success or failure. In general, balance may be the best characteristic.
Extrapolating from Lewis's Model to illustrate the behavioral differences between family businesses from various cultures, I developed a conceptual framework (shown in Figure 2.4) that shows the level of susceptibility for family interference in family-controlled businesses. This scale reflects the emotional level of actors and their interactions, based on cultural values (reflected in behaviors) that range from highly pragmatic, ("cool"), rational and objective, "Linear-Actives" cultures like Switzerland, Germany and United Kingdom, to "Reactive" cultures that prioritize listening, courtesy and respect, like Japan or Vietnam, to "Multi-Active" cultures that are highly emotional, passionate and impulsive ("hot") like Italy, Mexico and Brazil.

Figure 2.4: Level of risk for family interference in company businesses based on cultural traits

(Source: This expresses the author's understandings and information collected during this research and under my personal and professional experience).
This does not mean that emotionally "hot" culture family businesses are destined to fail more so than emotionally "cool" family businesses. However, cultural factors can impact a family business's interactions, operations and ultimately its success. For example, families with strong emotional characteristics may be more attached to the business and thus they may create obstacles to the succession occurs. I will explain the reasons of resistance to succession in more detail in the Chapter 4.

As observed, the family's cultural background and methods of resolving conflicts and managing interference are some of the main obstacles that must be overcome for family businesses to run smoothly and successfully. But they are not the only obstacles. One of the most important difficulties faced by family businesses is leadership succession.

2.3 - The succession challenge

The absence of a plan for succession — the replacement of the company founder, leader or CEO - is considered one of the leading causes of problems in a family business. The succession conflicts can be messy, involving feelings of loyalty and disloyalty, favoritism, resentment, anger, hurt, jealousy, and greed (Morris et al., 1997). Yet, the majority of family businesses do not have clear succession plans in place (Christensen, 1953; Ward, 1987; Lansberg, 1999). The available research data shows that only 20% had a written succession plan and. Those who started their own business were less likely to have a writing succession plan than those from the subsequent generations. (Lee, Jasper and Goebel, 2003). Without a plan, power struggles are likely to arise within the
organization among siblings or family "clans" - not only for the CEO position - but also for other top management functions, including board membership. Clearly, succession is a sensitive and complex process and a critical "moment" in the life of a family company (Handler, 1994).

Examples abound of unsuccessful transitions to the next generation. Joshua Levine's (1999) book about a failed family business, "The Rise and Fall of the House of Barneys", is a famous one that illustrates well how difficult it can be to keep a family business alive across generations. He describes the rise to success and later bankruptcy of the famous men's clothing store, Barney's based in New York City.

The literature says that succession is better defined as a process and not as an event. Planning is possible and essential (Churchill and Hatten, 1987; Friedman, 1986). Yet, the two sides involved in the process, the founders and next generation leaders, both have important roles to play (Kets de Vries, 1985). Generally, older family firm leaders are accustomed to exercising strong personal influence over the business, sometimes via centralized, top-down decision making (Aronoff, 1998). This creates problems when negotiating with other family members over ownership, management and leadership roles in the family firm. Moreover, some leaders are not ready to retire, even though it is clear that a change in leadership is required due to falling profits and other issues. Or, worse still, if the family patriarch dies suddenly without a succession plan, family members may attempt to impose a personal preference for a successor, regardless of the consent of remaining family members. Infighting over control can escalate to chaos that can last for months and even years (Hisrich, 2016). Succession is so important that Aronoff, (1991)
used it as the subtitle on his book: "Succession is the final test of greatness" taken by a founder.

The outgoing leader can, however, play a fundamental role in this process by simply discussing his/her choice for a successor with the family and the firm's leadership. It is possible to train the successor before his/she retires. The family firm should have a legally binding succession plan in place so that there is no question as to who will replace the leader in the case of a sudden death. Lansberg (1999) argues that family business leaders must share their experience and strategy about the business's success with the upcoming generation. In a similar vein, Ambrose (1983) notes that it is essential to keep young people involved in the business during the time of transition. In this way, succession can be smooth and the outgoing leader may more readily accept the need to retire if he/she helps plan for the succession far ahead of time. Without his/her input and support, the succession process can be turbulent or fail, bringing chaos and harm to the company. Thus, a well-planned and executed succession plan is imperative.

However, few studies pay much attention to the qualifications of the candidates for the family's succession leader. Some scholars assert that the next-generation successors need to be experienced, willing, capable and committed to fulfill leadership requirements (Sharma, Chrisman and Chua, 1997). In fact, without a successor with the right managerial skills, the family should consider the professionalization of the CEO.

Historically, most successors are male but some studies on gender and family businesses find that daughters and wives are rising more frequently to leadership positions inside family organizations than in the past (Nelton, 1998; Cole, 1997).
In the next chapter, I provide a history of my family’s third generation business in Brazil. I detail some of the challenges and obstacles my family has faced along this journey and what they did to manage them.
Chapter 3
A Third-Generation Family Business: The Schio Case Study

This chapter presents the case of a successful third-generation family business which I have helped manage and co-lead as a partner. I narrate this family business story from its start as a general store in the late-1940s to a multi-national corporation with various holdings. I examine its strategies, its challenges, and the ways these challenges were met.3

This is the story of the Schio family business, which began when my great grandfather immigrated from southern Italy in the early 1900s, and established himself in southern Brazil. He began a business that today is one of Brazil’s largest conglomerates in the fruits and seed sector.

This narrative is divided into three parts. The first part focuses on the Schio family’s arrival in Brazil, and its efforts to build a business. It describes the difficulties they faced establishing a business in a new culture and foreign land. The second part describes the start of the Schio family enterprise and its initial expansion steps. The third part focuses on the growth of this family enterprise from an apple orchard to a thriving, multifaceted, mature agricultural enterprise which today employs 3,000 people and exports 200,000 tons of fruit to the five continents.

3 Many of the points of view in this study are of a personal nature and, thus, cannot be extended to all family businesses. This case is simply one family business’s case study from one member’s perspective.
3.1 - The Schio family's migration to Brazil

Between 1880 and 1929, a great immigration took place from Western and Southern Europe to the Americas. South America, in particular Brazil and Argentina, were the main destinations. My ancestors were among the millions who migrated to Brazil from 1880 to 1909, (see Table 3.1). The majority came from Italy, Portugal, Spain, Germany, and the Middle East, forming the colorful cultural blend of today's Brazil (Lesser, 1999). Most left the security of their homelands due to poverty, starvation, lack of employment, political and religious oppression, and war. Economic reasons topped the list (Lesser, 1999). They chose to risk everything and spend up to five weeks at sea in close quarters, sometimes in subhuman, unsanitary conditions, and in close proximity to rampant diseases. Most traveled in second or third class, in the holds of ships. Unfortunately, many died from diseases before reaching their destination. Most immigrants had no more than a few personal possessions but a great deal of hope for a better life in the "new world."

<table>
<thead>
<tr>
<th>Year</th>
<th>Portugal</th>
<th>Italy</th>
<th>Spain</th>
<th>Germany</th>
<th>Japan</th>
<th>Middle East</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>1880-1909</td>
<td>519,629</td>
<td>1,168,863</td>
<td>397,591</td>
<td>49,633</td>
<td>861</td>
<td>31,061</td>
<td>171,498</td>
</tr>
<tr>
<td>1910-1929</td>
<td>620,396</td>
<td>245,003</td>
<td>263,582</td>
<td>101,703</td>
<td>85,716</td>
<td>70,102</td>
<td>266,598</td>
</tr>
<tr>
<td>1930-1969</td>
<td>464,556</td>
<td>142,334</td>
<td>140,538</td>
<td>56,606</td>
<td>180,735</td>
<td>30,301</td>
<td>232,939</td>
</tr>
<tr>
<td>Total</td>
<td>1,604,080</td>
<td>1,576,220</td>
<td>711,711</td>
<td>208,142</td>
<td>247,312</td>
<td>140,464</td>
<td>671,035</td>
</tr>
<tr>
<td>Share</td>
<td>31%</td>
<td>30%</td>
<td>14%</td>
<td>4%</td>
<td>5%</td>
<td>3%</td>
<td>13%</td>
</tr>
</tbody>
</table>

Brazil, with its tropical and subtropical climate, attracted immigrants from Southern European countries. As such, Italians from the south of Italy settled chiefly in the State of São Paulo, in southeast Brazil, while the Italians from the north of Italy preferred the south of Brazil, with its cooler regions, pristine landscapes and mountains (Riel-Salvatore, 2014). See, Figure 3.2.

Figure 3.2: Primary areas of Italian settlement in Brazil:


The first European immigrants arrived in what is now South America in the 16th century, but, as noted, massive migration began after 1880 when Brazil encouraged immigration from Italy and Portugal via agreements in an effort to colonize and develop
its vast territories. In the mid to late 19th century, many Italians fled political persecution from the Imperial Austrian government after the failure of the 1848 and 1861 unification movements. In the last quarter of the 19th century, the newly united Italy faced an economic crisis, especially in the north. Thus, major immigration campaigns were launched by Brazil to attract Italians and Portuguese. Brazil offered generous subsidies for immigrants to purchase land that could be paid back slowly over the long term. Figure 3.3 shows a pamphlet of a ship line that regularly traveled between Europe and Brazil in 1925.

Figure 3.3 Pamphlet illustrating ship traveling between Brazil and Italy.

A search for work is what brought my great-grandfather Giovanni Schio to Brazil in the early 1990s from the small town of Pedavena in northeastern Italy, nestled between the Dolomite Mountains and the Adriatic Sea. Giovanni Schio arrived as a young boy, along with a group of other Italian immigrants. They opted for the south of Brazil where the weather was sub-tropical and parts of the terrain mountainous. It was similar to their hometown. Another reason for coming to that region was because the better fields had already been occupied by German immigrants who arrived years earlier.

Consequently, my family also settled near Caxias do Sul, a town in the highlands of the state of Rio Grande do Sul, about 100 km from the state capital, Porto Alegre. Caxias do Sul was covered with lush vegetation and mountains. Along its vast plains were exotic birds and other animals. The days were hot and sunny, and the nights cool. It was a virtual paradise for the new immigrants.

The government offered the Italian immigrants a large plot of land. The Brazilian authorities divided it into small lots, with each family assuming ownership. Later, Giovanni Schio became an "observer" for the Italian government reporting on whether the Brazilian government was fulfilling its basic promises to the Italian immigrants such as selling them land at low prices, providing them with some basic needs and cooperating with them in setting up businesses. As such, he visited Italy fairly often and enjoyed a

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4 Those who entered Brazil up to 1822, when Brazil achieved independence from Portugal, are considered Portuguese colonizers (conquistadors). Following independence, those immigrating to Brazil are considered immigrants. Prior to 1871, only about 2,000 to 3,000 people immigrated to Brazil annually. When Brazil abolished slavery in the late 1880s, immigration spiked because plantation owners, primarily coffee growers, needed cheap labor. Immigration surged, especially from Portugal, Spain, and Italy. They "spoke Portuguese or a language ... similar enough to allow them to communicate; they were perceived [by the ruling class of Portuguese colonists] as racially superior to the vast population." Brazil: Five Centuries of Change. Brown University Center for Digital Scholarship. http://library.brown.edu/create/fivecenturiesofchange/chapters/chapter-4/immigration/
certain prestige among local immigrants as he was seen as defending their interests. But living conditions were often precarious and most immigrants, especially the pioneers in the first wave of the 1880s, faced enormous difficulties. There were few roads and no utilities, hospitals or schools. Much like the “Wild West” of North American at the time, the land was populated by Amerindians (native to the region)⁵ though many had been killed by the early conquistadors. The European immigrants wanted to carve out the land for their farms and houses, build schools and centers of commerce.

Initially, like most Italian immigrants, the Schio family set up a grape vineyard and winery. They also started a small general store where they sold goods to the local community. Also, whenever possible, they transported their surplus produce by ox-cart to be sold in Rio Grande do Sul. These were the initial steps in the Schio family business of today.

3.2 - The dawn of the Schio family business

Giovanni Schio and his wife had 11 children, the youngest being José Schio Neto, my grandfather, born in 1910, the patriarch of the family business. He, like the other siblings, inherited a small plot of land from his father and began cultivating grapes. In 1929, José Schio Neto married Carmelinda Scopel and together, they farmed grapes for more than 10 years. But due to the hard work, he began to suffer health problems which prompted him to sell his land and invest in a new business, a general store. He did it in

⁵ When the Portuguese colonists arrived in what would be called Brazil in 1500, its native population was about 2.4 million Amerindians whose ancestors had been living in the region for 15,000 to 20,000 years. From 1550 to 1850, a 300-year span, approximately 4 million African slaves were brought to Brazil.
partnership with another family, the Ruaro family, also Italian immigrants and distant cousins. The new business was located in São Bernardo, 60 km from Vacaria, and sold dry goods, fruits and vegetables. Over time, José and Carmelinda had 10 children, seven sons and three daughters: Paulo, Luis, Francisco, João, Moacir, José, Rita, Margarida, Antônia and Maria.

Working hard to support their family and build a better life, José and Carmelinda took risks. In 1949, when the general store was well established, Carmelinda helped her husband to buy into a new business with her personal savings. Her husband José purchased 50% of the shares of a new general store and split control of the business with his partners. Dona Carmelinda, as she was called, had business acumen and the foresight to see this was a good opportunity. Through this and other major business decisions, she contributed to the business's success. She was also a teacher — teaching her older children to read and write before a school in the area was built. She also taught them to value hard work, honesty, community, and humility, values that helped build the Schio family business's success for the next two generations.

Some years later, when the grocery store had grown into a large supermarket, José Neto Schio sold his shares in the business and moved the family to Campestre, 15 km away. It was a quiet rural town but it was an exit of the newly built federal highway BR 116, which linked Porto Alegre to the Brazilian states further north. Here, in the mid 1950s, they opened another general trade store, J. Schio e Company Ltd., the first business fully controlled by José Neto Schio and his future sons. Campestre had no nearby trade posts, making the store a lucrative firm as business and traffic grew in the region. The family, like other immigrant families in the region, after three generations in Brazil, still
communicated with each other in Italian. Just a few family members had a good grasp of Portuguese. Some might say this could have hindered the business’s growth but I believe that it reflects the family’s unity and commitment to their common roots.

By the mid-1960s, J. Schio e Cia (company) Ltd. was selling a variety of products necessary for the rural community including food (fresh fruits and vegetables, meats, beans), fabrics, clothing, footwear, tools, agricultural, cleaning supplies, seeds, and livestock products. Basically, everything that farmers and rural families needed was sold at the store. This successful enterprise expanded for about 40 years. During this time, Jose’s younger children began to benefit from their family’s success in terms of access to good schooling. Some attended high school. The others sought outside jobs to complement the family’s income. Many married and the extended family grew, making it necessary for Giovanni to try to expand the family business or seek out other sources of income, since the family store, while large, was unable to employ many people.

One of José’s children, Luiz, my father, looked beyond the family’s business. He worked at various jobs, as a restaurant waiter, tire repairman, and later as a mechanic at a shop adjacent to the town’s bus station. One day, he noticed that a neighbor had an old, broken-down truck that they could use to transport goods if they could fix it up. So, Luiz and his brother Paulo asked the owner if they could buy it. They borrowed money from their father and purchased it for a few reals (dollars). They quickly restored it, being seasoned mechanics, and begin a transport service for general products, fruits, vegetables and anything else that needed transporting in the region. Figure 3.4 shows a
proud Luiz Schio in 1967 standing by his first truck, an FNM, the once broken-down 'workhorse' that changed the course of the Schio family business.

Figure 3.4: Luiz Schio and the first truck.

(Source: Schio family records)

It was in middle of 1967 and the roads were still rough, many still unpaved. A trip to São Paulo, the hub of Southeast Brazil, was some 850 km away, and a one-way trip took up to four days. (Today, the journey takes just 14 hours on the new highways in 20-wheeler trucks). The brothers worked tirelessly, taking turns at the wheel of their one truck and at marketing their business and setting up its transport logistics. That was the

\[6\] FNM (Fábrica Nacional de Motores), a Brazilian-made heavy truck. FNM, initially Brazil's only truck manufacturer, dominated Brazil's trucking industry until the 1970s.
beginning of “Transportadora Schio Ltd.”. In less than three decades, it would become one of the leading freight and logistics companies in South America.

Despite the poor roads, lack of infrastructure in towns and cities, inflation, populism and nationalism - that produced political and economic instability and ended with the military take-over of the government in 1964 - the business prospered. From the post-World War II years to the early 1970s, Brazil’s economy grew by approximately 7% per year even with some periods of economy stagnation. This created enormous business opportunities for entrepreneurs and jobs for the growing population. The Schio transport company expanded rapidly. Within a couple of years, they had expanded the “fleet” to three transport trucks. Each brother drove a truck and they hired their first employee, a driver, to haul freight in the third truck. But the terrible state of the roads and the lack of safety of the trucks at that time took a terrible toll on the family. In 1968, Paulo was killed in an accident while driving his truck to São Paulo. His death shook the foundations of the family. Paulo had been Luiz’s partner in the new transport business.

The same year, Luiz married and, perhaps influenced by the tragic events, decided to give up driving. He employed others to drive to ensure the continuation of the freight company which at the time still had only three trucks. Luiz continued to build the transport company with the help of a younger brother Francisco who had recently returned from military service and took a keen interest in the family business. According to the family, his military training provided him with the strength and leadership necessary to help his siblings with the family business. At the end of 1968, with the support of his father, Jose Schio Neto, and in agreement with his brother Luiz, Francisco assumed Paulo’s position as a co-owner of the growing transport company.
Thus, together with Luiz, who had not enjoyed the same schooling opportunities, Francisco helped re-structure the company to make it more efficient. But the family was hit by another loss. A few months after the loss of Paulo, the family would lose its patriarch, José Schio Neto, who died suddenly in 1969 at the age of 58. These were tough years for the family and its business. But, apparently, faith and the desire to continue building the family enterprises kept the family together and motivated to go forward. The family had always relied on their Catholic faith. In fact, João, the oldest brother, was a Catholic priest.

“Family unity” is what family members say carried them through these difficult times. The siblings shared responsibilities. Some assumed duties in the well-established general store. Others continued working with the freight company. Jose Schio Neto, had invested and owned a small reforested area of land. The family sold this land after his death and the profits were reinvested into the freight company which had just three trucks. This turned out to be a wise move.

Luiz and Francisco needed funds to purchase more trucks and innovate to a new form of refrigerated trucks to haul perishables (vegetables, fruits, meats, etc.). Grocery stores were growing along with advancing technology. So they bought six new refrigerated Scania-Vabis 75 tractor-trailer trucks and six semi-‘reefer’ (refrigerated) trailer-trucks. At the time, these were quite expensive and state-of-the-art trailers. The partners re-named the company “Rodoviário Schio Ltd.” (Schio Road Transports) and their seven other siblings, including the sisters, were legally included in the partnership. This inclusion of the women was nearly revolutionary at the time because women were still marginalized in the business world. In the early 1970s, most families were biased,
believing that only men should play an active role in a business, even a *family* business. Women were to focus on the children and domestic work.

By the early 1970s, the Schio family continued to own what was now a department store (it had grown from the town grocery store), a freight company, and another vineyard. Luiz used to make wine in his own cellar, squashing grapes from the vineyards with their feet, a long-standing tradition for Italian families. This artisan wine was sold in the family's department store and local markets.

The early 1970s was a decisive moment for the family business. Brazil's economic boom was running full force. The country's developing national road transportation network was expanding further. This helped to expand Brazil's agricultural and manufacturing sectors. Inexplicably, Brazil never invested in railroad or waterway transport modes. It did not have efficient seaports, despite the over 8,000 km of coastline and a large number of navigable rivers (World Bank, 2012).

Born in the same year of 1970, I was the first of two children and we lived in a rural area called Campestre where Rodoviário Schio Ltd. was based until I was six. My family lived in a simple wood-framed home. My mother, Terezinha Caon Schio, worked as a public school teacher but kept abreast of the business and helped advise my father, Luiz, on business decisions. Luiz, as described earlier, ran Rodoviário Schio Ltd. with his brother Francisco. Luiz was Rodoviário Schio's main surviving founder and a co-owner whose role was to foster the growth of the family's business.

The majority of produce was transported across land via trucks. Cereals, fruits and vegetables had to be transported from the rich agricultural inlands to Brazilian cities
and ports thousands of miles away. In spite of the high operational costs, truck freight services were in high demand. This helped lead the family enterprise to great success. During this period, the Schio company initiated an activity that was fundamental to its growth over the next 20 years: the *international transport of goods*, chiefly between Brazil and Argentina.

After the first international oil crisis in 1973, Brazil's economic growth slackened. A second oil crisis struck in the late '70s due in part to Brazil's dependence on oil and led to uncontrolled inflation, deficits in government accounts, payment imbalances, little to no national economic growth, and a moratorium on external debt payments in 1980. The 1980's saw average economic development. Both Brazil and Argentina were controlled by interventionist military governments from 1964 to 1986. Thus, operating a truck transport business between the two nations could be described, at best, as a difficult enterprise in view of the heavy bureaucracy and fierce competition between trucking firms in Brazil and Argentina.

Truck transportation across South America in the 1970s faced strong government regulations (e.g., surcharges, protectionism, customary bribes). All transport trucks were required to be "permitted" (i.e., more fees and surcharges). Also, all road transportation firms had to be registered with the government. Bilateral agreements limited the number of trucks and companies allowed to cross Argentinian and Brazilian borders. This truck limitation essentially restricted competition and created a huge competitive edge for companies permitted to operate along these routes. This included the Schio transport business (and/or for those with the political influence to find a way to do it).
In addition, trucking companies faced other obstacles including corrupt police who seemingly made it difficult for foreign firms. A prime example of these problems faced by international truck companies in the 1970s and 1980s was that Argentine traffic police harassed Brazilian freight companies and threatened Brazilian truck drivers (apparently at the behest of government officials and politicians) and issued exorbitant fines for minor traffic infractions (e.g., speeding, failing to use directional signals). These actions sought to discourage the entry of foreign trucks into Argentina. And one can assume Argentine drivers entering Brazil were likewise harassed. It was a time when government agencies, including the police and the courts in both countries, had little respect for the law and were basically corrupt institutions.

It was in these turbulent times that the Schio family freight company managed to get government accreditation to further expand its transportation business, chiefly the truck transport of fresh fruit from Argentina to Brazil (a major fruit importer at the time). Only years later was Brazil able to surpass Argentina in fruit production and become one of the biggest fruit producers worldwide.

Between 1975 and 1976, Rodoviário Schio Ltd. opened its first branch office near Brazil’s border with Argentina in the city of Uruguaiana in Rio Grande do Sul. This branch provided support to our truck drivers entering Argentina. My father’s sister, Rita Schio, who was a full company partner, and her husband moved to Uruguaiana with their two children to manage the operations. The family took advantage of an economic opportunity created by the governmental road transport rules and diplomatic restrictions that had created difficulties for new competitors to access this international market niche. This strategic operations office helped rocket the company’s growth in its first few years.
In 1977, the family decided to move Rodoviário Schio's headquarters from Campestre to Vacaria, a city approximately 40 km from this satellite office, located on a plain 1,000 meters above sea level where it could more readily access essential services and supplies such as telephone communication (which was spotty in Campestre) and access spare parts for the trucks. At the new headquarters, the company could better maintain its fleet (now 25+ trucks) and control its growing international operation. The company's oldest brother and founding partner, my father Luiz, moved to Vacaria with our family. We were followed later by Francisco and his family. I recall feeling sad about leaving behind my friends and starting a new life. But soon I was enjoying living in the larger city and attending a livelier elementary school.

Vacaria’s fertile green highland fields and intense blue skies are located in the northeast of Rio Grande do Sul, Brazil's southernmost state. The city is renowned for beef cattle breeding and for being a resting point for the herders leading cattle from the plains in the south to the center of the country. Famous for rodeos, the city became over the years the new home for the two Schio companies. The two brothers, Luis and Francisco, in Vacaria shared administrative responsibilities for the two companies. Those remaining in Campestre supervised the general supermarket/department store. Vacaria also had welcomed other immigrants, and was commonly called the “Gaucho (“Cowboy”) Highlands.” It also had a strategic labor surplus. Years later, the nearby city, Sao Marcos, would be proclaimed Brazil’s City of Truck Drivers! In a word, the location was prime — relatively near the Argentinean border with its rich agricultural regions and cattle ranches.

7 http://www.vacaria.rs.gov.br/vacaria/localizacao
— and it had many truck drivers, giving the Schio company a competitive edge for labor in relation to competitors located in the center of the country.

Another fundamental competitive advantage that the Schio family enjoyed was the cost reduction created by the verticalization of some essential services. For example, in the mid-1970s, the Schio family created a tire retreading company, called Renovadora de Pneus Schio Ltd. Also located in Campestre, this new firm soon significantly reduced fleet operation costs, serving Rodoviario Schio’s fleet and, later on, providing services to outside truck companies and independent drivers.

After moving the headquarters to Vacaria, the family also set up its own mechanic workshop where it repaired its own trucks, assembled engines, provided repair services to its fleet, performed restorations of tractor tucks, and modernized the reefer (refrigerated) cargo semi-trailers. The workshop reduced equipment weight by using new materials, like aluminum and fiberglass panels, and increased the total cargo capacity of each trailer. This gave the company a huge operational capacity advantage over the competition. An internal semi-trailer private factory made it possible to transport larger, heavier loads and thus charge higher rates for freight hauls. More importantly, damaged trucks involved in accidents were repaired in the company’s repair shop that had a staff of almost 100 people and state-of-the-art equipment. Competitors spent long days, sometimes weeks, waiting for expensive parts, performed comparatively low-quality repair services, and worked with a limited network of technical assistants and maintenance workers from mechanic shop assemblers, service providers and parts plants.
With the growth of the Schio family holdings came greater economies of scale. In the mid-1980s, the transportation company, Renovadora Schio, began to purchase tires, equipment and parts directly from manufacturers at great savings. It also set up internal fuel stations at its four main branches — in Uruguaiana, Sao Paulo (Brazil’s southeast region), Salvador and Recife (Brazil’s northeast region) — using low-cost but high-quality fuel, thereby drastically reducing operating costs. The company’s four service centers and quick maintenance services greatly helped the company successfully expand its trucking operations into the 1990s.

In 1967, the Schio family added several other companies to its portfolio, including, as mentioned earlier, the tire retreading company, Renovadora de Pneus Schio Ltd. In the Late-1970s, the family added a Chevrolet vehicle dealership in Vacaria, COVIBRAS - Comercial de Veículos Brasileiros Ltd. And in the mid 80’s, they added another vehicle dealership that sold Volvo trucks, named LAPONIA. It was a partnership with a non-family enterprise, in Caxias do Sul. The Chevy dealer was managed by the husbands of my father’s sisters, Margarida and Antonia. The two sisters were co-owners of the businesses.

In addition, thanks to my father’s passion and family’s background in agriculture, new land was acquired to start a beef cattle breeding enterprise in the 1980s. This spun off several other agricultural production businesses and eventually led to the formation of another major Schio family company, Agropecuaria Schio Ltd. in 1986-87. Today, the company is one of Brazil’s top five agricultural enterprises. All of these companies have been very successful.
The Chevrolet dealership became important as the two sisters, Antônia and Margarida, decided to leave the family business partnership in the mid 1980’s. They assumed independent control of the Chevrolet dealer company as payment for their shares. They sought greater freedom in conducting business and managing their own enterprise and continued generating positive returns for years to come.

The Schio family partnership with the Volvo truck company took place when the Swedish brand was entering the Brazilian market and starting to produce heavy trucks in its new factory in Brazil. It was no easy task managing a business with non-family partners. The new partners had different ideas and cultural perspectives. My father and his brother did not feel comfortable sharing control and business strategies. The partnership lasted only a few years. Our company then sold our shares.

However, this Volvo venture was strategically important and provided Rodoviário Schio Ltd. with access to new vehicles and direct purchasing precisely when the Brazilian market was heating up. There were waiting lists to buy new, modern, high quality trucks. Thus, the Schio business was able to update and expand its trucking fleet quickly, when the national auto industry was unable to fill the demand for new vehicles. By co-owning this new enterprise, the Schio family business had gained another major advantage in terms of competition: easy access to new trucks. With the growth of the truck company, new services were added to the enterprise. This increased its venture portfolio helping it become a full logistic service provider.

Simultaneous to the freight and logistics company’s growth, the family’s interest in agriculture resurfaced once again. Luiz, who had a great passion for agricultural life, convinced the family to purchase a farm for raising cattle. Over time, more land was
purchased and the family took to farming grains and other crops while further expanding livestock farming with beef cattle, sheep and pigs. It was during the 1980s and early 1990s that the expansion of the family agricultural businesses took place.

In 1980, when I was about 10 years old, one of my favorite pastimes was visiting the company and the truck maintenance shop to help the mechanics work on the vehicles. I would hand them tools, help out in small ways, like running errands for them. I would return home covered in grease but quite happy. I remember my mother being furious at the state of my clothing. But all the employees treated me well and taught me a great deal about truck mechanics and the importance of regular maintenance to maintain a safe and efficient fleet. For me, the entire enterprise was like a big family.

My father Luiz and my uncle Francisco, headed the Schio family enterprises since 1969. They were apparently greatly respected within the company. They said that they earned this appreciation by treating employees like “family” and with great respect. For example, they made it a point to publicly congratulate an employee in his birthday or if he or she had a baby; if a worker’s family member died, a Schio family member would attend the funeral; if someone got sick, they were given ample support and time off. This sense of caring for employees seemed to spread across the company with employees helping each other whenever necessary. They, in return, worked with a passion and intensity which is, arguably, rare in most large companies.

My father and his brothers knew the importance of maintaining good relationship with employees. As I remember, quite often, at the end of a work day, my father would spend a few hours with employees at a small bar. They would drink and chat. I did not really understood my father's attitude that time. It seemed inappropriate to me. However,
today I realize the importance of maintaining good relationships with employees. They, in return, are more likely to create a positive work environment that fosters company growth. Additionally, at the end of each year the Schio family hosted a huge Christmas/New Year's party inside the main maintenance building. All employees, from management to mechanics and their families were invited to this huge barbecue with singing and music. My father, Luiz, would greet every employee with a handshake and a hug.

During its first 20 years of existence, the Schio transportation and logistics company spread across South America's expanding markets, transporting products between Chile and Uruguay, in addition to their previously established routes between Brazil and Argentina. With this, the company now ran operations throughout Brazil and a large part of South America.

But times were not always easy. In the early 1980s, financial difficulties threatened to take the company down. Between 1981 and 1982, the Rodoviario Schio Ltd. company, like most others across Brazil, was stuck hard by the Brazilian economic crisis marked by uncontrolled inflation and a serious shortage of capital. No solution was in sight. But, during this difficult period, the leadership of Francisco Schio helped keep the company afloat. The family had decided to purchase 50 new Volvo semi-tractor trucks, a financial risk that seemed absurd considering the tough times and the company's financial difficulties. The fleet at that time was composed of about 80 tractor trucks and their respective semi-trailers. The order was to renew more than two-thirds of the fleet in one move. But, as the Volvo brand was desperate to increase their market share in the Brazilian market, they offered the firm favorable commercial conditions and long-term payments. A deal was made. Despite taking on huge debt, the trucks were highly efficient,
particularly more fuel efficient, and practically indestructible. This helped to reduce maintenance and operating cost. The company was able to sell some of its used and outdated trucks which brought in needed capital. Soon profits returned. When the market finally improved the next year, the company was prepared to meet the market demand. Their competitors in the truck transport business were left with worn-out, outdated fleets that broke down often. Thus, the decision to invest at difficult times and envision an optimistic future was what saved the company. That was an “all in” movement and this exemplifies the courage, determination and strategic vision of the Schio family leaders.

From 1986, the Schio family trucking and logistics company began to expand rapidly, opening branches in various cities throughout Brazil, including São Paulo and Salvador and, later in Recife, Belém, Porto Alegre, Manaus, and a number of other Brazilian capitals. At that time, the fleet had more than 150 semi-tractor-trucks and semi-trailers and around 400 employees. It was growing at approximately 25% per year.

3.3 - The Schio family business reaches maturity

By 1986, Rodoviário Schio Ltd. had become a large consolidated enterprise. Two of the five brothers, José and Moacir (my paternal uncles), the younger co-owners, joined Luiz and Francisco in managing the business. Management was now legally shared equally among the four brothers who formed the executive board. Each contributed on the basis of their individual capacities and limitations. This structure was maintained for almost 25 years until the death of Luiz.
In 1984, Francisco had become Rodoviário Schio Ltd. president. He had a strong personality and tough leadership style. This characteristic was at times questionable, hard and centralizing, though arguably, important at the time. The company perhaps required strong leadership to maintain confidence and control and stay on track. Austerity, economy and hard work were needed, and Francisco seemed to be the right person to provide the strong leadership that the company required. Like many Italians, the Schio family brothers were very passionate and impulsive. As a result, arguments, often heated and intense, occurred regularly. But such discussions were frank, apparently fair, and made in the open.

Regarding my part in the Schio business, in 1985 I was 15 years old and had began to work officially at the company. Initially, I worked as an apprentice in the Human Resources (HR) department where I spent a year doing simple tasks. The following year, I moved to the company’s recently created technology and data processing center where I learned to create work routines and data storage systems on some of the first computers introduced in Brazil. One year later, I moved to the Fleet and Driver Control division, working directly in freight operations and cargo scheduling. In this position I also managed the truck drivers and oversaw their expenses, reimbursed their expenses, checked for economy, and performed other functions related to fleet management.

The family planned for me – and did the same for other young family members – to work in as many company functions or divisions as possible. This would to prepare me for a future position of leadership. In 1987, at age 17, I was accepted into Universidade Do Planalto Catarinense (UNIPLAC) in business administration program. The university was located in the city of Lages, 100 km from my home in Vacaria. It was the closest
university to my home. Each day, I would catch one of the three buses with 150 other students and we would travel to university for 1½ hours and then I’d return home in the afternoon or early evening and work in the business’s freight operation’s division. It was a tough four-year period of hard work and little leisure time. But I graduated in 1991 and immediately went to work full-time for the family business.

During my years at the university, my father Luiz and my uncle Francisco felt that the trucking freight business should expand its services. They expanded the logistics and service provided by the firm. No longer did the company simply transport products. In order to meet new client needs, the company began to invest in distribution centers, where they received, stored, separated and distributed many different goods. The range of foods included perishables, beef, chicken, ice cream, soy oil, beverages, chocolates, biscuits, sweets, along with cleaning products, tissues, household goods, and much more. From the distribution centers, smaller trucks would bring the goods to the large cities such as São Paulo and Salvador. In the late 1990s, the route was expanded to Recife, Rio de Janeiro and several other cities. Rodoviário Schio Ltd. was turning into a full logistics company by providing services throughout the entire productive chain, transporting raw materials (e.g., fruits, meat, fresh fish, flowers, along with packaging materials, chemical products, medicines and more) to factories, and final products (e.g., processed foods like ice cream, biscuits, cereals, chocolates, yogurt, beverages, etc.), to distribution centers where the goods were transported to the various stores. Rodoviário Schio also provided storage services (including cold storage) and distribution services to major urban centers for its clients.
Between 1986 and 1987, Rodoviário Schio Ltd was approached by several clients interested in partnering in a new venture. As mentioned previously, the core of the family business was located in Vacaria. The region enjoys generally mild temperatures at night and warm, sunny days as it is located in the subtropics, but due to its 1,000 meter elevation, in the winter, it snows. At this time, the company was developing a good image as a reliable transport and logistics service provider throughout Brazil, Uruguay, Argentina and Chile. As such, some of its clients from Argentina who farmed apples and pears approached the company (which had been transporting its fruits for several decades) looking for land in the region where they could begin farming the same fruits. The Schio family - at this stage - did not realize that the region was perfect for growing temperate climate fruits such as apples, pears, peaches, plums and others, though they were experienced with tending grape vineyards.

Being commercial partners, the Schio brothers assisted the Argentine entrepreneurs, the MacDonald family, to find an area suited to growing apples and other fruits. However, when the deal was made, the Schio family ended up purchasing half of the land that they helped identify (~450 hectares) and began planting apple trees. Thus, initiating for the family a new and promising sector of fruit farming. They never imagined that this new investment would turn into one of the largest and most important businesses for the Schio family conglomerate within just a few years. But the foundations had been laid for the new company, Agropecuária Schio Ltd, which complemented their well-established transportation and distribution empire, their department store and the firm’s existing agricultural activities. And, in 1990, after four years of preparing the ground, planting seedling apple trees and nurturing them with natural fertilizers, the company
enjoyed its first apple harvest. A packing house and cold storage units had been built, along with all the infrastructure needed to receive, select, store, pack and ship the fruits to various Schio family distribution centers.

At this point, I began working in the new company. I was responsible for product sales. I was also able to manage the implementation steps of this new venture operation and help bring this budding fruit company to success.8 For one year, I helped this new company develop fruit distribution channels throughout Brazil and beyond, to the Netherlands, our first main international destiny. After a year, I stopped working and moved to Porto Alegre, the state capital of Rio Grande do Sul, to complete an MBA in international commerce at Fundacao Getulio Vargas (FGV). This was to expand my knowledge of international businesses.

At about the same time, other members of the family’s third generation began to work for the company led by the founding partners. Since we had no governance rules, there were varied approaches to management and organization as new members (third generation) started to work in the diverse family businesses. Over the next five-year period, starting in 1995, Rodoviário Schio Ltd.’s businesses were consolidated, turning it into one of the largest controlled-temperature freight and logistics companies in South America.

The arrival of the third-generation reflected the growth of both the Schio family and its business interests. I was the first third-generation family member to work in the

8 Unfortunately, I do not have full family permission to share detailed financial information. Other factors like high inflation rates have greatly affected this financial information as well. However, the volume on first harvest was around 5.5 thousand tons of fresh apples.
business. With the arrival of additional third-generation family members, some differences of opinion developed in the family, about how and where to expand operations and who would lead what divisions. This often led to intense debates and heated arguments over differing approaches and visions for the company. Generally, though, the opinion of the first generation ruled. After all, the "youngsters" from the third generation were just arriving in the business and, according to the older members, still had much to learn.

Later, the corporate executive officer job (CEO) of the freight and logistics company was given to José Schio, my uncle, the youngest brother of the two main founders. He had moved to São Paulo where the company had set up a branch in 1986. This became the new headquarters in 1995. Although the company's executive management was formally in the hands of an individual; informally, the majority of decisions were still made by the Board of Directors, the four brothers, Luiz, José, Francisco and Moacir. They jointly shared responsibilities and oversaw all of the businesses. In certain situations, however, Francisco would assume responsibility and ended up making some critical decisions and closing certain deals on his own. The other members of the Board found out about these decisions only after they had been implemented and this raised concerns and debate followed. Yet, in most cases, the brothers said that they agreed with the decisions. They apparently trusted each other and Francisco's experience and leadership.

Despite being generally well managed, the administrative structure for all the family's companies did not have the same investment and care as needed. In general, the enterprises' growth was impressive but the size of the management and administrative structure and staff were not growing at the same pace. It seems that that
the family owners were overly focused on growth and overlooked the need to create a better management structure. However, this oversight led to a simple and lean management structure that permitted quick and direct decision-making. But, it also generated complaints from other family members about the apparent lack of transparency.

In terms of trying to effect change in the organization, I was frustrated when I returned to the company in 1992 after completing my MBA. I was filled with new management knowledge, a fierce desire to help improve the company’s operations, and had a number innovative ideas for expansion. In 1992, I returned to my job as a salesman at Agropecuaria Schio Ltd. A few years later I moved up to General Commercial Manager and, in 1997, I became Director of Marketing and Sales. Over these five years, I found little support for my new ideas. In fact, I was greatly frustrated at the company’s seeming inability to make what I thought were necessary changes. Sometimes I felt that my lack of impact was perhaps due to my inexperience in selling new project ideas and expressing my points of view. At times, I felt that maybe I did not understand how the family business was run.

Generally, with the arrival of the new generation, certain management decisions were questioned. The power and decisions of some managers were contested. For example, my recurrent advice to my father and uncles was to hire more administrative personnel and data center staff and invest in new IT technology to help the company gain clear and sound data about sales results and operations costs. My advice was ignored. They could not see how this could help managers gain more control over the operations and reduce overall operations costs. The Board of Directors seemed to ignore my advice.
and they kept making more investments in organic growth. They had been doing this for
decades without caring about information and cost controls. But, I saw what I thought they
did not see. Their operations had grown exponentially and they needed to invest in IT and
administrative staff because it was difficult to handle the ever growing and more complex
organization.

Other third-generation family shareholders questioned some of the strategic
decisions of the various companies. To complicate matters, certain successful individual
investments, made without the knowledge and participation of all family board members,
led to some discomfort for certain branches of the family. In order to make fast decisions,
board members often made them without consulting others as they felt they had no time
to fully explain the reasons and share opinions with all board members. Slowly, the old
system — where every manager discussed every new idea with each other, collectively
made decisions, and mutually supported each other — was apparently eroding.

Some of the family shareholders, my cousins and myself included, had questioned
why certain investments and management and operations decisions were being made.
But the old and wizened leaders did not like being questioned. Discord over the business’s
management began to appear more regularly at staff meetings and in private discussions.
However, the Board of Directors pointed to the business’s continuously growing profits to
refute arguments for changes coming from the third generation.

In truth, I may have inadvertently fueled such problem. I did not understand what I
thought were the old fashioned positions of the board members, particularly of Francisco
(and his “tough” personality). I had little patience and did not take enough time to explain
my ideas clearly. I doubt I used the right approach or identified the right moment to
introduce my ideas in my efforts to change what I saw as their conservative strategic vision. I even inadvertently confronted board members, my father included. My approach was a mistake. I regret my actions. Only in retrospect have I come to understand that confronting people was not the best way to get my ideas across. I should have taken the time to learn how to better approach the board.

As a result, I ended up creating resistance instead of forming allies that could open paths for my entry into the company's upper management. My approach — being confrontational and demanding attention for my ideas — contributed to rancorous disputes over power and decision making within the organization. This was finally resolved through long discussions (sometimes heated) with the four partners. All family members eventually came to understand that we should think first about maintaining respect for each other. A good conversation tunes out to be the best way to handle misunderstandings.

Following this difficult period, it became clear to me that our family businesses and family shareholders urgently needed to improve the corporate structure and governance rules. We needed this change to secure the continuity of the business and family unity. We needed this change to avoid loses and conflicts that could fracture family relationships. But, it was most important for me to recognize at that time that, despite the need for change, all of the Schio companies were doing well. For instance, Rodoviário Schio Ltd, was continually expanding, innovating and creating solutions to overcome obstacles. The founders had created a new company, CENTRONOR, located in Vacaria, in partnership with another large freight company from southern Brazil, to train new drivers and teach them to drive safely and manage their work economically.
The new company was created to make the company more efficient and to increase the availability of good, dedicated truck drivers. The supply of drivers began to dwindle in 2000 as Brazil’s economy flourished and fewer young people were interested in truck driving for a living. Before, in the 1970s and '80s, the supply of quality labor including truck drivers was plentiful. Truck driving often passed on from father to son was seen as a good vocation. But, after a life of taking risks on the road, older truck drivers wanted their children to study and get into less risky, more profitable professions such as law, medicine, and engineering. And younger folks were no longer motivated to follow in their fathers’ footsteps. The thrill and freedom of the road was not seductive — with its long hours, high risks and relatively low pay — as Brazil’s economy soared in the 1990s and 2000s.

By the end of 2010, Rodoviário Schio Ltd. had grown into a hugely successful international freight company. With a fleet of over 1,200 heavy, medium and light vehicles, this family enterprise employed over 4,000 workers, from truck drivers and mechanics, to accountants, agricultural freight experts, IT specialists, personnel professionals, freight refrigeration specialists, route logistics coordinators, strategic planners and others. It had 12 branches with operations in most major Brazilian state capitals and international offices in Argentina, Chile and Uruguay. It also had freight distribution centers in major hubs including São Paulo, Rio de Janeiro, Salvador and Recife. It handled distribution for companies like Kraft, Danone, P&G, Unilever and Coca-Cola among many others. It was the largest controlled-temperature product logistics company across South America, with annual revenues near US$200 million.
With regards to Agropecuária Schio Ltd, the agricultural wing of the family business, this enterprise experienced similar growth. Taking advantage of the huge number of consumers in the Brazilian market, the lack of domestically-grown temperate-climate fruit, particularly apples (essentially imported at that time), and attractive profit margins, it grew on average 15 to 20% per year since its inception in 1986. Francisco became CEO of Agropecuária Schio Ltd. In addition, Agropecuária used Rodoviário Schio’s freight transport system network and its know-how to reduce its operational costs.

Employing an aggressive expansion strategy, the family continuously purchased more farmland to increase its production. The family also bought a number of other companies in the agricultural sector over the past 20 years. One particularly astute purchase was the Agriflor Ltd. acquisition, one of the first Brazilian apple producers, also located in Vacaria. The deal was closed by Francisco in a restaurant after a few bottles of wine with terms penned on a paper napkin. To the surprise of the family, he presented the formalization of the deal the following day to his brothers. Francisco’s three brothers, who, with Francisco, controlled more than 75% of the family business shares, supported the decision and, over time, this proved to be an excellent deal. Francisco’s lunchtime deal to buy the apple company added more 350 hectares of orchards that produced an additional 8.5 thousand tons of apples and pears. The deal also included a cold storage facility and a packing house, increasing the company size by more than 50%.

Another example of how the firm advanced via Francisco’s quick and decisive decision-making was his decision to acquire in 2012 a company called Rubifrut, a local apple producer and Schio competitor. This purchase added 400 hectares of orchards, which produced more than 15 thousand tons of apples and included added packaging.
and cold storage capacities and a huge and immediate expansion of Agropecuária Schio Ltd’s market share.

The old-fashioned way that Francisco stuck deals, with little outward analysis, due diligence, or number crunching, but based on quick business-instinct-driven analysis, was successful for nearly 40 years. Most of his decisions were invariably the right decisions though his style was unorthodox from a modern business perspective.

In the mid 2000’s, however, the Schio family business faced a major challenge. Luiz Schio, my father, fell ill, was bedridden and was in and out of the hospital for several years. He passed away in 2007. He left behind a wife and two grown children, myself and my younger brother Rafael. Together, we became legal shareholders in the partnership. This was the first legal succession in the family. Both my brother and I had been working in the family’s various enterprises since we were teenagers. At the time of my father’s death, my brother Rafael was active in for Rodoviario Schio Ltd, as director of supplies and living in Sao Paulo. I directed all commercial marketing and sales of Agropecuaria Schio Ltd. Fortunately, as noted previously, I had struggled to find my role and voice within the organization. I believe that my brother and I had become more respected by the family at the time of my father’s death. Thus, the succession in 2007 was peaceful (although the lack of planning and the absence of rules or governance was evident).

My father, Luiz had played a vital role leading the businesses and in maintaining balance and unity within the family. His shoes would certainly be difficult to fill. He had been suffering from health problems for some time, and his death was not unexpected. Thus, the admission of new partners, my mother, my brother and myself was relatively smooth. My brother and I began sharing my father’s responsibilities and voting rights.
One year later, João, my father’s brother, also passed away. He was the eldest son, a priest and a shareholder. He did not work for the company. However, the Roman Catholic Church rules allowed him to be a shareholder. He usually donated his profits to charity and to social initiatives. For example, he helped to build and maintain a hospital in a small city, Antonio Prado, where he ministered. He was a huge benefactor to rural communities, a social activist, organizing farmers into small-scale farmers cooperatives and providing guidance. He was an exemplar of a person, committed to the well-being of the community. This was his mission in life. Curiously, with the death of João, the two sisters who had previously left the partnership returned to be company shareholders, though with only minority participation.⁹

Up to 2007, the family business, as large as it had been, never had a defined internal succession governance rule. For the first time, the remaining and new partners had a clear sense how difficult things can be without succession planning. As with most family businesses, the founders forgot that they were mortal.

About a year after my father’s death, in 2008, the family business began to face a good deal of uncertainly, particularly in the transportation sector. Increasing competition and Brazil’s economic challenges were partly to blame as well as the company’s growing difficulty in hiring and keeping reliable truck drivers. New national labor legislation affected transportation businesses across Brazil. For instance, complex requirements for expanded employee benefits and limits on worker hours won by unions, along with the populist government’s high tax rates and numerous business taxes (Brazil is known

⁹ For legal reasons, I do not include specific details about share distribution in the family businesses.
worldwide for its complicated and excessive tax rules) affected our profits. Additionally, the family faced what we saw as unfair competition. The government by helping companies and individuals acquire trucks with low-interest government subsidized loans had unwittingly created a changed business environment. This was to enable them to start new ventures. This policy was part of the government’s attempt to protect and help the faltering Brazilian automobile industry and the overall economy. By supporting truck sales, many of the family business’s truck drivers opted for independence and ventured out on their own to become autonomous micro-entrepreneurs. As a result, the family business faced increased competition in an already highly competitive freight market.

With over 45 years of experience in the transport segment, the Schio family could readily see tough times ahead for its freight services sector. At that point, in 2009, Rodoviário Schio Ltd was a market leader and, despite growing competition, it maintained its profitability and continued to grow. It was then that another major trucking and logistics company came onto the scene. It was a firm that had previously approached the family with a proposal for a merger or acquisition. It was a good time for mergers and acquisitions since companies were being sold at greatly inflated prices. By 2009, Brazil began experiencing an economic surge, with many IPOs, easily-obtained credit, and foreign investments pouring into the country.

José Schio, Rodoviário Schio Ltd CEO at that time and myself were chosen to oversee the negotiations. I was also the oldest heir of the third generation and I spent the next two years preparing the company for an accurate appraisal. Following months of consultations with each other and with experts like lawyers, M&A advisors, investment Banks, and lengthy discussions and infighting, the Schio Family decided it was a
favorable proposal and accepted the buyout offer. The operation was closed in the end of 2011 and JSL logistic group, another Brazilian logistic service provider, acquired Rodoviário Schio Ltd.

This came as a surprise to many in the market and was widely publicized in the media.\textsuperscript{10,11} These were uncertain times however and the same was felt by all our family and nearly 4,000 employees. It had been a profitable company for so long. All employees and family members had very strong emotional bonds to this enterprise and wondered why we did not opt to keep it. We had been a big family. The price seemed good but that decision hurt the feelings of many people including some family members. Up to that point, the family had never sold any of its businesses. It had only accumulated assets and enterprises. Everything seemed to be slipping away. It seemed like a huge mistake to many people. The buyout offer was supported inside the family mainly by Jose and myself. But in the end every shareholder in the family voted yes to the deal. Yet, the family pride was hurt.

Within a short period of time, however, a major crisis hit the transport sector. In 2013, the freight industry experienced a tailspin the likes of which had never been seen before and a large number of companies went bankrupt or closed. A few companies, JSL among them, did a good job in holding its market share and even moving forward. JSL is a well diversified public company with revenues around US$2 billion and more than 30,000 employees.\textsuperscript{12} However, It is clear that the transportation sector is facing strong

\textsuperscript{10} http://www.valor.com.br/empresas/1103874/jsl-compra-rodoviario-schio
\textsuperscript{12} http://www.jsl.com.br
competition and reduced profits margins. The remaining transport firms continue to struggle to survive.

Even today, five years later, the decision to sell Rodovia Schio Ltd still stirs much emotion among family members. It was a hard choice but the family remained united and has placed its trust in the family members chosen to oversee the other family business. It also became clear for the first time that the new generation, when well prepared, can make valued contributions to the success of the business. It was thus that the Schio family gave up ownership and control of its largest enterprise.

The family still holds other large and profitable companies including Agropecuaria Schio Ltd. that continues to grow impressively. Overseen by its CEO, Francisco, the bold entrepreneur, the company has gained steady strength in the market, becoming the market leader and responsible for more than 22.0% of all apples grown in Brazil. Motivated by growth, in 2012 the company split the agricultural division by creating a new company, called Schio Cereais Ltd, focused on the production of cereals, seeds and the drying and cleaning of grains. Agropecuaria Schio Ltd has maintained its cattle breeding and fruit farming operations.

Beside the strategic acquisition of new companies, new lands and the establishment of new apple orchards with new varieties of apples, Agropecuaria Schio Ltd. has continued to invest heavily in technology. It has built modern fruit-packing operations with cutting-edge fruit selection equipment, all fully automated and offering huge selection, sizing and packaging capabilities. This has enabled the business to export large volumes of fruits quickly, making Agropecuaria Schio Ltd. the largest apple exporter
in Brazil, responsible for 80% of all the apples exported by Brazil to over 40 countries worldwide. Thus, the company has gained scope both nationally and internationally.

In 2015, the family decided to invest on a new unit for receiving, selecting and packing fruit in São Joaquim, in the state of Santa Catarina, a strategic location for processing fruit from small-scale farmers. Besides its own production, Agropecuária Schio Ltd purchases fruit from more than 350 small-scale farmers in Brazil, providing them with financial support and technical advice. Currently, it has the capacity to receive and commercialize more than 250,000 tons of fresh apples and other fruit, generating more than 5,000 direct jobs. In the last five years, the family business had invested more than US$100 million in new technologies for production, storage, fruit selection and packaging, new orchards and apple varieties, irrigation systems, hail protector structures, biologic disease control, environment protection, among others.

Agropecuária Schio, with its headquarters in Vacaria, offers a huge economic benefit to this city. It plays an essential role in the local economy, particularly in job creation. Concerned with the welfare of society, the family has always collaborated with the community as a way of thanking it for all it has achieved. Besides its philanthropic activities, Agropecuária Schio sponsors the city soccer team. My uncle Francisco is a passionate fan, dedicating his free time as club director for many years, leading the team some years ago to the first division of the state soccer league.

After 50 years, the Schio family businesses have generated employment for almost 10,000 people, created market-leading companies in all its sectors. It has also invested

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13 www.agroschio.agr.br
in other smaller ventures including vehicle retail sales, cattle, cereals, seed production, real estate, urbanization and reforestation. It has faced challenges, crises, family loss, but today is still thriving.

The following family members are currently active or involved in the business:

a) Francisco Schio, co-founder, shareholder and board member, CEO of Agropecuária Schio Ltd; he has four children, two of whom work in the family business: Francisco, who works alongside his father and is directly responsible for Schio Cereais Ltd and his daughter Andreza, a lawyer and company legal assistant.

b) Moacir Schio, shareholder, board member and production director of Agropecuária Schio Ltd. He has three children but none currently work in the company.

c) José Schio, a shareholder, ex-CEO of Rodoviario Schio Ltd. and board member. He has two daughters who do not work in the family businesses;

d) Luis Eduardo Schio Jr. (myself), a shareholder, board member, and Commercial Director of Agropecuária Schio Ltd., and

e) Rafael Schio (my brother), a shareholder and Director of Purchasing and Supplies.

These company leaders control the operations. Some are board members. They still operate informally within the company’s organizational structure and take part in all important strategic decisions. The four branches of the family outlined above hold a total of 85% of the company’s shares. The biggest shareholders, Francisco’s family, and my brother, my mother and myself (splitting my father’s shares) hold 53% of the shares with
equal participation. My brother and I are currently the only third-generation family members involved in the business operations and who hold voting rights.

I must note that many of the third generation are not fully involved in the operation - at least not yet - and this may make the management of family interests easier. There is certainly much to do to ensure the continuity and harmony of the company.

3.4 – Final comments regarding this Schio family business case

It is not easy to record 50 years of history within the constraints of a thesis. Many facts have been lost over time, forgotten or never duly recorded. Family members’ memories tend to focus on the family’s good business practices, egalitarian values and good times. The family, despite its confidence in its success, never knew just how far it would actually come. Its success is due to a particular but informed management structure and unique family style that is rudimentary and simple though extremely efficient.

It is also a great responsibility to illuminate such an story involving personal family members. Certain names or facts have been omitted both intentionally and unintentionally. Some may be misremembered. The purpose of this case is not to identify heroes or villains but rather to learn from the mistakes and identify the leading factors that fostered the success of the Schio family’s enterprises. Thus, the new generation of heirs and successors, as well as its remaining founders and associates who, along with others, may read this study. May it that may help them avoid mistakes in the future.
It is clear that a family business's history and its members' occupations, personality traits, experience, knowhow, vision and values are fundamental to understanding the decisions that lead companies to success or failure. Cultural influences are also fundamental to a family business's values and operations. To understand the success or failure of a family business requires understanding the culture and values that form the foundation of this family's belief system. Despite this, many problems may reoccur. But, by analyzing this case, we are able to better understand and perhaps avoid certain problems. As a result, we can increase the chances of success in family-based companies. In Chapter 4, we explore the lessons learned from this case history.
Chapter 4
Perpetuating Family Businesses: Lessons Learned from the Schio Case

Having described the Schio family business history, I now analyze the decisions, strategies and mindset that marked the family business over last 50 years. I look at the main challenges and how I believe the family overcame them. The problems include family interference in the business, conflict over control and power, and the inevitable need to plan for succession. I will also propose a few general recommendations that can be followed by other family businesses facing the same obstacles. The goal is to perpetuate the life of family-controlled businesses from one generation to the next.

As noted in Chapter 3, the Schio’s family business – like all businesses - operated within a complex and ever-shifting economic and political scenario. However, I believe the main contribution to the family business’s success were the family’s values. The family path to success, beginning with its immigration from Italy at the turn of the 20th century, was shaped values that rested on a strong sense of commitment to each other. Their success came because they united when challenged. They devised creative solutions, sometimes together and sometimes individually, but whatever decision was made, they strongly supported one another. This kind of mutual support created a unique identity that is difficult to replicate. But it seems to be losing strength today.

At present, the Schio family enterprises are facing new challenges with the arrival of the third generation and the loss of all but two of the founding family members. In particular, the firms rapid growth of the 2000’s and the changing economic and political
landscape in Brazil present strategic challenges. Internally, the family is facing other types of challenges, such as excessive family interference on business decisions and the absence of a clear out succession plan. I explain why clear rules on corporate governance could help the family manage these problems and modify the family-ownership relationships so that company can counter risks and avoid relying solely on emotional ties to mitigate future family differences.

4.1 - Family interference in business, leadership conflicts, and power disputes inside families.

To briefly recap some points made earlier, family member interference, an overly rigid centralized authority along with rapid company growth - without the necessary controls to support such growth - and lack of a succession plan, are the main problems facing family businesses (Aronoff, 1998). As detailed in Chapter 2, family members can overstep their roles and responsibilities. Studies show that family businesses operate best when every family member stays within their roles and respects the boundaries between family, business and ownership realms (Taiguri and Davis, 1982; Walsh, 2011). By confusing the three “circles” – family-business-ownership – the family may damage the management of a firm (Ward, 2004).

The literature commonly cites the need for family firms to implement a legally enforceable set of (1) Corporate Governance Rules, (2) Family Constitution and (3) a Succession Plan. These help a family business avoid problems and to solve problems when they do arise (Gersick et al., 1997; Ward, 2004; Bornholdt, 2005; Ket de Vries et al., 2009). While these are valuable tools, unfortunately, as researchers note, there is no
one-size-fits-all set of governance rules to adopt. But, nevertheless, these three
documents provide a strong foundation for family businesses.

The absence of a succession plan and governance rules, in particular, lead to
dangerous conflicts of interests (Donnelley, 1964) and power disputes (Carlock & Ward,
2001). These can play out among the heirs of a new generation, as individual goals or
interests diverge (Carlock et al., 2007). Without a succession plan and good governance
rules, the risk of instability in the family business become very high (Stalk and Foley,
2012). By the same logic, Levinson (1971) notes that conflicts over power during times of
succession and change can be highly destructive and threaten the continuity of family
enterprises. These conflicts must be avoided.

Generally speaking, as reflected in the Schio case, next generation family
members are often handed the reins of power in family companies without much business
experience. Few have worked in companies outside of the family firm or in other fields
than that of the family firm. Fewer still have experienced working their way up a company
ladder and managing a staff. In other words, they inherit the company and power of the
older generation and though they may be ambitious, well intentioned and have the desire
to continue to lead the family to success, they lack the understanding of the dynamics of
business. Most are not well versed in managing staff, facing economic challenges, and
solving business problems. When heirs are handed the business reins, they must learn
the ropes, develop a management style, and learn about the market challenges while on
the job.

Sharma, Chrisman and Chua (1997) argue that to succeed, a new generation
member must be at least “willing, capable and committed.” The lack of preparation among
younger family members can make it difficult for them to adapt or earn respect from the peers, professionals and staff they manage. They may have to fight for their place within the company to ascend the hierarchical ladder. In order to help younger generation of a family firm adapt, as Lansberg (1999) asserts, senior leaders and founders must share their experience and ideas. As Ambrose (1983) suggests, they must involve the younger generation in the company in various capacities from an early age.

I was involved in the family business, informally at least, since I was about eight years-old. As noted in Chapter 3, I used to hang out in the repair garage with the mechanics. While I was not aware of it at the time - nor likely were my father and uncles - I was “learning the ropes of the business,” seeing the operations through the eyes of the mechanics, coming to understand the importance of keeping the trucks in good running order, and helping others in the company. At this young age, I was also learning to respect the workers and their skills they brought to the workplace. I learned that they were performing important jobs for the company by keeping our trucks running and safe. When I was 15, I started working for pay in the company, gaining experience by performing different roles and functions.

I learned too that some family business leaders who have steered the firm to success over the years may not be prepared to understand, accept, and/or support the changes suggested by young family members. For instance, as noted in Chapter 3, I went off to college, first for a degree in business administration and then, after returning to work for the firm for a few years, I left again to study for a master’s degree in business administration. Both times I returned to the company full of new ideas for improving the business, ideas that I thought were helpful, such as investing in computer technology to
collect sales and spending data and analyze the business numbers. However, no one listened. I could not understand why they were not interested in my ‘good’ ideas as I pointed out that some of their practices such as lack of data and poor access to information were not good for the business.

One factor that receives attention from scholars of family businesses is the influence that cultural characteristics play in family firms. As pointed out in Chapter 2, “hot” and “cold” cultures can make difference in how family members communicate and how they deal with problems (e.g., Jaffe and Grubman, 2016; Lewis, 1996). I noted that the Schio family cultural traits from Italy are “hot”. They are expressive and passionate. This generally presents greater risk of conflict and interference in the organization. People from an emotive culture, called "multi-active" by Lewis (1996), are more easily “set off”, impulsive, and as a consequence, arguments are readily sparked between family members. Nevertheless, the Schio family members were able to understand this cultural tendency and manage it, such that no costly damage was done to the family business. The same cultural characteristics inherited from “hot” cultures is said to emphasize leadership concerned with close control and exercising disproportionate influence on the firm. This was true of the Schio family, creating, as a consequence, strong ties that link the family to the business (Gomes-Mejia et al. 2011).

But all family businesses are not the same. They vary in sizes, stages, operate in different sectors of the economy, and require different styles of leadership, from the more family-centered to more professional-centered ones. Brun, Pontent and Wrosch (2002) noted that family firms over generations tend to bring in more formal, transparent and objective control systems. Bammens, Voordeckers and Van Gils (2008) explain the high
likelihood that outsiders will eventually be on the board in later firm stages. Gomez-Mejia et al. (2001) also state that when family firms move to the third generation, they are more likely to terminate family executives due to poor performance. Gomez-Mejia et al. (2007) note that:

“In the more advanced ownership stage, family influence becomes more dispersed and fractioned, with a smaller average shareholding per person. The family as a monolithic entity begins to lose its grip over the firm in later stages, and financial considerations of multiple stakeholders move to the forefront.” (p. 110)

Along the same line, other studies find that as a company grows in size its founders are forced to share influence with other parties outside the family and, hence, exercise less influence on the business (Wasserman, 2006). As a general rule, larger firm size also entails greater reliance on bureaucratic controls (Scott, 2003).

Figure 4.1 pictorial displays the typical change in family-owned businesses. It shows the evolution from a strong, personalized and centralized leadership style to a more impersonal and professionalized leadership style.
Sometimes, however, a strong and centralized leadership, even in third generation, may be precisely what a family business needs. In some situations, without centralized and unbending leadership, a family-owned businesses firm could get into trouble. Before challenging a family firm's leaders, the younger generations must first understand the firm's needs and its position in Figure 4.1. In other words, the new generation entering the firm must consider first what is best for the firm rather than their personal interests or opinions. They need to realize that there is a right time for
professionalization based on factors such as size, maturity, economic sector, and number of family generations. There appears to be no general rule for this.

4.2 - The challenge of the succession process

The apparent lack of concern for a succession plan by the Schio family and many other family owners is a problem (Ward; 1987; Lansberg, 1999). Only 20% of family business owners surveyed by Lee, Jasper & Goebel (2003) had prepared a succession plan. A well-planned transition greatly mitigates the possible risk of conflicts or misunderstandings among family members. But, unfortunately, opinions are not always unanimous and choices for the next leader may not always be consensual or optimal. As in many other family business, the Schio family founders were focused on growth and profits and ignored planning for succession.

Some scholars claim that professionalization is the path to overcoming succession problems. Professionalization is an attempt to find a neutral or objective solution for cases in which there is a dispute for power among family members. Some researchers (e.g., Bloom, Sadun & Van Reenen, 2011) find that the best successor is not necessarily a family member but an experienced non-family member. A neutral professional can provide balance between the different forces, possibly serving as a mediator between factions in the family. It may also be the case that the professionalization is inevitable when there is an absence of successors with commitment, experience and qualifications to assume a leadership position (Sharma, Chrisman and Chua, 1997).
Further, succession by outside professionals may in fact improve management and results. Some studies show that the quality of CEOs hired within the family as well as the results that they deliver are inferior to their counterparts. The research reports that the worst results were presented by family controlled business in which the CEO role was passed to the eldest son or other family member (Bloom, Sadun & Van Reenen, 2011). Other scholars disagree. According to Andreas Raharso, director of Singapore-based Hay Group’s Global R&D Center for Strategy Execution, points out that excessive professionalization may be bad for family businesses. “A strategy that overemphasizes professionalism and neglects the family will lead to a deteriorating family business.” Raharso further notes that some non-family leaders of family firms do not fit well with the family culture and needs, affecting the complex ties that link family to the business (Raharso, A., 2014).

Other scholars point out that the family presence in the business is seen as a valuable asset, difficult to replicate, and a valuable competitive-advantage resource (Barney, 1991). For this reason, excessive professionalization may reduce the advantage of family firms. And, in some cases, professionalization may lead to increased bureaucracy and diminished agility. Yet, in other cases, it offers more transparency and better business management as a whole.

I believe that a family member can be a good successor when well prepared for the leader role. Having a family member succeed as CEO may help to preserve the family’s unique signature and culture in the firm. This may keep alive the firm’s strategic advantage and thus increase the likelihood of an efficient succession over time (Campbell, Heriot and Welsh, 2007). Good examples of continued succession by family
members is clear in the Latin American national economies. These are dominated by large and diversified groups of family businesses, called “grupos.” These companies are bolstered by the entry of the new generation members, often extensively trained abroad and seeking new business opportunities within the family enterprise (Lansberg and Perrow, 1991).

Today, it seems that the business families are aware of the importance of succession planning. Some of the more prudent organizations include consensual rules for succession in their shareholder agreements or in their corporate governance regulations. This is certainly the ideal scenario. Waiting to discuss the change of leadership following the unexpected departure of a respected leader may be a very complicated and counterproductive task for the family, generating serious and unnecessary conflicts.

But what is the best path for realizing a smooth succession process? The most important point is raising awareness among family members that succession planning is vital for the continuity of the business. Unfortunately, in some situations, families do not understand this and end up delaying the succession discussion. Humans do not particularly like to acknowledge that time is passing and that no one lives forever (Kets de Vries, 1996; Gersick, Davis, Hampton and Lansberg, 1997). In addition, family firm leaders who are parents tend to favor their children. Yet, choosing a successor that everyone agrees upon is difficult. This is especially true for family businesses in their third generation, where family size has grown (Aronoff & Ward, 2011).

To illustrate a well planned succession process, I share a model proposed by Fernandez-Aragon, Iqbal and Ritter (2015) shown in Figure 4.2. It is clear, concise, direct,
and practical, and suits the needs of the Schio Family. The ideal succession process is simple to understand. It consists of three stages. First, attain consensus for succession process among shareholders and define the process rules. Second, perhaps the most difficult, select a group of internal and external candidates, analyze each closely and consensually choose one as the successor. Third, prepare that person for the job, and bring him/her into the company if he/she does not already work within the company (Fernandez-Aragon, Iqbal & Ritter, 2015).

Figure 4.2: A Disciplined Succession Process

<table>
<thead>
<tr>
<th>PHASE 1 DISCUSSION AND COMMITMENT BY THE SHAREHOLDERS</th>
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<tbody>
<tr>
<td>Briefing on succession by owner family and/or the board, and analysis of possible scenarios</td>
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<tr>
<th>PHASE 2 CANDIDATE SELECTION</th>
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<tr>
<td>Identification and evaluation of a long list of suitable internal and external candidates</td>
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<tr>
<th>PHASE 3 INTEGRATION AND DEVELOPMENT OF THE SUCCESSOR</th>
</tr>
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<tbody>
<tr>
<td>Establishment of an agenda for the first six to 12 months and selection of the top management team</td>
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As observed, a good succession process requires time to be implemented. These decisions must be made carefully. Family members must discuss their options over time.
without pressure or “arm twisting.” Ensuring a peaceful transition is usually the greatest obstacle to overcome, especially if the current leader resists the process. This may occur mainly if the leader is the founder of the business. He or she often sees the company as his or her “baby” or “work of art,” something that has been held close to the heart, often for decades. Handing over the company’s reins is difficult even if the need for change is evident. This scenario can occur even if the entrepreneur founder is no longer able to run the business due to health problems, lack of energy, or ability to fulfill his or her functions as leader.

Lansberg (1999) points out the need for the elders of the firm to share their experiences with upcoming generations. Ambrose (1983) complements this by stating that young people must be involved in the business during this transition time. Aronoff and Ward (2011) note that the family should be sure to transmit the family values and the culture to the next generation, whether or not the successor is a family member.

The founder is often considered the person most responsible for the continuity of the family firm (Barnes and Herson, 1989). For a succession plan to succeed, the founders or outgoing family business leaders need to support the new leader and the succession process as a whole by training the successor, imparting significant information, and being available to provide advice and answer questions when called upon.

Lansberg (1988) explains that leaders of family firms sometimes resist implementing a succession plan and the fear of change is the main factor that prevents founders from agreeing on such a process. Handler and Kram (1988) report that some founders see the succession plan as a “conspiracy.” However, sometimes the
organization and the environment also resist change. Figure 4.3 illustrates the causes of resistance to succession planning in the family business (Handler & Kram, 1988). Applying these concepts to the Schio family case, the red triangles points out the possible resistance to a succession plan, while green stars shows factors that seems to be reducing the resistance. It is clear that there are more factors promoting resistance that reducing it. Therefore, succession planning in the Schio family firm faces many challenges to be overcome.
Figure 4.3: A Model of Resistance to Succession in the Family Business

<table>
<thead>
<tr>
<th>Factors Promoting Resistance</th>
<th>Succession Planning</th>
<th>Factors Reducing Resistance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Individual Level</strong></td>
<td></td>
<td>Health problems</td>
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<tr>
<td>Good health</td>
<td></td>
<td>Other interests</td>
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<tr>
<td>Lack of other interests</td>
<td></td>
<td>Ability to dissociate from</td>
</tr>
<tr>
<td></td>
<td></td>
<td>the firm</td>
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<tr>
<td>Identity with business</td>
<td></td>
<td>Delegation of responsibilities to others</td>
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<td></td>
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<tr>
<td>Retention of control over time</td>
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<td></td>
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<tr>
<td>Fear of aging, retirement, and death</td>
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<td>Opportunity for new life and</td>
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<tr>
<td></td>
<td></td>
<td>career planning</td>
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<tr>
<td>Avoidance of self-learning</td>
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<tr>
<td>Avoidance of technical advice and consultation</td>
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| Interpersonal Group Level    |                     |                              |
| Lack of open communication   |                     | Honest, informed communication |
|                              |                     | is encouraged                 |
|                              |                     |                              |
| Minimal trust                |                     | High level of trust           |
|                              |                     |                              |
| Heir(s) are or appear        |                     |                              |
| disinterested, incapable,    |                     |                              |
| inexperienced, or inappropriate |               |                              |
|                              |                     |                              |
| Minimal training             |                     |                              |
|                              |                     |                              |
| Power imbalances             |                     |                              |
| Family conflicts or issues   |                     |                              |
| permeate the business        |                     |                              |
|                              |                     |                              |
| Nuclear and extended family  |                     |                              |
| members as potential heirs   |                     |                              |
|                              |                     |                              |
| Organizational Level         |                     |                              |
| Culture threatens            |                     | Culture reinforces organizational continuity |
| organizational development   |                     |                              |
|                              |                     |                              |
| Stability of organizational  |                     | Impending organizational crisis |
| growth                       |                     |                              |
|                              |                     |                              |
| Maintenance of structures    |                     | Organizational structure promotes functional delegation |
| promoting unilateral control |                     |                              |
|                              |                     |                              |
| Environmental Level          |                     |                              |
| Nonproblematic environment   |                     | Problematic environment      |
| Many industry requirements   |                     | Few industry requirements    |
|                              |                     |                              |
| Specialized professional     |                     |                              |
| prerequisites                |                     |                              |

The family firm’s founder generally has the power to make the succession an easy and smooth process or a nightmare. The founder’s agreement with the succession planning process plays a large role in the continuity of the family firm. But the successor also represents a key factor on this process (Dyck et al., 2002). The commitment and qualifications of the successor do not necessarily depend on the help and support of the founder. Successors may work outside the family firm to acquire experience. Yet it is clear that founders and successors play a fundamental role in the success or failure of the succession (Kets de Vries, 1985; Aronoff, McClure and Ward, 1991).

The succession literature is broad and includes many models (e.g., Lee, Jasper and Goebel, 2003; Handler, 1990; Aronoff, McClure and Ward, 1991; Walsh, 2011). However, most studies conclude that a plan’s effectiveness depends on three factors: the founders’ agreement, the successor’s abilities, and the environment (Lucky, Minai & Isaiah, 2011). It should be noted that succession within an organization, whether family-run or otherwise, involves a lot more than simply selecting and nominating someone for a specific job. Quite often, power, respect and influence are not immediately transferred to the new CEO. The new leader must develop these characteristics over time. That is why understanding how an organization works, and who holds power within the organization is fundamental to the success of a new leader (family member or from an outside firm).

A good way of understanding organizations is through the model, "Three Perspectives on Organizations" developed by Ancona et al., (2005). According to this approach, the organization is viewed through three lenses: strategic design, political and cultural. By failing to recognize the influence of each of these three factors, many leaders
perform poorly, even though they may have been chosen carefully by the family to become the new CEO. This happens especially when the new leader does not fully understand the political and cultural influences on company structure and environment.

Corporations generally have strong political interests and cultural traditions. Understanding these last two factors — political and cultural — which many new company leaders overlook, can 'make or break' the succession. All companies, but especially family-owned firms, are generally run by strong leaders who concentrate the power at the top (political). Family-run organizations, especially third-generation firms such as Schio enterprises, have revered traditions and habits and hold some possibly outdated values close to their hearts (cultural). These two factors - political and cultural - tend to make it difficult for a new leader to change the firm's operations and strategies because the staff tend to want to continue operating in the same traditional ways and often contest the power of newcomers trying to make changes. Overlooking these factors could lead to succession failure. Politically, a new leader must feel empowered. Culturally, the company must be prepared to understand and accept the changes.

Understanding the informal network connections between people in the organization may help the new leader to discover which players are most influential in the organization — in other words, who has the power to get things done or to convince people to make changes as suggested by the new CEO (Krackhardt & Hanson, 1993). Mapping formal and informal relationships between members of a family-run organization - and members of the family - can help new leaders exercise power in the enterprise and promote the needed change.
More generally, I believe that communication is key. The new leader must communicate his/her goals, strategies and concerns to all members of the management team and the broader staff. He or she must take the time to listen to concerns and be willing to forge ahead with his/her plan despite the reluctance of some staff members. In other words, the new leader must take the power through communication and by identifying the firm’s ‘power brokers’. Finding allies is how he/she will get things done.

4.3 - Corporate governance as a fundamental tool

There is no consensus on the definition of governance (Pieper, 2003). But an accepted definition is that of Keasey, Thompson and Wright (1997), who define corporate governance as “a process and structure used to direct and manage the business affairs of the company towards enhancing business prosperity and corporate accountability with the ultimate objective of realizing long term shareholder value, whilst taking into account the interest of other stakeholders” (p. 288)

In practice, corporate governance can be used as a tool to overcome challenges. If corporate governance rules are clear, well disseminated and transparent, a firm can address many of the problems faced by family businesses. Good corporate governance involves managing boards (sizes, qualifications, processes and tasks); defining the CEO’s responsibilities and limits; managing the business and the family (i.e., family councils, family constitution and family offices); designing clear channels of communication, and also establishing rules for a succession process (Bornholdt, 2005; Aronoff & Ward, 2011; Gersick et al., 1997; Montemerlo and Ward, 2011).
The ideal level of good governance practices will vary according to the needs and stages of each family-run business. The benefits of good governance practices include:

a) A reduction in family member interference in the business;

b) Reduction in conflicts between family members and between family members and executives, since there are clear procedural rules and transparency;

c) A sense of direction, a reinforcement of family values to work by,

d) Clearly defined policies that tell organization members how they should act or what they should do in certain circumstances. Examples of policies include hiring and promotion, borrowing and debt, discovery of wrong-doing, sexual harassment, line of command, strategic plan decision making and purchasing over a certain cost.

e) A solid succession plan in place results in less infighting about power and leadership, more transparency and a clear direction for the firm in terms of leadership.

According to Davis, (2001), good governance rules set in place will help family businesses to function well by:

- Clarifying roles, rights, and responsibilities for all members of the three circles;
- Encouraging family members, business employees, and owners to act responsibly;
- Regulating appropriate family and owner inclusion in business discussions.

The right governance model must meet the needs of the company and also of the family and the ownership groups. Excessive formal governance could create a difficult decision-making process (Bjornberg, Dias & Elstrodt, 2016). Good governance practices
can also increase oversight of the CEO and Board practices and talent management to help improve members selection and skills, diversity and succession planning (Groysberg & Bell, 2014). A good governance baseline is fundamental to manage talent inside the organization and can help the family identify future leaders and create conditions for a disciplined CEO succession process (Fernandez-Araoz et al., 2015). Finally, a governance model is capable of helping with succession planning by setting rules for the training and preparation of successors, by managing family entry, by scaling growth, and perhaps by appointing nonfamily mentors. Good governance, as observed, helps to avoid some of the traps that can destroy the family business (Stalk & Foley, 2012).

4.4 - General recommendations to perpetuate family businesses

As noted in Chapter 2, there are many strategies that aim to help family businesses achieve long-term success. Among the many studies, Miller and Le Breton-Miller’s “Managing for the Long Run” (2005) stands out. They examined over 40 family-controlled companies that were leaders in their market segments and that existed far longer than non-family companies in their sectors. The authors identified one reason for their longevity: They were created with a long-term business outlook. Thus, they do not focus on immediate results to the degree that many non-family firms do.

Miller and Le Brenton-Miller (2005) also identified why the 40 family-controlled companies they studied surpassed non-family public companies in revenue growth, returns on assets and equity, and market valuation growth: They developed certain practices and qualities, called the “Four Cs” or pillars of success: Command, Continuity,
Community and Connections. These practices are difficult to replicate in other organizations and provide family businesses with huge competitive advantages.

I believe all family business must promote and develop these characteristics:

1. **Continuity:** Plan for the long-term. Plan strategies and adjust vision by investing carefully in competencies needed for long-term success such as offering extended executive apprenticeships, conserving resources, and looking ahead at future options as, for example, sources of alternative power (e.g., solar, wind), transportation alternatives (driverless cars), and new products, strategies and practices that are in the development stages.

2. Create a sense of **Community** within the organization in which everyone — family and non-family employees — helps each other and mutually protects each other. This sense of community should promote strong values, like loyalty, initiative, and collaboration. This creates a cohesive “clan.”

3. Construct productive, profitable and lasting **Connections** by building long-term, open-ended, mutually beneficial relationships with business partners, customers, and the larger society.

4. **Take Command** by making fast and transparent decisions, acting quickly and independently to meet unexpected challenges, avoiding the creation of excessive rules that many non-family business companies have in place.

Miller and Le Brenton-Miller (2005) also note that in order to promote growth and market presence over time, successful family businesses generally employ five basic
strategies to obtain a competitive edge. Family business must continually: 1) Focus on producing superior, quality products, 2) Create and produce successful brands and products that “stand out” from the competition, 3) Engage in continuous improvement on efficiency and innovation, 4) Focus on the long-term, and 5) Develop strong leaders who look for new entrepreneurial opportunities.

In conclusion, I offer new generations beginning their stewardship of family firms some guidance in hope that it may help them avoid making the same mistakes I have made. In retrospect, my mistakes were due, in some cases, to a lack of knowledge and awareness and, in other cases, an overenthusiastic attitude that I could change the company with my newly acquired business school knowledge. Of course, making suggestions, is quite simple, but implementing them is much harder.

1 - Implementation is fundamental. No idea or project is of any use, no matter how good it may be, if it is not correctly put into practice.

Having support for a new strategy or practice is absolutely necessary to implement proposed project or strategy. Lack of support from the founders, managers, staff or other shareholders, will quickly kill a well intentioned plan. Building allies within the firm and a strong network of connections outside the firm (including, for example, buyers and sellers, lenders, politicians, unions, truckers, universities, and the community at large) helps family company leaders implement plans, strategies, or projects. These networks of support can help pave the way to success and counter opposition to a plan.

2 - Know your family business, its members and its history, along with its values and culture passed down from generation to generation.
Often, the young generation of a family business are not aware of the principles and values that create family unity within the current generation in power. If the new generation takes the time to recognize and understand the values and principles that drive the older generation, it will help them to understand the behavior and business strategies the leaders use. It is important to make an effort to understand the older generation’s behaviors and values. Though some of their behaviors and practices may seem unprofessional, it was these behaviors, ideas and ideals on which the company was founded and that brought the business great success. Granted, times change, political and economic landscapes shift and some practices may no longer be productive. But do not make a judgement until these practices and their purpose and motivations are well understood.

3 - Understand the uniqueness of a family business.

What is recommended for one family business is not necessarily the best recommendation for another. Companies and their families have different ages, economic situations and diverse stages of maturity, different backgrounds, values and peculiar cultures, different sizes, and act in specific businesses and economic sectors. All of these factors must be taken into account so that there is a clear understanding of what can and should be done to improve each of these companies.

4 - Succession for leadership positions in the company is unavoidable and should be planned for in advance.

A smooth and peaceful succession, though often difficult, is possible. Even though it may be painful to discuss, it is dangerous to ignore the need for a succession plan. If
firms “wait for the worst to happen” they then have to decide on a successor during a time of stress. The majority of family businesses tend to fail on succession time since family business continuity depends on a cross-generation passages. Succession should also not be forced or brought about when there is no consensus over the plan or is earlier than necessary. To ensure a successful selection process, the family members, especially those that accept the succession challenge, must try to follow ten “key success factors” of succession planning as outlined by Hubbler, (1999):

1. Embrace Change: Keep an open mind and embrace the change that succession will bring;
2. Forgive: Acknowledge and deal with conflict, and then accept it and move forward;
3. Share Control: Understand that surrendering control can be a difficult process;
4. Appreciate and Recognize: Express your gratitude and acknowledge accomplishments;
5. Acknowledge History: learn and grow from the past while always looking forward;
6. Remain Objective: Think clearly and objectively to avoid getting one’s feelings hurt;
7. Don’t feel Entitled: Treat all employees equally and fairly;
8. Communicate Directly: Indirect communication will only hurt others. Be direct and sensitive
9. See Differences as an Asset: Understand that those differences can lead to the creation of new ideas and solutions;

10. Be Honest with your Feelings: Be open minded with new ideas but do not hide how you feel.

5 – Avoid creating conflicts and the fight for power in the organization.

Conflicts directly affect family unity. When unity is shaken, the company will also become vulnerable. The fight for power among family members weakens the relationships between them. Members of a family business’s next generation who want to earn recognition from the family and a place in the business should not attempt to directly confront or weaken the strongest leader to gain space. Be patient and build trust and respect through hard work and skill development. Likewise, the current leader of the family firm should not attempt to weaken or impede the leadership growth of possible successors within the family. The company will likely be managed by one of them.

6 – Being a CEO of a family firm or working in a family company is not easy.

Being the leader in a family business requires hard work and dedication. Those vying for such as position should know its demands. With the power and prestige of company leadership comes responsibility, stress, liability worries, and a constant demand for results. Today, more than ever, leading a company, large or small, calls for much preparation, experience and professional qualifications.

Perhaps the best option for some family firms is professionalization - contracting a professional outside of the family - who is qualified and experienced in corporate leadership. It is up to the family to decide. Family members and shareholders may still
exercise their representation through the company board. After all, the ultimate goal for the company and the family is to enjoy profits and the pride of being part of a successful family firm instead of accommodating heirs within the company who may not be well prepared to step into the corporation. Choosing an heir who is underqualified for the leadership position jeopardizes business results.

Young people considering working for their family’s firm should also realize it is not the easiest route. Sometimes venturing out beyond the family’s domain can help a young person gain experience and a sense of competence before joining the family firm. Working outside of the family firm can also help young men and women see the business world from a different perspective than one might gain from working within the confines of a family company. For some, working for the family firm means closer scrutiny (e.g., criticism, praise) from relatives and staff. They may expect far more from a family member or far less depending on their attitude and the well-being of the firm. (Please see Appendix B for more recommendations aimed specifically to young generations).

4.5 – Final words

Unbeknownst to most people, including business leaders, politicians and scholars, family business are responsible for two-thirds of jobs worldwide and almost 90% of the global economy's current GDP according to the Family Firm Institute (2016). A large body of literature including family business case studies offers insights, tools, and practices that can help these family businesses achieve success, avoid the pitfalls, and help their home regions and nations advance economically. This case study of the Schio family business is one of these many studies that examine ways to build and sustain a family
business. However, as noted in this study, owning and managing a family business is not an easy task. There are many challenges to face in order to perpetuate a family owned business. This study focused on the main challenges and how they influence the longevity of a family business. Yet, every family member, founder or not, must be proud of being part of this engine that moves the economy and creates millions of jobs in all parts of the world. Each family-owned or -controlled business doing its part in building a better world.
Appendix A
150 Largest Family Firms

Table

Note: This appendix lists the 150 largest companies included on the 500 Global Family Business Index. A full table could be visualized in the web site [www.familybusinessindex.com](http://www.familybusinessindex.com).

We define a family business as follows. For a privately held firm, a firm is classified as a family firm in case a family controls more than 50% of the voting rights. For a publicly listed firm, a firm is classified as a family firm in case the family holds at least 32% of the voting rights. For further details on this definition see below.

<table>
<thead>
<tr>
<th>RANK</th>
<th>COMPANY</th>
<th>EST.</th>
<th>PUBLIC</th>
<th>REVENUE</th>
<th>EMPLOYEES</th>
<th>COUNTRY</th>
<th>FAMILY</th>
<th>SHARE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Wal-Mart Stores, Inc.</td>
<td>1962</td>
<td>Public</td>
<td>476.3</td>
<td>2,200,000</td>
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<td>Walton family</td>
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<td>1937</td>
<td>Public</td>
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<td>572,800</td>
<td>Germany</td>
<td>Porsche family</td>
<td>32.2</td>
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<td>Berkshire Hathaway, Inc.</td>
<td>1955</td>
<td>Public</td>
<td>182.2</td>
<td>330,745</td>
<td>United States</td>
<td>Buffet family</td>
<td>34.5</td>
</tr>
<tr>
<td>4</td>
<td>EXOR SpA</td>
<td>1927</td>
<td>Public</td>
<td>151.1</td>
<td>301,441</td>
<td>Italy</td>
<td>Agnelli family</td>
<td>51.4</td>
</tr>
<tr>
<td>5</td>
<td>Ford Motor Company</td>
<td>1903</td>
<td>Public</td>
<td>146.9</td>
<td>181,000</td>
<td>United States</td>
<td>Ford family</td>
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<tr>
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<td>1865</td>
<td>Private</td>
<td>136.7</td>
<td>143,000</td>
<td>United States</td>
<td>Cargill/MacKinnon family</td>
<td>90.0</td>
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<td>Koch Industries Inc.</td>
<td>1940</td>
<td>Private</td>
<td>115</td>
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<td>United States</td>
<td>Koch family</td>
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<td>1916</td>
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<td>Germany</td>
<td>Quandt family</td>
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<td>Schwarz Group</td>
<td>1930</td>
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<td>89.4</td>
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<td>Germany</td>
<td>Schwarz family</td>
<td>100.0</td>
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<td>Private</td>
<td>85.5</td>
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<td>Mulliez family</td>
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<td>Arabian Fal Group</td>
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<td>Private</td>
<td>82.2</td>
<td>4,000</td>
<td>Saudi Arabia</td>
<td>Alsayed family</td>
<td>&gt;50</td>
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<td>12</td>
<td>Arcelor Mittal</td>
<td>1976</td>
<td>Public</td>
<td>79.4</td>
<td>232,000</td>
<td>Luxembourg</td>
<td>Mittal family</td>
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<td>Louis Dreyfus Holding B.V.</td>
<td>1851</td>
<td>Private</td>
<td>74.3</td>
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<td>Netherlands</td>
<td>Louis Dreyfus family</td>
<td>&gt;50.0</td>
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<td>1966</td>
<td>Public</td>
<td>72</td>
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<td>Public</td>
<td>71.8</td>
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<td>Roberts family</td>
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<td>CASINO GUICHARD-PERRACHON</td>
<td>1898</td>
<td>Public</td>
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<td>329,355</td>
<td>France</td>
<td>Naouri family</td>
<td>48.9</td>
</tr>
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<td>Rank</td>
<td>Company</td>
<td>Est. Year</td>
<td>Public/Private</td>
<td>Revenue</td>
<td>Employees</td>
<td>Country</td>
<td>Family</td>
<td>Share</td>
</tr>
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<td>America Movil SA de CV</td>
<td>2000</td>
<td>Public</td>
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<td>Mexico</td>
<td>Carlos Slim and family</td>
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<td>2008</td>
<td>Public</td>
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<td>95,696</td>
<td>Brazil</td>
<td>Moreira Salles family</td>
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<td>1968</td>
<td>Private</td>
<td>56</td>
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<td>United States</td>
<td>Long and Foster family</td>
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<td>Roche Holding AG (Roche Group)</td>
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<td>AP Moeller/Maersk Group</td>
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<td>Private</td>
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<td>China</td>
<td>Zhang Shiping family</td>
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<td>1871</td>
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<td>Germany</td>
<td>Schaeffler family</td>
<td>49.9</td>
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<td>8,000</td>
<td>Saudi Arabia</td>
<td>Alizera family</td>
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<td>Brazil</td>
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<td>1944</td>
<td>Private</td>
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<td>Brazil</td>
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<td>82.0</td>
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<td>Public</td>
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<td>France</td>
<td>Arnault family</td>
<td>62.6</td>
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<td>66,593</td>
<td>India</td>
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<td>34.3</td>
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<td>52,700</td>
<td>United States</td>
<td>Bechtel family</td>
<td>40(100)</td>
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<td>Germany</td>
<td>Albrecht family</td>
<td>&gt;50.0</td>
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<td>United States</td>
<td>Lampert family</td>
<td>48.0</td>
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<td>1943</td>
<td>Private</td>
<td>35</td>
<td>147,000</td>
<td>United States</td>
<td>Kamprad family</td>
<td>100.0</td>
</tr>
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<td>Turkey</td>
<td>Koc family</td>
<td>77.7</td>
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<td>Public</td>
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<td>United States</td>
<td>Tyson family</td>
<td>72.1</td>
</tr>
<tr>
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<td>Public</td>
<td>33</td>
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<td>Hong Kong</td>
<td>Li family</td>
<td>52.5</td>
</tr>
<tr>
<td>39</td>
<td>Mars Incorporated</td>
<td>1891</td>
<td>Private</td>
<td>33</td>
<td>72,000</td>
<td>United States</td>
<td>Mars family</td>
<td>100.0</td>
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<tr>
<td>40</td>
<td>George Weston Ltd. Company</td>
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<td>Public</td>
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<td>139,000</td>
<td>Canada</td>
<td>Weston family</td>
<td>63.0</td>
</tr>
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<td>1958</td>
<td>Private</td>
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The 32% cut-off is motivated by the observation that in OECD countries on average 30% of the votes are sufficient to dominate the general assembly of a publicly listed company. This is because on average only roughly 60% of the votes are present in the general assembly. To be more conservative in our classification we decided to use the 32% cut-off, which is also more conservative than most academic studies who often use a 25% or 20% cut-off. This assessment is based on ownership data as per 2013 respectively last available year.

Appendix B
Recommendations for the Next Generation

This appendix provides recommendations aimed specifically at the young generation contemplating working for the family firm. The list was developed by MIT Senior Lecturer Peter Kurzina who, among other courses, taught a seminar on Family Business at the Massachusetts Institute of Technology in 2015. He kindly shared these “lessons learned” from those who have worked for family firms. These recommendations represent the opinions of different generations of family business executives and family members as well as those specialists on the subject. See also (Kurzina, 2017).

A. Considerations for the next generation before joining the family business:

1. Don’t rush into the family business. Get as much education and experience as possible.
2. Consider working outside the company before entering the family business. Do this to get experience and objective feedback and evaluations. Get valued.
   a. Some family businesses have a requirement that members of the next generation have to work outside the business for a minimum of several years. It allows them to learn to work with people outside the family business environment and create business relationships on their own.
   b. That experience can provide them with more confidence when entering the family business.
   c. That experience can give them “independent” verification of their performance and contributions.
d. Preferably by the time the next-gen goes into the business, he/she will have an expertise that no one else has...and that he/she will be respected for that expertise.

3. Give yourself the freedom not to go into family business. There are other options, such as working elsewhere. The only real power the next gen has is the willingness to walk away. The next generation needs to ask him/herself, “Is this really what I want to do, or is this pre-ordained?” (Consider ALL of the options).

4. You must ask yourself if it is better for the family to stake the next generation in his/her own business or not.

5. The next gen needs to know where he/she stand in the family and where he/she can potentially go in the business. (Remember: There can only be one CEO!!) If you do not like what you see and hear, look for alternatives.

6. Realize the complexities of a family business. Companies are difficult enough to operate without intermingling with family; likewise, family dynamics can be challenging enough without integrating business issues.

7. All things being equal, recognize that it is high risk going into the family business. There can be severe downsides. Often times those downsides revolve around siblings, positions, titles, power, and money. Families have been destroyed over those downsides. But there are ways to avoid or minimize those downsides.

B. **Once you have joined the family business...**

1. Once you have joined, your exit will be viewed as a failure. It’s not like changing jobs in a normal work environment.

2. Step up and take responsibility.

3. Expect to work harder and to be criticized more by others.

4. Don't report to your father/mother or other senior family member. Report to a non-family member who will treat you in arm's length fashion.
5. Find a mentor preferably from outside the company but perhaps from inside the company...but not your boss or a relative.

6. Recognize that every successful company needs a very skilled management team...and that team will need capable, loyal senior executives who might not be family members...but who have been with the company for many years. Respect them!

7. Those trusted non-family members of the management team can be excellent mentors to the next generation family members.

8. Be visible and connected to your customers and staff. Be available to them at any time. Your name is often over the door...on the product. Customers and suppliers like and appreciate having a connection to the family. The same goes for staff. A high level of interaction with staff, suppliers, and customers can solidify relationships. This can help demonstrate to all that the reputation and credibility of the company/family are intertwined.

9. Take on business and family governance roles.

10. Your spouse is your partner. Balancing your wife’s - or Husband’s - concerns/needs with those of the company and the family can be difficult. And avoid divorce. It is messy and expensive.

C. Governance

1. Utilize an outside family business consultant

2. Clarify the roles and boundaries of family members (i.e. spouses, retired family leaders, etc.)

3. Communicate often with family stockholders

4. Hold periodic family events

5. Educate family stockholders about the business

6. Provide summer internships for family members

7. Develop stewards versus investors.

8. Define a clear process for hiring and promoting of family members

9. Create a Family Council that meets regularly
10. Create a Board of Directors with more outside than inside members

11. Directly address non-performing family members

12. Have outside Board of Directors approve compensation of key executives

13. Do not report family and executive salaries to stockholders

14. Have outside Board of Directors select CEO

15. Have a clear dividend process

D. **What to needed to insure Continuity of Family Ownership Over Multiple Generations**

1. **On-going, thoughtful, and planned communication within the family.** Communication is part of “ownership culture.” Informed family member is the optimal goal. Through things like a Family Council, family retreats, informal and candid discussions, and “newsletters,” information is shared and questions answered that encourage “a sense of ownership,” feelings of inclusion, and a continued, positive identification with “family.”

2. **On-going, sincere, and obvious valuing and affirmation of the younger generation(s).** The third and fourth generations need to be valued as future owners, “players,” and leaders in the family enterprise. The younger family members should be valued as adults, mature thinkers, decision-makers, AND NOT as “the kids!”

3. **The presence and impact of psychologically mature/thoughtful/reflective first- and second-generation leaders.** These are individuals who are able “to let go,” “pass on,” “turn over,” and “step back” when the time comes. These “mature seniors” think beyond themselves, beyond “ego”. They focus on succession and “the overall good” for the business. Eventually they share and turn over control and power in a constructive way. This is a very tall order, but possible and has been accomplished by many families!

4. **Committed succession planning and talent development for the younger family members.** There is a need to identify and develop a set of processes through which successive, generational talent is considered, mentored, and developed. This needs to become a part of the company’s culture to which senior leadership/ownership is visibly and deeply committed.
5. **Financially competitive opportunities within the business.** For entering generations, create financially attractive opportunities that are competitive with the options existing in the outside world. Create financially viable options inside the enterprise that encourage commitment and that motivate engagement on the part of the younger generation in the family enterprise.

6. **Interesting and challenging career paths and career possibilities for the younger generation.** These opportunities can reside either inside the family enterprise and/or could be financially backed opportunities supported by family financial interests.

7. **Reinforcing “the specialness” of the family-owned enterprise, its legacy for the family and the community, its values and culture, and its advantages and opportunities.** Work to continue to encourage the sense of the family business as “a positive,” with opportunities for multiple personal rewards, both financially as well as personally and psychologically.

8. **A healthy life style balance.** It becomes important to those next gens entering the business to witness examples of family members enjoying their participation in the business, having choices, and having a balanced life style.

9. **A commitment of addressing “difficult” and counter-productive family members in the business.** Next gens need to witness direct and constant addressing of underperforming family members, disruptive and distracting family members, and those who have been involved in questionable transgressions.
Bibliography


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