

# The Hénokiens Compendium

The Hénokiens “Compendium” is the compilation of knowledge and experience accumulated during centuries by the Henokiens enterprises and that they wish to share with next generations, in order to help them taking up specific challenges associated with family businesses. It is composed of “academic cases” written by professors from eminent universities and business schools.



These academic cases are offered to universities and business schools interested in family enterprise and could be of particular interest to students enrolled in various programs (MBA, research, Family Business Enterprise...) and young leaders in family firms.



# The Hénokiens Compendium

A collection of member's case stories

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# Introduction to the Hénokiens Compendium

Authors : Morten Bennedsen and Brian Henry  
(INSEAD)



The Business School  
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# 16,000 Years of Family Business: The Leadership Model of the Hénokiens



The Hénokiens: 2017 Annual Conference, Vienna, 23 June 2017

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This note was written by Morten Bennedsen, the André and Rosalie Hoffmann Chaired Professor of Family Enterprise and the Academic Director of the INSEAD Wendel International Centre for Family Enterprise, and Brian Henry, Research Fellow at INSEAD. It is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

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## “Sustaining Work and Family Continuity”

Willem van Eeghen and I were the initiators of the Hénokiens Compendium during our consecutive terms of office as presidents of the Hénokiens Association from 2010 to 2017. We are now delighted to be able to publish a collection of case studies about the Hénokiens for the benefit of universities, newspapers, and public and private organizations. By sharing stories from real-life cases, we can provide students, professors, journalists, analysts, and politicians with an understanding of the unique characteristics of our long-standing member firms.

Throughout the Compendium, we have revealed the competitive advantages of the Hénokiens and how they have created throughout the centuries a tangible and living heritage. Built upon their founders' vision, the member companies of the Hénokiens express their distinctive culture by a steadfast loyalty to their countries, regions, and communities; to their professions and stakeholders; and to their core beliefs and fundamental values. “Sustaining man's work and family continuity” is the credo of the Hénokiens.

We wanted to honour their living memories because the Hénokiens offer a powerful force for a good and successful alternative to the often short-term, narrowly focused business models of today. We also sought to broaden the influence of the Hénokiens and transmit their stories to next gens hungry for knowledge about the ownership and control of long-standing family businesses. In short, our objective in developing the Compendium was to provide insights into the enduring secrets and hidden mysteries of the Hénokiens. We want to highlight the Hénokiens family culture, which can only be acquired over time and can provide a lasting legacy to every new generation of family business owners.

Before launching this central repository, the Hénokiens invited a select group of academics, researchers, and professionals to contribute their precious time and effort to the writing up of case studies about our member firms. This group of dedicated scholars has authored many full-length case studies that have been published on our website.<sup>1</sup> In addition, the Hénokiens board commissioned INSEAD to write two collections of mini-cases about the vast majority of Hénokiens members. The first collection was published by INSEAD in 2016 and the second in 2019.

An ongoing work in progress, the Compendium will continue to grow in size as the Hénokiens board invites more scholars to write new case studies. Our objective is to provide a diverse range of leadership models that will resonate with young managers who want to join family firms and with young owner-managers who want to perpetuate their family businesses for the next generation.

Christophe Viellard, former President of the Hénokiens, 12 March 2019, Paris

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1 <https://www.henokiens.com/content.php?id=9&lg=en>, accessed 15 February 2019.

## The Elements of Long-Lived Leadership

In this note, we highlight leadership models based on almost 16,000 years of business experience. The Hénokiens is an international association of 48 enterprises, each one family-owned for at least 200 years. To be eligible for membership, the family must be an owner or majority shareholder of the company and at least one member of the founding family must still occupy a management position in the company or be a member of the board. Furthermore, the company must be in good financial health.

The oldest member is the Hoshi Ryokan, a traditional Japanese inn that has been operated by 46 generations of the same family. It was founded in 718, making it the oldest independent family firm in the world. The second oldest member of the Hénokiens is the Italian gun maker Fabbrica d'Armi Pietro Beretta, which is nearly 500 years old. Almost all the other member firms were established between 1600 and 1800, with seven of the nine Japanese members founded in the 1600s. The six youngest members, Europeans, were all established in the early 1800s (see Appendices<sup>2</sup>).

Together the 48 member firms have almost 16,000 years of business history. The average age of the member firms in Europe is 294 years, while in Japan the average age, not including the Hoshi Ryokan, is 350 years (including Hoshi, 455 years). Together these 48 firms have survived wars, revolutions, upheavals, and transformation while retaining control and ownership of their firms.

The Hénokiens are spread across eight European countries and Japan, with the heaviest concentration in France (14 members), Italy (12 members), and Japan (nine members). Belgium and the Netherlands have two members, Switzerland has three, and Germany four, whereas Austrian member A. E. Köchert and British C. Hoare & Co. are the only representatives for their countries.

It is fascinating that no direct relation can be found between firm size and longevity. One of the smallest members, Jean Roze, has a dozen employees, while one of the largest, VMC Group, has about 15,000 employees spread across four separate companies in which the family is the majority shareholder or the leading owner.

So what do the Hénokiens do? Obviously for a member to survive and prosper over so many centuries, it is an advantage to be in an industry that provides the main physical requirements for human survival. Of the 48 members, 15 members are in the food and drinks sector, and five of the nine Japanese members sell tasty items like sweets and tea. Another example is Amarelli, an Italian member that has sold liquorice sweets since its establishment in Calabria in 1731; it now employs about 40 full-time employees and had revenues of €6 million in 2017. Another Japanese member, Yamasa, founded in 1645, is the second largest soy sauce maker in Japan, with more than 800 staff and a turnover of ¥508.3 million in 2017. Six other members of the Hénokiens are in the financial services sector, three members in Switzerland

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2 Appendix 1 is a complete list of the 48 members of the Hénokiens Association; Appendix 2 provides a brief history of the Hénokiens; Appendix 3 is a list of the Hénokiens presidents; Appendix 4 is a list of case writers who have contributed to the Compendium project and provides a direct link to the pdf file of their cases.

and three in France. Among the French members, Banque Hottinguer, founded in 1786, is the oldest name in the banking sector in Paris.

A study of the Hénokiens also highlights the many alternative leadership models that can be applied to family firms young and old. Each member has developed a unique vision and strategy in line with the incentives and performance of their stakeholders, including family members, non-family managers, employees, customers, suppliers, and shareholders. Furthermore, most of these firms have demonstrated a keen interest in the communities they have been part of for centuries.

A study of the Hénokiens provides a counterpoint to the view that firms should focus on maximising short-term returns to shareholders to the exclusion of other stakeholders. The Hénokiens deserve credit for having adopted a more stakeholder-friendly system that builds trust and advances social responsibility, areas that family companies know a great deal about from their long-term commitment to the community.

Each family has a fascinating story to tell, one that spans many generations across several centuries, and each story is different. Their journeys are unique because no event that happened and no action taken are the same, for their cultural, religious, and family values differ across countries and regions. However, underlying these idiosyncratic stories are a set of common factors that characterize not only the Hénokiens but are also common to most if not all long-lived family firms across the world. To structure our work, we have identified five factors:

1. **Leveraging Family Assets:** Family assets are the unique, often intangible contributions that only families can contribute to their firms and that have generated sustainable business value across generations.
2. **Overcoming Roadblocks:** Family firms encounter many obstacles that can arise from internal family dynamics or from external events such as sudden changes in their markets or institutional constraints.
3. **Planning Succession:** The passing of a business from one generation to the next is a crucial moment in time for all families in business. By trial and error over centuries, the Hénokiens have developed many different sustainable succession models that can give inspiration to other family firms across the world.
4. **Professionalization:** The long-term process of moving from a family-managed company to an organization that exploits leadership talent on all levels. In today's business environment, professionalization is a key process in attracting talent from within and outside the family and in growing the business outside the region of origin.
5. **Adaptation and Innovation:** Over centuries of survival, the Hénokiens have developed a deep understanding of the importance of adapting to new challenges. Most firms have survived only because they have been able to adapt and innovate as a reaction to market changes and as a means to exploit new opportunities.

Each member of the Hénokiens could exemplify all or most of the above five factors during its long business and family history. In this note, we selected a structure that would allow the

reader to grasp the essentials of where these firms are at today and where they are going in the future. Hence, each of the profiles below were arranged according to only one of the above factors. Obviously, this gives only a snapshot of one or a few moments in time. We encourage readers who want more detailed information to refer to the two collections of cases that have been published by INSEAD<sup>3</sup> or to the 14 full-length case studies published by the Hénokiens Association.

## Theme 1: Leveraging Family Assets

Long-lived family firms have strong family assets, the often intangible resources families deliver to their firms. Family assets take many different forms, such as the family's name, reputation, history, mission, or unique business philosophy; the values that drive their business dealings; and the rich network of business and political ties developed over multiple generations. A key feature of sustainable and successful family firms is that family assets are recognized and leveraged to create long-lasting business value.

These unique assets enhance the identity of their firms in the eyes of next-generation members who may be interested in joining the business. The assets also strengthen the firm's competitive advantages, adding more weight to the brand image. Other stakeholders, including non-family professionals, may as a result be more motivated by the notion of working for a family firm with a strong sense of identity and tradition.

Business families also have strong values that are inculcated in family members from an early age and which can penetrate deeply into the family and business ethos, enabling them to persist for generations. Value-based leadership can offer unique competitive advantages for family businesses, the proud flags that customers, employees, and stakeholders identify with.

Over time, family assets can diminish in their contribution to current and future business value. They often become a legacy that is part of the family history but not a key value driver in the future. As striking as they appear to be, family assets must be continuously nurtured, redefined, and enhanced so that they permeate the firm's strategy and vision. Exploiting family assets in current and future business strategies is challenging and includes:

- Identifying the core family assets and how these can be exploited in the current business environment;
- Understanding the extent to which they are transferable to the next generation, to outside managers, or to new owners; and
- Organizing the leadership and management of the firm in such a way that family assets add value to the current and future business strategy.

For most Hénokiens, it is the intangible contributions from the families to their firms that make them stand apart from the competition—for instance, by adding the family's name and

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3 <https://cases.insead.edu/publishing/case?code=35326>, accessed 25 February 2019.

legacy to the products the company makes and sells. Family assets are the glue that connect business families with their firm and their stakeholders.

The following examples show how Hénokiens have used their family assets to create value.

1. **Hoshi Ryokan** celebrated its 1,300-year anniversary in September 2018, which makes it the oldest independent family business in the world today. The legacy and the history of the Hoshi family are the strongest family assets any hotel could wish for. Imagine booking a room in the world's oldest hotel, taking a bath, and going to sleep in surroundings that have catered to travellers for 1,300 years. A tribute to longevity in a business family, the Hoshi Ryokan has been operated by the same line of descendants for 46 generations. When the first Zengoro Hoshi founded the hotel, he handed down a unique naming convention that has been followed ever since. The man who inherits the hotel takes on the same name as the founder, Zengoro Hoshi. In "normal" conditions, the first-born son of any current Zengoro becomes the first in line to assume ownership of the <sup>4</sup>Hoshi Ryokan. However, over time there have been generations in which there was no son. Then ownership and management responsibilities typically went to sons-in-law or even to adopted sons in generations without any offspring. If a son-in-law or adopted son was offered the hotel, this person then adopted the Hoshi name too. The current Zengoro and his wife suffered a loss when their eldest son passed away in 2013, and this could bring about a re-examination of the patriarchal rules of succession as one of their daughters is in line to be the first female Hoshi to own and manage the hotel.



2. **Amarelli**, a maker of liquorice candies in Calabria, Italy, since 1731, embedded regional- and cultural-based family assets into its business strategy in the early 1970s, a move that solidified the fortunes of the family firm. Where the root of liquorice has always grown, Calabria boasts a rich cultural, historical, and artistic heritage contained within a long and narrow peninsula that forms the toe of the boot of Italy. Pina Amarelli, the president, decided in the 1970s to decorate small tin boxes with 19th-century photos of the Amarelli liquorice-making plant in Calabria. It was a huge success. This turned out to be an effective marketing and communication tool that differentiated the company from its competitors. The images showed a cross-section of Calabrian culture through representations of its landscape and illustrations of everyday life with children cheerfully eating liquorice. Following on from this success, Pina decided to open a family museum in 2001 which brought together a rich mosaic of historical artefacts under one roof. Since then the museum has been managed by the family and



4 Pictures were provided by the Hénokiens, unless otherwise stated.

exploited as a key strategic business asset. By focusing on the family's cultural assets, Amarelli has attracted the interest of big department stores and succeeded in becoming one of the most competitive sweets companies at the national and international level.

- Akafuku** has been owned by the Hamada family since its establishment in the Mie prefecture in 1707. The family assets that have created most value for the company are its two intangible networks, royal connections that go back a century and religious followings enshrined in its origins. Three centuries ago the founder had the idea of selling nutritious rice cakes to famished pilgrims at the historic Ise Grand Shrine. When the pilgrims spread the news about the extra burst of strength that the Akafuku-mochi cakes imparted to them at that critical juncture in their pilgrimage, a business was born. The founder rode on the back of this invaluable word-of-mouth exposure to expand his distribution network over much of the Mie region. About 200 years later, in 1911, then-current family leader Tanesuke Hamada received an order from the Empress of Japan. As it was the first order from a member of the Japanese royal family, one can imagine the excitement in the Hamada household. After Tanesuke personally delivered the sweets to her royal residence, the Empress was so delighted that she became a regular customer. Ever since then, the Hamada family celebrates annually the day that Tanesuke first sent Akafuku-mochi cakes to the Empress. It is stories like this that are woven into the fabric of this long-lasting firm, adding not just colour but a strong competitive advantage over its rivals.



- Fratelli Piacenza**, a 285-year-old textile producer in the Biella region of Italy, used its artisanal-based family assets to become a purveyor of fine womenswear to the luxury market. In the 2000s, the family-owned textile producer faced a life-or-death moment.



Cheap clothing from abroad was being dumped on every country in Europe, wiping out thousands of jobs and businesses, especially in Italy. At that time, eighth-generation family leader Carlo Piacenza decided to focus on the haute-couture houses of Paris, Milan, and London. The creative designers making clothes for discerning clients prized the quality of the fabrics produced by Piacenza tailors and admired the responsiveness of the firm's supply chain. By exploiting the history and name of the family-owned business, Carlo Piacenza was able to pivot his firm towards the luxury end of the fashion industry. He realized that luxury would be the segment where his family firm could prosper, since in an age of fast fashion, elite designers want the assurance of quality and authenticity that Fratelli Piacenza can provide.

5. Founded in 1672, **C. Hoare & Co.** is the oldest private bank in the UK. The bank's key family asset is building resilient business relationships with its stakeholders based on trustworthiness. Currently, 11th-generation family leader Alexander S. Hoare is one of the bank's eight partners, as well as a director and member of its risk and compliance committee. Alexander, a former INSEAD participant in an Advanced Management and Banking course, said the ambition of the Hoare family has always been to carry on doing what it does best, which is to behave like ordinary employees in all areas of the bank, including credit, finance, and investment. At any given point in time, about 12 family members ranging in age from 20 to 80 years old are employed in various positions by the bank. At different times, Hoare family members may act as employees, directors, or owners, reaching out to build trust with fellow employees and customers in today's uncertain business environment. Since only a few family members can be promoted to the level of the boardroom, the remaining members work in the bank side by side with their fellow colleagues. Having provided banking services to many of its customers for centuries, the family has never felt the need to advertise for more clients. Nevertheless, the bank's customer base has broadened over time, ranging from owners of landed estates to entrepreneurs and professional individuals, partnerships, owner-managed businesses, family offices, and charities. With such a wide variety of customers, C. Hoare & Co. has developed a range of services that have evolved to keep up with changing needs: loans, foreign exchange and treasury services, wealth management, financial planning, investments, tax services, and trust administration.



6. **Yamasa**, the second largest soy sauce manufacturer in Japan, is differentiated by its values-based leadership, which is the most significant asset that the Hamaguchi family have contributed to the firm. Under seventh-generation president Goryou Hamaguchi (1820-1893), the soy sauce maker developed a four-point code of conduct reflecting the *esprit de famille* of its founder. Determined to create an inclusive working environment, Goryou pursued social welfare programmes in his community and raised the level of political discourse to the extent that his altruistic activities are recognized as having left a significant footprint on the development of modern Japan. Inspired by the code of conduct, every single employee of Yamasa is motivated to act as a good corporate citizen. Once the organization was equipped with a values-based leadership, its overall performance improved dramatically, setting an example for many other organizations in Japan. In sum, Yamasa is an excellent example of how values-based leadership can create, renew, and expand business value.



7. **Nakagawa Masashichi Shoten**, a company that sells hand-made crafts for the home, is a Japanese member of the Hénokiens that recently celebrated its 300th anniversary. Its unique family assets rest on the values-based leadership provided to the firm by its 43-year-old leader, Jun Nakagawa. Through his published writings and video appearances as seen on Japanese TV, the young family heir embarked on a multifaceted campaign to educate his stakeholders not to underestimate the true value of artisanal crafts and likewise not to overestimate the seductive power of global brands. In addition to this values-based asset, Jun Nakagawa has developed a key family asset based on patronage networks. To reignite consumer interest in his company's handicrafts, he transformed the business from a wholesaler into a specialty store retailer of private label apparel. By creating a patronage network of branded retail outlets, he can better present his own products and those of other craftspeople to new markets, thus breaking the firm's dependence on the wholesale market.



8. The Nardini name is the most significant family asset for **Ditta Bortolo Nardini**, a family-run distillery established in Bassano del Grappa, Italy, in 1777. Its name has come to be associated with grappa, liqueurs, and spirits of the finest quality. In addition, the Nardini name rings of fine art, high culture, engineering, and design as the family has sponsored artisans in their native country for generations. The current owner-managers have even installed a set of futuristic, elliptical *Bolle* (giant glass bubbles) within the grounds of their new distillery, next to the Nardini Auditorium and Research Centre. These exceptional works of art were conceived and built by the famous Italian architect Massimiliano Fuksas.



9. The most powerful family asset for **A.E. Köchert**, a family-owned jewellery company located in the heart of Vienna, is its historic legacy intertwined with its long-standing relationships with an elite clientele. In 1855, Alexander Emmanuel Köchert, the co-founder's son, took over the firm as its sole owner and set out to build a royal (and loyal) network by creating jewellery for the Austrian monarchy. He designed a set of 27 diamond stars for the Austrian empress, which she braided into her hair, a creation that attracted worldwide fame for the firm. With the founding of new monarchies in Eastern Europe, the Köchert family began to attract more royal customers, such as the Bulgarian aristocrats who started to place orders for their crown jewels. By 1910, the family-run firm employed 50 goldsmiths working in the same workshop, which became a veritable pole of creativity.



## Theme 2: Overcoming Roadblocks

All entrepreneurs hit roadblocks along the way to building a business, but family business owners face additional challenges in combining business and family across generations. Categorized according to their origins, roadblocks stem from two main sources, those that are internally driven and those arising from external events. For long-lived family businesses, internal roadblocks often arise from the complexities of having multigenerational family members holding positions and owning shares in the firm.

External roadblocks are those imposed upon owner-managers by unexpected changes in their business environment. Loyal to their products, places, and employees, family firms may not react fast enough to industry disruptions. Rightly or wrongly, family firms are also reputed to have a narrower approach to career advancement than non-family companies, to the consternation of ambitious outsiders who may be concerned about hitting glass ceilings through which only family members can pass. In addition, it is believed that business families will rely less on external capital for funding, preferring to keep tight control over spending and thus making it difficult for new investors or demanding banks to have a claim on them. In the face of these roadblocks, family firms need to come up with new approaches to overcome them.

Having centuries of experience, the Hénokiens know that roadblocks left unattended can destroy corporations and families. Many family firms have disappeared because they have ignored obstacles or have postponed doing anything about them until it is too late.

Bicentenary family firms have faced a much greater number and variety of roadblocks than their younger counterparts. One only has to recall the adverse macroeconomic events in the past two centuries, from trade wars to world wars, from plant fires to natural disasters. Some Hénokiens in Europe and Japan have even witnessed first-hand the horrors of wartime bombing on their production facilities, which had to shut down temporarily or were destroyed. Some have had to move into new industries and markets to survive. The Hénokiens either overcame these roadblocks or cleverly steered around them. And they have done so repeatedly in different eras and situations. Their struggle against the odds is what makes their stories so fascinating.

To ensure the sustainability of their firms, long-lived family enterprises design governance processes and build family structures that reduce the potential costs of roadblocks or eliminate them altogether. These structures are designed to fulfil at least four objectives: (1) build sustainable family governance procedures for growing families, (2) institutionalize communication among family members, (3) strengthen corporate governance institutions, and (4) implement a clear definition of the role of each family member involved in the firm.

The following examples show how some Hénokiens have overcome roadblocks to survive.

10. **Van Eeghen & Co B.V.** provides an excellent example of a trading company that overcame institutional roadblocks by adapting its business strategy to survive. Under the Napoleonic regime, trade on the continent was heavily curtailed by harbour blockades. In addition, the Dutch Batavian Revolution blocked normal trading routes on Van Eeghen's domestic front. Van Eeghen managed to maintain its trading and shipping interests under neutral flags, thereby misleading Napoleonic authorities. In 1776, Van Eeghen recognized that the United States, having achieved independence from the British Crown, offered greater market opportunities for its trade and shipping interests. Van Eeghen had already developed trade relations with the former colony of Virginia in tobacco and cotton, but the American Revolution could not have come at a more propitious time since the firm's trading activities with its traditional partners in Europe were going into decline. Adopting a hedging strategy on the other side of the Atlantic, Van Eeghen began to buy up large tracts of land in the states of New York and Pennsylvania during the last quarter of the 18th century and first half of the 19th century. By adapting its operations to the new conditions, Van Eeghen took advantage of new opportunities, including the launch of its banking operations. In this period, the company started to trade US government bonds on the Amsterdam financial market. Proceeds thereof accelerated the purchase of more property through the Holland Land Company, founded in cooperation with five befriended merchant families in Amsterdam.



11. Established in 1613, **Mellerio dits Meller** is today one of the last remaining family-owned jewellers and goldsmiths in Paris, where it has a shop near Place Vendôme. During the Reign of Terror following the French Revolution of 1789, the firm faced a serious institutional roadblock which could have gone badly wrong were it not for the quick thinking of owner-manager François Mellerio. After one of his favourite clients, Marie Antoinette, was put under house arrest in 1789, he decided to flee Paris and join the French Revolutionary volunteers as a precaution. Having fought bravely at the Battle of Jemappes in November 1792, he soon tired of soldiering and moved to his mother's home in Italy. There he went to work for a famous jeweller in Milan named Manini. In 1804, when calm returned to the French capital, François Mellerio returned to Paris, where he began to cultivate a new clientele, the wives of Napoleon's generals. Through word of mouth, the Empress Joséphine, the first wife of Napoleon, expressed an interest in acquiring some of his fine jewellery pieces and did so on numerous occasions.



12. **Etablissements Peugeot Frères** was founded by the Peugeot family in 1810 as an industrial company at the forefront of the Industrial Revolution. The family eventually established an automobile factory in 1896 and called it Peugeot (now known as PSA Peugeot Citroën Group). Like most automakers, PSA was badly hit by a major institutional roadblock, the 2008–09 global financial crisis. For PSA, it was one of the most difficult periods in its history, since it was overly dependent on its European markets for growth. PSA's profit margins were squeezed as sales went down while labour costs stayed firm. In 2012, the company reported a €5 billion loss and announced the closure of one of its largest production facilities, in Aulnay, near Paris, with the loss of 8,000 jobs. In 2014, the eighth-generation Peugeot family leaders ran out of patience with owning a business that reported negative cash flows. The family decided to accept a capital infusion of €3 billion to save their company from complete destruction or from becoming a target for an outside predator. However, the terms of the 2014 deal required that the family cede majority ownership and share the ownership equally with two partners, the French state and the Chinese state, represented by a long-time distribution partner, Dongfeng Motor. In reducing its controlling interest, the family opened the ownership structure to the two new stakeholders, placing them on an equal footing with the family, with all three having equal stakes in PSA of about 14%. They chose as CEO an outsider, Carlos Taveres, who has since turned the company around. In addition to its stake in PSA, the Peugeot family group controls a listed company called FFP. FFP has a diversified portfolio, primarily consisting of significant minority holdings with a long-term shareholding approach; its portfolio also includes private equity and real estate.



13. **D'leteren** was founded by Joseph-Jean D'leteren as a manufacturer of coaches and wagon wheels in Brussels in 1805. Today the family business operates in two related but independent segments: (1) an auto distribution division where it represents Volkswagen exclusively in Belgium along with other car brands, and (2) an auto-glass division through its 54.85% stake in Belron, which operates 15 brands including Carglass, Autoglass, and Safelite. In 2015, D'leteren faced a major institutional roadblock in its auto distribution division because of the fallout from the VW emissions scandal. Its customers thought that the resale value of their VWs would collapse. To counter the negative reaction from "Dieselgate," the D'leteren family developed a proactive marketing plan to reassure its customers about the safety of their VW vehicles in Europe. In so doing, the company overcame the roadblock and even managed to increase revenues in 2017 by 9.1% compared to the year before.



14. Founded in the small town of Conegliano, Italy, in 1775, **Garbellotto** is the oldest and most famous Italian manufacturer of wood barrels for the wine and spirits industry. It is the world's leader in the production of large barrels over 1,000 litres. During WW2, the family watched helplessly as bombs fell from the sky onto their cask-making facilities as they faced one of the worst institutional roadblocks imaginable, nations going to war. Suddenly a next gen emerged from the wreckage who would overcome this obstacle and many others that came his way. Pietro Garbellotto, who would run the firm from 1946 to 2006, developed a business strategy based on innovation in the art of barrel making. By reacting quickly, he was able to take advantage of the post-war recovery and build a prosperous future. In 2010, Garbellotto was awarded certification by Guinness World Records for the biggest wine cask ever made, the *Magnifica*. In 2013, the company surpassed this record with an even bigger cask called *Romeo and Juliet*.



15. The **Pictet Group** has been an assets and wealth manager since 1805. In 2013, it faced a major institutional roadblock, a change in the laws governing banking in Switzerland. To conform to new regulations, Pictet & Cie, which had always been a partnership, became a limited company called Banque Pictet & Cie SA at the beginning of 2014. By responding quickly to this roadblock, Pictet was able to reinvent itself as a major international player. While other competitors have been downsizing, Pictet has received approval from the partners to hire 300 more people in 2019, adding to its existing global headcount of 4,500. Nicolas Pictet, the senior partner at Pictet, said, "Profitability and size is not the focus. We want to deliver value and do good for our clients."



16. Founded by Johann Diederich Neuhaus in 1745, **J.D. Neuhaus** (JDN) produces pneumatically and hydraulically operated hoists and crane systems. It came up against a market-related roadblock in the 1980s when conditions in its domestic market suddenly changed. At that time, JDN derived 95% of its revenues from its domestic market. However, the domestic market was shrinking so fast that the firm was forced to adopt a global strategy to keep pace with its competitors. In making this transition, JDN decided to become one of the German export champions. Becoming the established global leader in its technology field, JDN now derives more than 80% of its sales from export-led growth. However, JDN has not forgotten its roots. It opened a Hoist Museum in its hometown of Witten which is probably the only one of its kind in the world, detailing the evolution from the simple lever to the modern hoist. JDN now employs 175 people at its headquarters in Witten-Heven, Germany, and another 75 staff at its global offices.

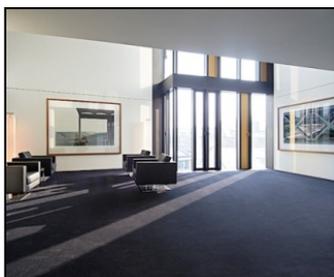


17. Founded in 1600, **Toraya**, a maker of Japanese sweets called *wagashi*, hit a market roadblock in its foreign markets in the 1980s when it tried to expand into France and the United States. A long-time purveyor of the confectionery to the Japanese Imperial Court, the 16th-generation owner, Mitsutomo Kurokawa, discovered to his dismay that the flavour of *wagashi* was not to the liking of westerners, who apparently found the taste too sugary. The Kurokawa family overcame this market roadblock by developing an entirely new recipe for making *wagashi*, using ingredients such as chocolate and fruits. While this development came too late for the Toraya shop in New York, which closed in 2003, the Toraya boutique in Paris (1st arrondissement) will celebrate its 40th anniversary in 2020.

18. **MöllerGroup**, founded in 1730, is today a global auto supplier with 1,800 employees. It faced a major market roadblock in the 1970s when it was one of the largest producers of V-belts for power transmission in vehicles. However, in this period, V-belt production was slowly turning into a commodity-type business driven by high volumes and low margins, a pattern that disturbed the seventh-generation leader, Peter von Möller. In 1982, he decided to exit the V-belt business before conditions got worse. At the time of the sale of the V-belt business, it was still turning over €10 million in sales. By getting out early, he was able to make a handy profit and, with the proceeds from the sale, to strengthen and enlarge the firm's competitive advantages as a supplier of more profitable components to automakers.



19. **Anker Teppichboden**, a German maker of carpets based in Düren, is part of the Schoeller Group of family companies. Founded in 1733, Anker Teppichboden turned to the production of specialized carpets for aviation applications and has now acquired an international reputation in this field. Recently, the family and firm faced a family-related roadblock when sixth-generation leader Markus Schoeller, who had



been heading Anker since 2000, died suddenly in 2016 at the age of 55. His brother Aurel Schoeller, chairman of a Cologne-based healthcare firm, immediately stepped forward to assume the family's role of providing leadership to Anker Teppichboden. Fortunately, the professional executives running Anker were able to take over the day-to-day management of the firm. Anker Teppichboden is an example of how health shocks can impact family businesses without any warning, leaving a sudden vacuum in leadership. In this case, the family leader had undertaken a process of professionalization that ensured the future of the company while also providing a good contingency plan for difficult circumstances.

### Theme 3: Planning Succession

The third key element of survival for the long-lived family firms is succession, the process of transferring ownership and leadership across generations. By definition, the Hénokiens are experts at family succession since transition planning is felt in their bones. Indeed, succession is a continuous process that never stops because no family leader wants to be remembered as the last one to have turned out the lights on the business, the person that sold or closed the company. Hence, succession planning is crucial.

Traditionally, most Hénokiens favoured a strict primogeniture succession model where the firm and family leadership were transferred from fathers to sons. Over time other succession models have proved valuable: more female leaders have been taking up the reins of power and more professional managers are running the firms.

Today, the Hénokiens employ several types of succession models. Some Japanese members, for example, still traditionally apply a strict patriarchal model, in which a father passes the business down to his eldest son. Others have carefully groomed and selected the best and most talented family member within the next generation. Some firms build rules and practices that focus entirely on recruiting talented leaders, including non-family CEOs.



From left to right: Julian von Möller, Jean-Philippe Thiercelin, David Hottinguer, Cyrille Viellard, Jeroen van Eeghen, Emilie Mellerio, Christian Hugel, Amaury Passot, David Thiercelin, Olivier Passot, Remy de Kuyper (photo taken in Amsterdam, 2015)

*The photo above shows 11 next-generation family members of the Hénokiens.*

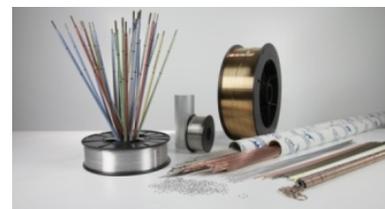
In our research, we have identified four key challenges, the responses to which are crucial in making a successful transition:

- Planning the most appropriate succession model specific to the cultural and institutional environment of the firm, the family, and the country;
- Transferring intangible family assets across generations. Whether the assets are in the form of the firm's heritage, powerful business networks, or core values, the key is to find common ground between the generations;
- Encouraging the next generation to develop a measurable CV. Both old and young family members need to appreciate the value of having a formal business education such as an MBA and of obtaining solid management experience outside the family firm; and
- Designing changes to business strategy, organizational structure, and governance in line with the transition from one generation to the next.

Experienced in succession, the Hénokiens understand these four challenges and have developed succession models that provide solutions to them. Thus, studying the Hénokiens yields a rich set of succession models, each of them durable for the long term and applicable in the specific world of family business.

In the examples below, the Hénokiens share their stories of succession as a blueprint for other family firms to adopt or at least to use as a reference:

**20. Viellard Migeon & CIE (VMC)** was founded in 1796 in the small town of Morvillars, France, close to the Swiss and German borders. Having developed an expertise in metallurgy, the Viellard family is the market leader in fasteners for automotive, aerospace, and medical industries based in Belfort, France. With sales of €1.6 billion in 2017, the VMC's LISI Group employs 12,000 people in 47 facilities across 13 countries. The family also owns a fishing tackle business that was called VMC Peche until it merged with a Finnish company called Rapala. After the merger, the company became known as Rapala VMC and now sells fishing lures, treble hooks, and fishing-related knives and tools. Its main manufacturing sites are located in Finland, France, Estonia, Russia, China, Indonesia, and the UK. A ninth-generation family business, VMC is owned by a core group of family members. The challenge of succession has been "pruning" the family tree, no easy job since about 1,500 members of the family are still alive and well. Of these, only about 160 members are active shareholders. To maintain family unity, the Viellard family created an innovative system of governance so that all the active family members can feel involved. Of the 160 members, the family leaders have pruned the tree down to a core group of 60 family shareholders who own the majority of shares. Most of the other 100 active family members own small amounts of shares in the family business.



21. The origins of the Schwarze family in Westphalia can be traced back to the 17th century, when the founder opened a small distillery in Westkirchen in 1664. Today **Friedr. Schwarze GmbH & Co. KG** is an internationally successful firm with a portfolio of more than 60 different spirits and liquors. The company recently went through an orderly succession process. The 12th-generation leader Friedrich Schwarze was succeeded by his daughter Katharina Schwarze, a handover that was approved by the company shareholders and the family members in a unanimous vote. Said Friedrich Schwarze, “The challenge for Katharina, the firm, and the shareholders is the integration of the family’s new CEO in order to take the company forward. The lessons that other family firms can learn from this succession is that the procedures were transparent and the vote unanimous. This was a very strong mandate.” Friedrich Schwarze continues to organize family meetings so that the next gens can learn about the drinks business and be prepared for their future role as responsible family shareholders.



22. Winemakers **Hugel & fils**, founded in 1639, own 75 acres of vineyards that overlook the walled medieval town of Riquewihr in the Alsace region of France. Producing only the finest, most complex regional wines, such as Pinot Blanc, Pinot Gris, Pinot Noir, Riesling, Gewürztraminer, and Muscat, the Hugel family sell 850 000 bottles of wine per year, of which more than 90% is exported. The Hugel family have always taken measures to keep family unity and avoid succession issues. Currently, the Hugel vineyard is in the hands of the 12th and 13th generations, Marc and his two nephews Marc-André and Jean-Frédéric, with a full family ownership. As the business is being transferred to their descendants in the 13th generation, they have decided to set aside reserves to pay the inheritance taxes that will certainly come due. As a result, the new generation will be able to avoid having to sell off part of their shares to pay the inheritance taxes when the business is finally transferred. Every major decision of ownership is always made in the best interest of the generation to come and often the one after.



23. **Pollet SA**, which celebrated its 250th anniversary in 2013, is a Belgian firm offering hygiene and cleaning products to business clients worldwide. Its current CEO is the ninth-generation family leader, Jean-Nicolas D’Hondt. Before taking over the top job in 2012, the 38-year-old heir faced a major succession challenge—whether he was motivated to take over the family firm. An MBA graduate from a top school, Jean-Nicolas D’Hondt was employed at one of the world’s largest food retail groups and had been moving quickly up the career ladder, having reached the position of director of retail improvement. He had many sleepless nights debating over the merits of succession, since his family firm was much smaller than his current employer. In addition, two non-family CEOs in succession had been running Pollet for the previous 30 years, although his father still owned all the shares. In the end, Jean-Nicolas

overcame his initial resistance to the idea, quit his job, and joined the family business. Since becoming CEO, he has never regretted his decision and in fact plans to transfer the firm to a 10<sup>th</sup>-generation family member upon his retirement.

## Theme 4: Professionalization

Embarking on a journey of professionalization is often crucial for the survival and prosperity of business families and their firms. Without professionalization, current owner-managers put at risk the ability to transfer their legitimacy to the next generation in the eyes of their stakeholders. During the professionalization process, family leaders are challenged to develop a new organizational culture that exploits talent for a common goal. In addition, family businesses which are good at convincing next gens to join the ranks often manage them as professional non-family firms would.

Many owner-managers start the process of professionalization with the burning desire to release some of their responsibilities to deal with big-picture leadership. In most family firms with few formal procedures or defined structures, owner-managers often end up spending all their time addressing the day-to-day hurdles. In so doing, they are forced to postpone making decisions that affect the future of the firm, including adopting new business strategies, starting new investment projects, making long-term plans, restructuring capital assets, conquering new markets, and relocating production to other regions.

Family firms often embark on a professionalization process during the transition from an older generation to a younger one. Millennials want more structure and are often inspired by experience outside the family firm either as participants in business schools or as managers in non-family companies. They want to build professional empowered organizations where leadership is shared among a group of people, where authority is delegated throughout the organization, and where relevant incentive systems are implemented for all employees. They also expect board members to be competent, proactive, interested in sustainability, and able to challenge the leadership group.

The typical elements of a professionalization process are the following:

- Establishing a formalized dialogue between generations;
- Restructuring leadership with a two-pronged approach:
  - having family leaders take less of an operational role and more of a strategic role, and
  - finding the right roles and jobs for interested and capable family members;
- Hiring and empowering non-family managers to make decisions and take responsibility without interference from founders and family members; and
- Clarifying the role, structure, and composition of the board.

Professionalization has had a major impact on several Hénokiens, as illustrated by the following examples:

24. **De Kuyper Royal Distillers** was established in 1695 as a maker of barrels for the transport of spirits and beers. Within seven years, the de Kuyper family bought its first distillery and became a leading producer of Geneva gin, the company's traditional signature product. Today, De Kuyper is a leader in the highly lucrative cocktail business. The de Kuyper family recently



went through a succession following the retirement of 10th-generation family leader Bob de Kuyper in late 2009. During his tenure, the board had implemented its first formal framework for succession with the following criteria for family involvement within the firm: (1) minimum university-level degree; (2) possession of all other appropriate qualifications for the position; (3) relevant work experience in related industries with successful outcomes; (4) availability of an open position within the firm; 5) willingness to undergo an array of capabilities testing by an outside agency; (5) approval by the supervisory board. Having communicated these rules to the family, the supervisory board recognized that several bright next gens of the de Kuyper family were rising through the company ranks and would eventually be considered for the top job, but at that time none of them were deemed qualified enough to take on the role. Thus, following Bob's departure, the supervisory board hired the firm's first non-family professional CEO. Six years later, in September 2015, the supervisory board replaced that CEO with yet another non-family outsider who also had experience running a drinks company.

25. **Banque Hottinguer** is an excellent example of the powerful role professionalization can play in the success of family businesses. In 1989, Jean-Philippe Hottinguer hired several non-family professionals to lead the private investment firm forward. One of these hires was Pierre de Bousingen. Since then, Pierre has risen up the career ladder to become the current CEO of the firm. In fact, the cadre of professional managers has grown over the years and now owns about 25% of the shares in the privately-owned company. According to the rules of the bank, professional managers can only sell their shares to existing shareholders at market value as these are not publicly traded shares.



26. **Yamamotoyama**, established in 1690, has long been a recognized leader of green tea and nori seaweed production in its home country of Japan. In the 1960s, the current chairman and former CEO of Yamamotoyama, Kahei 9, decided that global expansion was crucial for long-term growth as the firm's tea and nori seaweed business had already come to dominate the domestic market in Japan. A world traveller, in 1979, Kahei 9 discovered an ideal place to build his new tea plantation, with the right weather and soil conditions, in the state of São Paulo, Brazil. Once the tea shrubs were planted in Brazil, he set up an office in Los Angeles to build the distribution side



of the business in North America and globally. In so doing, he hired professional managers with local knowledge to run the business, an example of how professionalization has been undertaken successfully by family-run businesses that have expanded globally. Kahei 10 has taken over the top job from his father. Meanwhile, Kahei 10's daughter, 11th-generation Nami Yamamoto, has taken over the management of the American subsidiary as its CEO.

27. Founded in 1678, **Guerrieri Rizzardi** is a historic wine-growing family firm in the Veneto region of Italy. The family owns vineyards in the four Classico areas for the production



of the Veronese wines of Bardolino, Valpolicella, Soave, and Valdadige. Agostino Rizzardi, the current eighth-generation leader, wanted to empower the professional management ranks of the family business in 2013. In consultation with his sister Olimpia, involved on the marketing side, the CEO decided to hire a non-family executive for the key role of international sales and marketing

manager. The result has been positive, and Daniel Stewart, the outsider, has done a good job in promoting the firm and building brand awareness. Although it took time for the external manager to understand how to make beneficial changes while still respecting the ethos and traditions of the 341-year-old family firm, Daniel's education in the humanities and his experience in the imported wine business made the inboarding process a little smoother. As part of his job responsibilities, Daniel travels extensively to meet existing and prospective clients in Europe, North America, and as far away as Korea and Japan. Although the firm's e-commerce platform has been tested on the open market with mixed results, Daniel is considering relaunching it but only to a limited clientele of the firm's loyal customers. He is also engaged in cross-marketing opportunities whereby the Veneto wines are marketed to communities of connoisseurs that share the same tastes. For example, Daniel believes that Guerrieri Rizzardi wines would make an excellent partner for gatherings of vintage car owners since they are more likely to appreciate the values and traditions of the centuries-old winery.

28. **Jean Roze**, a French producer of fine silks founded in Tours in 1660, took the exceptional step of taking professionalization to a higher level in 2018. Antoinette

Roze, the 12th-generation family leader, conducted a two-year search for a professional business executive who could take over as CEO and thus complement her technical and operational skills. She invited the non-family professional to develop the commercial side of the business so that she could focus on the transmission of her technical skills to a non-family operations manager. As part of the arrangement, Antoinette sold 100% of the company shares to the new



CEO in return for a pledge that in five years' time she would have the option to buy the

shares back. The background to this sale was that, having no children of her own, she wanted to transmit her passion for the family business to her two nephews, but these twin brothers are currently students in secondary school. She hopes that one of them will take over the firm upon graduation from university in five years' time. If this were to happen, Antoinette would repurchase the business back from the CEO, who like her wants Jean Roze to remain as a family business. With their complementary leadership roles, the firm is expected to be in a much better financial position than it is today, since revenues are expected to grow much faster over the next five-year period.

## Theme 5: Adaptation, Innovation, and the Leonardo da Vinci Prize

When confronted with roadblocks, the Hénokiens have demonstrated an uncanny ability to adapt their existing business models and undertake radical innovations. Indeed, each generation of the Hénokiens has had to fine-tune better productive methods and new organizational structures to leap through critical historical junctures intact and transfer their legacy to future generations.

The balance between legacy and adaptability is one of the most fascinating aspects of long-lived family firms. On one hand, the Hénokiens embrace their legacies, those magic stories based on their roots in the local communities, since they are the key drivers of their business engagement. On the other hand, the Hénokiens have survived only because each generation has adapted to an environment that changes with ever-increasing speed. Each family leader has had to develop unique ways to find a balance between legacy and adaptability to continue the history of the firm and the family. If a legacy is lost in transition, family leaders risk losing their identity and most likely will exit the firm. Likewise, if they do not adapt and come up with new ideas, their companies could soon become obsolescent and be forced out of business.

Thus, all the family leaders in the Hénokiens face the same challenges as other entrepreneurs face, to produce and sell goods and services in a world becoming more and more competitive. While they can look back at previous family leaders for practical guidance and inspiration, it is still up to the new generation of family leaders to reinvent their business models to be able to deliver a healthy, financially sound business to the next generation.



In adapting their business models to the ever-changing global economy, the Hénokiens also recognize the inspiration they get from other (typically younger) family firms. To reward these like-minded enterprises, the Hénokiens, in conjunction with the Château du Clos Lucé—Parc Leonardo da Vinci, created the Leonardo da Vinci Prize in 2011 (see photo of the trophy). Inspired by one of the greatest innovators of all time, the Leonardo da Vinci Prize is awarded annually to an international family

business in its third or fourth generation for its outstanding ability to pass on such a legacy to future generations.

To be considered for the prize, family businesses must have revenues exceeding €3 million and have been in existence for at least two generations. In addition, owners-managers must be the majority shareholders individually or with members of their family. Applicants are assessed under the following criteria: (1) family ethics as seen through the values and exemplary nature of the founder, (2) family charter, (3) corporate culture, (4) ability to adapt to market forces, (5) commitment to society, (6) respect for the environment, and (7) provisions made for future generations. Designed by Mellerio dits Meller, the trophy was inspired by Leonardo da Vinci's flying helix and symbolizes the values of excellence, advancement, and vision.

All family firms that survive and prosper for centuries have been able to adapt to an ever-changing world. What follows are a few examples:

29. Established in 1526, **Fabbrica D'Armi Pietro Beretta S.p.A.** is the second-oldest member of the Hénokiens. One of the most well-known names in armaments, Beretta traces its roots back to its enterprising founder, Bartolomeo Beretta (1490-1568), who delivered 185 arquebus barrels to the Republic of Venice. Throughout its 493-year history, each of the 15 successive generations of the Beretta family has worked hard to maintain the company's dual focus on quality and innovation. The company currently invests around €20 million in R&D every year, which is about 3% of its annual turnover. In its manufacture of guns, Beretta combines time-honoured handwork with some of the most advanced computer-assisted manufacturing processes. In April 2016, Beretta opened a state-of-the-art production plant in Tennessee to house its R&D unit and the manufacturing division of Beretta USA, which accounts for 50% of the firm's sales. The plant contains some of the latest robotic technology. As part of its laser-like focus on innovation, Beretta launched an acquisition strategy of innovative companies and recently acquired about 30 companies in the United States and Europe. Its acquisition strategy has enabled Beretta to stretch its brand towards a more complete range of light firearms with varying price points and characteristics. Furthermore, Beretta has diversified its portfolio in the non-firearms sector. A customer who purchases one of its rifles for culling wild boars in France, for example, might also be tempted by a high-quality German night scope made by Steiner, an optical company Beretta acquired in 2008.



30. Founded in 1796, **Lombard Odier** is the oldest private bank in Geneva. From its very beginnings, the bank has embraced innovation and adaptability. Having survived 40 financial crises over the previous 223 years, the seventh-generation family business continues to create fresh and imaginative world perspectives for its clients. Lombard Odier's history is shaped by "rethinkers". In 1841, managing partner Alexandre Lombard urged clients to avoid investing in companies reliant on slave labour in the United States, nearly 20 years before the Civil War brought an end to slavery in the

nation. Today Lombard Odier is preparing for yet another seismic shift in the global economy as it embeds sustainability into its investment processes and decision-making across the group. Lombard Odier's pioneering vision is illustrated by its approach to new technologies. In 1957, the bank was at the forefront of digital transformation, having installed one of the first IBM mainframe computers in Switzerland. It subsequently began to develop its own wealth management technology solutions. In the 1990s, Lombard Odier created a software application that integrated all banking tasks into a single toolkit, including market analysis, portfolio management, and order execution. Combined with the bank's cutting-edge IT architecture, the software quickly proved to be a competitive advantage. To this day, Lombard Odier is the only private bank that shares its IT system with other financial institutions, providing banking infrastructure solutions to more than 200 banks, family offices, and asset managers.

31. **Augustea** has been an innovative player in the shipping sector since 1629, when Pietro Antonio Cafiero, a shipowner in Meta di Sorrento, Italy, established a charitable fund with other local seamen for the release of sailors captured by pirates on the Mediterranean Sea. In 1945, 10th-generation leader Salvatore Cafiero founded Augustea as a commercial enterprise to provide harbour towage services to the fast-growing petrochemical ports of Augusta and Syracuse on the east coast of Sicily. In 1964, Salvatore Cafiero added the deep-sea shipping business to the towing activities and continued to develop both businesses until he died in 1982. The Zagari branch of the family expanded Augustea onto the international stage. An innovative visionary, Raffaele Zagari, CEO since 2010, implemented the expansion and consolidation of the dry bulk business that has led to the incorporation of Augustea Atlantica and its subsidiaries in Argentina, Singapore, London, and Malta as the Augustea Group.



32. **Thiercelin's** heritage dates back to 1776, when an enterprising farmer and his family started growing grapes and other local produce not far from the small town of Pithiviers in Gâtinais, between Paris and Orleans. In 1809, founder Jean Thiercelin decided to move into the city centre of Pithiviers and bought part of the town's gated entrance called Porte d'Orléans. From inside this medieval fortification, he set about creating a business as a cask maker and vinegar producer. The succeeding generations developed the business even further, by processing, trading, and exporting many local products, such as the famous Gâtinais honey, which is considered a specialty in the region because the local bees feed on clover, alfalfa and sainfoin. The family also developed its mainstay saffron production at this time. By the end of the 19th century, Thiercelin was exporting saffron by the tonne to neighbouring countries



in Europe, India, America, North Africa, and the Middle East. Its singularity was to produce only genuine saffron and not allow it to be adulterated. To this end, Lucien Thiercelin set up the first saffron quality control laboratory in France in 1906, with the help of leading scientists who were experts in chemical analysis. In the middle of the 20th century, the family added medicinal plants, vanilla, and seaweeds to its portfolio. Currently eighth-generation family leaders David and Jean-Philippe Thiercelin, in conjunction with their parents, Enriqueta and Jean-Marie, have expanded their operations outside of France. Having more than 100 years of close relationships with Spain, the Thiercelin family decided to make a significant foreign direct investment in 2018 when they set up a large operational unit in Valencia, to be closer to organic raw material sources. Meanwhile, the family holding company, Vara SAS, is still based in France and maintains a boutique in Paris.

33. **Okaya & Co., Ltd.** is a large Japanese trading company engaged in heavy industry and has been led by 13th-generation family owner Tokuichi Okaya since 1990. Tokuichi Okaya has contributed a keen sense of entrepreneurship and business acumen to the firm. Under his innovative leadership, Okaya went public in an initial public offering (IPO) in the first category of the Nagoya Stock Exchange in 1995. Having successfully attracted outside investors, Tokuichi Okaya used the infusion of capital to diversify and expand the business. It is now one of the largest wholesale trading firms in Japan, with a turnover of ¥851.43 billion in fiscal year 2017, based on a headcount of about 5,000 employees. Founded by Sousuke-Muneharu Okaya as an iron shop in Nagoya in 1669, Okaya has grown its vast network of branch trading offices and affiliates all over Japan and across the world. The heir, 14th-generation leader Takehiro Okaya, is expected to take over the firm in a seamless succession after his father retires. Takehiro is currently the managing director of Okaya & Co., Ltd., and a board member of Okaya Estate Co., Ltd.



34. **H. Beligné & Fils**, a distributor of cutlery in France, has the exclusive rights to distribute Victorinox products (the famous family-owned Swiss brand) and many other well-known cutlery brands. Founded more than 400 years ago, Beligné is located in Langres, a small town near Dijon. In 2015, the company set up an online platform to make it easier for business customers to search for and buy products. Currently, 30% of sales are made on the digital platform. In addition, the company's sales representatives are equipped with Apple iPads when they meet with customers. As a result, they can show the clients photos of their portfolio of products and give video demonstrations. Beligné has also created a software programme that gives the sales representatives the full history of their customers, which products they have bought, and which they have not but could do. Based on this customer-centric approach, Beligné's sales people can make timely and appropriate suggestions to their customers. For them, the iPad is more than a cool



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device to write purchase orders for customers but also an analytic instrument that enables them to give solid advice.

35. **Stabilimento Colbachini** was founded in the Veneto region of Italy in 1745 as a maker of bells. While some bell-making operations continue to this day, the Colbachini family



decided to celebrate their cultural and regional roots in this ancient but noble craft by building an impressive bell museum. Meanwhile, under the name of IVG Colbachini, the family diversified beyond bells into the production of tailor-made flexible rubber hoses. Digital innovation is an area in which IVG Colbachini excels,

having created a successful online platform. Employing about 1,000 people, the company has recently restyled their internet platform so that clients can access the catalogue of about 5,000 to 6,000 different types of hoses. An IVG application can also enable users to access technical data sheets for hoses, and by entering a set of parameters, customers can find the right hose for their specific needs.



36. **Catherineau** is a French family firm that specializes in creating exquisite hand-made wood furnishings for the interiors of executive jets and more recently that of luxury yachts. To ensure the precision of each interior fitting,



Marie Catherineau, the head of R&D, comes up with custom-made designs for each furnishing. Once she gets feedback from the customer, the technicians at the Bordeaux-based firm produce the furnishings through a machining process that is done exclusively with digitally controlled manufacturing equipment.

The result is a precise-fitting interior for an extremely confined space that has no room for error. Clients like Air France have been so happy with the result that Catherineau has obtained more contracts from word-of-mouth marketing. The company is now completing interiors for the first Airbus A330-A340 VIP aircraft. Furthermore, the process has led to new contracts with Airbus Helicopters to fit out its line of VIP helicopters.

37. **Vitale Barberis Canonico**, a luxury cloth maker in the Biella region of Northern Italy, has been owned and managed by the Barberis Canonico family since 1663. Having institutionalized innovation in its business strategy, the family recently expanded a second state-of-the-art establishment next to its original factory, taking advantage of highly innovative machinery and technology. Hence, the trio of 13th-generation family leaders can guarantee the firm's customers its maximum respect for the environment and the health of its employees.



By adopting ecologically sustainable methods, the family has developed a strong reputation for innovation in its niche market and has been highly commended for its efforts in this field.

38. Celebrating its 250th anniversary in 2018, **Revol Porcelaine** was established in Drôme,



located in the south-eastern corner of France near a deposit of white kaolin where brothers Joseph-Marie and François Revol first started producing hard-wearing white stoneware. Now run by ninth-generation family leader Olivier Passot, Revol has survived against a veritable onslaught of cheap ceramicware through investing in one innovation process after another. Recently, the company invested €290,000 in an innovative project to recycle leftover kaolin from industrial sludge. Dubbed “Recyclay”, the grey-coloured sets of plates and bowls are sold to eco-friendly hotels and restaurants, which account for 70% of Revol’s annual

revenues of €22 million.

39. Founded by the Okura family in 1637, the Japanese sake brewer **Gekkeikan** has established a well-deserved reputation as a producer of the world’s finest sake. An innovative market leader, Gekkeikan has always turned towards science and technology to improve the quality of its drinks. Gekkeikan has refined sake-brewing techniques to combine culture and tradition with innovation, resulting in a comprehensive line of sakes that are versatile, ideal for food pairing, and adaptable for various consumption methods.



40. **Zaiso Lumber Co. Ltd.** can trace its history to 1690, when a lumber merchant named Zaimokuya-Sobee opened a workshop in Horikawasuji zaimoku-cho. Subsequent owners of the business have always taken the founder’s last name, Sobee. Ryuichiro



Suzuki Sobee XII, the 12th-generation leader of Zaiso, launched a solar power generation business in 2014. As seen in the photo of a facility, the family leader decided to install significant solar power capacity to supplement the plant’s conventional energy sources of

expensive imported fuels. One of the most significant innovations occurred in 1921, when Soichiro Suzuki, the grandfather of today’s current president, decided to vertically integrate the Zaiso value chain upstream by buying out its largest supplier, Dainihon Wood-Preserving Co. (DMB). DMB was listed on the Nagoya Stock Exchange to raise capital, while parent company Zaiso is still privately held by the family. The much larger Group company, DMB, employed 444 people and had a turnover of €200.76 million in 2016, whereas the parent Zaiso had 167 employees and sales of €45.7 million in 2017.

## Conclusion: An Alternative Leadership Model

By sharing these key moments in almost 16,000 years of family business leadership, we hope to inspire other families that run businesses. We have highlighted the competitive advantages of long-standing family firms in an age where heritage is often misunderstood, depth of vision is undervalued, and a moral compass is hard to find.

It is remarkable that the Hénokiens have based their unique business strategies on intangible family assets that have been nurtured over centuries. These assets include the firm's name, reputation, legacy, networks, cultural traditions, and family values. These unique relationship-specific contributions that founders deliver to their firms are capable of attracting new talent, boosting motivation, increasing stakeholder loyalty, and creating business value.

To survive, the Hénokiens have overcome centuries of challenges, both internal and external. Family roadblocks can emerge when extended family members turn against each other and vie for control of the firm or when there is a lack of talent among next-generation family members. External roadblocks are business-related challenges, as for example when a family firm needs to raise capital quickly to catch up to a rival that has already invested heavily in plant and equipment. The Hénokiens have managed to overcome these obstacles through planning, adaptability and – sometimes – through pure luck.

The Hénokiens have also developed orderly models of succession. They have transferred ownership and managerial control of their firms not just once or twice, but many, many times. During every transition, no matter how difficult, their vision has been relentlessly sustained by the successive owner-managers, whether family members alone or aided by professional executives and consultants. From the time a new owner-manager takes up the baton, he or she is thinking about the next person to hand it on to. In this way, these firms outline a blueprint for succession planning for other family-run firms to follow.

Moreover, the effective professionalization of their family firms is yet another competitive advantage of the Hénokiens. To professionalize means evolving from a solo performer into a symphony conductor, whereby owner-managers delegate real decision-making authority to a group of highly capable managers. Behind the scenes, however, family members still own the firm and want a say in its strategic direction. Nevertheless, in conjunction with the board, they understand the difficulty of shifting from a deeply engrained organizational culture to a management-led culture. It can be a complicated process to get right because of the larger emotional issues at stake.

Being able to survive for more than 200 years is a major accomplishment in and of itself. To do so, the Hénokiens have adapted their business models to the changing environment and have invented radically new products and processes. While remaining loyal to their roots and products, values, and communities, Hénokiens have known when to break away from existing niches, products, and services and adapt their old ways of doing business to new and innovative business strategies.

With almost 16,000 years of combined experience, the Hénokiens are icons of business sustainability. Presenting an alternative business model, they are proud of their family traditions, their unique corporate cultures, their commitment to business and society, their ability to adapt to the market and innovate, and their legacy to future generations. Holding their flags high, these long-lived family firms know that theirs is still an ongoing battle to survive, with each step taken today a new vision opens up tomorrow, a new struggle emerges, a new opportunity is held out. No business is secure, and even the Hénokiens, the world's oldest family firms, know that each new generation must prove its worth to sustain the longevity of their firms.

## Acknowledging the Case Writers

Launched in 2013, the Compendium project has enlisted many business case writers who have freely given of their time to write cases about the Hénokiens. We would like to commemorate these exceptional academics who participated in the Compendium project and who remain committed to the Hénokiens and the transmission of their ideals.

**Andrea Calabrò** is the Academic and Managing Director of the IPAG Family Business Institute (IFBI) and Professor of Family Business & Entrepreneurship at IPAG Business School, Nice, France. He is currently Global Academic Director of the STEP (Successful Transgenerational Entrepreneurial Practices) Project. He has published journal articles on family firms, internationalization, and corporate governance in leading international peer-reviewed journals such as *Strategic Management Journal*, *Entrepreneurship Theory & Practice*, *Corporate Governance: An International Review*, *Harvard Business Review (Case Study Collection)*, *Journal of Business Research*, *Journal of Business Ethics*, *International Journal of Management Reviews*, *Family Business Review*, *International Business Review*, *Journal of Small Business Management*, and *Journal of Family Business Strategy*. Said Andrea of his work investigating the Hénokiens and, more specifically, the Friedr. Schwarze GmbH & Co. KG, “[This] has given me the possibility to dive into [Schwarz’s] family and business features and dynamics to disentangle the ingredients and the formula which have made it possible for this family firm to survive across time and generations. Developing family governance structures and mechanisms will help this family firm to find the balance of interests and goals of the new generations to get to a sustainable family business model.”



**Nicolas Battard** is an assistant professor at ICN Business School in Nancy, France, and wrote the case about VMC (Viellard Migeon & Cie). Said Nicolas, “The Hénokiens present a brilliant example to understand how companies mobilise their resources and capabilities to innovate. It is particularly interesting as their resources and capabilities are deeply embedded in their histories, territories, and sectors. While this may be counterintuitive for innovation, the Hénokiens provide fruitful insights for the next generations to combine innovation and tradition.”

**Valérie Tandeau de Marsac** wrote a case study about Mellerio dits Meller, one of the last remaining family-owned jewellers and goldsmiths in Paris, established in 1515. Currently, Valérie is doing a PhD on the concept of *familiness*. Her doctorate has been sponsored by Institut Louis Bachelier, which is a French foundation that develops partnerships between finance and economics and is funded by private sponsors. When asked what next gens can learn from the Hénokiens, she said, “They can learn about *familiness*, to better understand the notion and how it evolves in time to take into account changes in the family circle and in the nature of resources that are available to them and made use of to develop the business.”





**Gérard Hirigoyen**, University of Montesquieu Bordeaux 4, wrote a case study about Catherineau. Said Gérard, “The Hénokiens are family businesses that have developed over at least two centuries. Short termism is not in their DNA. They look to build ambitious projects by making regular investments with the constant desire to innovate. Taking a long-term view is both an objective and a value. The reason is simple—all the Hénokiens have as their vocation to transfer ownership to the next generation. Continuity is one of the great virtues of family businesses, while stakeholders are clearly identified. The transmission of knowledge from one generation to the next helps keep alive our memories of the founders and other remarkable personalities. Thanks to their deep roots, family businesses are better equipped to weather storms and overcome crises. As my case on Catherineau demonstrates, the success of a family firm depends on the family’s respect for its employees, its customers and products. In this cultural model, the evaluation of the risks incurred always takes precedence over the quest for profitability.”



**Rania Labaki**, Associate Professor of Finance and Family Business and Director of the EDHEC Family Business Centre, wrote a case study on Banque Hottinguer. Said Rania, “The Hénokiens are exemplary organizations of resilience and entrepreneurship despite the waves of business, environment, and family adversities they encounter over time. Understanding them provides a wealth of knowledge for scholars, family businesses, and practitioners alike. With regard to my case, the Hottinguer Bank is one of the few independent, privately-owned banks in Europe still managed by its founding family at the 6th and 7th generation. Writing a case on this illustrious business entailed exploring the dynamics of the past, the present, and the future outlook. The lessons drawn from the case are intended to inspire other family businesses in their long-term sustainability approach. In line with other research I have undertaken, the family appears as the building block of the family business continuity. The Hottinguer family was a vehicle for the transfer of a strong identity and values, entrepreneurial spirit, and multigenerational loyalties over seven generations, which were key to sustainability. Through its adaptability and resilience, the family still offers to date a competitive advantage in the privileged circle of the private and investment banks. The sustainable family businesses of the 21st century are the ones that invest in sustaining the family unit. Achieving this sustainability objective is not only the responsibility of the family members but also of all the family business stakeholders, whether through education, advising, or knowledge creation.”

**Vincent Mangematin**, Dean and Chief Academic Officer at KEDGE Business School, was a co-author of the Van Eeghen case and the sole author of the Revol case. The Van Eeghen case traces the history of a Dutch member of the Hénokiens from its origins as a trading company in the 17th century to its reincarnation as a niche player in the food industry. Vincent’s case about Revol traces the history of the French porcelain company, founded 250 years ago.



**Vincent Molly** and Eddy Laveren are co-authors of the Pollet case. Vincent is Professor of Entrepreneurship & Family Business at KU Leuven, and Academic Director of the Family Business Community at Antwerp Management School (Belgium). Said Vincent, “Contributing to a case about the Hénokiens has been a very rich experience both on a personal and professional level because you don’t get the chance every day to dive into these unique business and family stories behind true legacies. In today’s fast-paced economy and disruptive environment, many young graduates are inspired by the thousands of start-ups that spring up daily. But the power of entrepreneurship is so much broader, as clearly illustrated by the Hénokiens. Each of these family businesses have shown over more than 200 years their tremendous degree of entrepreneurial spirit, perseverance, resilience, and innovative mindset, allowing them to survive the different industrial revolutions in the 19th century and the two world wars in the 20th century. Their persistent capacity to link firm renewal to a changing demand in the market should form an inspiration for every graduate, entrepreneur, and organization.



**Tetsuya O'Hara** has written four Hénokiens cases, making him the most prolific case writer. All four cases were of the Japanese members of the Hénokiens. Today, Tetsuya is a board advisor at the University of St Andrews School of Management in St Andrews, Scotland. His interests are sustainability and innovation. Based in San Francisco, Tetsuya is currently a vice president at Gap Inc., an American worldwide clothing and accessories retailer. When asked where capitalism is going and how we can create a socially, environmentally, economically responsible society, Tetsuya said, “Learning sustainability and innovation is crucial to explore an alternative model of capitalism. Companies which belong to the Hénokiens have been running their business more than 200 years with strong financial performance. Business and academia in the world can learn how these companies have been implementing sustainability and innovation as a survival strategy.”

**Salvatore Tomaselli** is a tenured associate professor of Business Administration at the Università di Palermo (Italy). A globetrotter passionate in family business, he co-operates with various institutions worldwide. He was a founding member and fellow of IFERA (International Family Enterprise Research Academy) from 2014 to 2017, and has been Board Member–Vice President for Finance at EURAM (European Academy of Management). The author of several papers, articles, and books, he received the FBN award for the best research paper presented at the FBN annual world conference in 1993 and 1999. He wrote two Hénokiens cases, the first on Garbellotto and the second on Amarelli. Salvatore said: “In my view, studying the Hénokiens is relevant since these long-lasting family businesses are an exceptional example of resilience. These businesses have contributed for generations to the development of the country and the region to which they belong, surviving through many challenges in the political, social, economic, technological environment, and more, responding to these challenges with entrepreneurialism and promoting different types of innovations, ranging from incremental to radical, in any possible area. Gaining in-depth



knowledge of what they did to manage these challenges, in my opinion, is essential in supporting other businesses to survive and flourish over generations.”

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## Appendix 1

### *Hénokiens: List of 48 Members (as of February 2019)*

Country	Company	Est.	Age*	Type of Business	City
<b>Austria</b>					
1	A.E. Köchert Juweliere	1814	205	Jeweller	Vienna
<b>Belgium</b>					
2	D'leteren	1805	214	Automobile Distribution, Vehicle Glass Repair	Brussels
3	Pollet	1763	256	Maker of Cleaning and Maintenance Products	Tournai
<b>France</b>					
4	Banque Hottinguer	1786	233	Private Merchant Banking	Paris
5	Catherineau	1750	269	Interior Wood Crafts for Jets and Yachts	Bordeaux
6	Descours & Cabaud	1782	237	Industrial and Building Supplier	Lyon
7	Editions Henry Lemoine	1772	247	Music Publisher	Paris
8	Etablissements Peugeot Frères	1810	209	Family Office	Paris
9	H. Beligné & Fils	1610	409	Cutlery Distributor	Langres
10	Hugel & Fils	1639	380	Wine Grower	Riquewihr
11	Jean Roze	1660	359	Silk Weaver	Saint-Avertin
12	Louis Latour	1797	222	Wine Grower	Beaune
13	Mellerio dits Meller	1613	406	Jeweller	Paris
14	Revol	1768	251	Culinary Porcelain	Saint-Uze
15	SFCO	1685	334	Wealth Management	Paris
16	Thiercelin	1809	210	Natural Aromatic Plants	Combs-la-Ville
17	Viellard Migeon & CIE	1796	223	Fish hooks, Fasteners, and Welding Products	Morvillars
<b>Germany</b>					
18	Friedr. Schwarze	1664	355	Spirits and Liqueurs Producer	Oelde
19	Gebr. Schoeller Anker	1733	286	Maker of Floor Coverings	Düren
20	J.D. Neuhaus	1745	274	Maker of Hoists and Cranes	Witten-Heven
21	MöllerGroup	1730	289	Supplier of Car Interior Components and Modules	Bielefeld
<b>Italy</b>					
22	Amarelli	1731	288	Liquorice Producer	Rossano-Scalo
23	Augustea	1629	390	Sea Shipping	Naples
24	Cartiera Mantovana	1615	404	Paper Maker	Mantova
25	Di Leo Pietro	1663	356	Biscuits Makers	Matera

26	Ditta Bortolo Nardini	1779	240	Distiller of Grappa	Bassano del Grappa
27	Fabbrica D'Armi Pietro Beretta	1526	493	Arms Maker and Accessories	Gardone V.T.
28	Fratelli Piacenza	1733	286	Producer of Textiles and Womenswear	Biella
29	Garbellotto	1775	244	Maker of Barrels, Vats and Casks	Conegliano
30	Guerrieri Rizzardi	1678	341	Wine Grower	Bardolino
31	Lanificio G.B. Conte	1757	262	Textile Manufacturer	Schio
32	Stabilimento Colbachini	1745	274	Bell Foundry, Maker of Rubber Hoses	Saccolongo
33	Vitale Barberis Canonico	1663	356	Maker of Fine Fabrics	Pratrivero
<b>Japan</b>					
34	Akafuku	1707	312	Confectionary Maker (Mochi)	Ise City
35	Gekkeikan	1637	382	Sake Producer	Kyoto
36	Hoshi Ryokan	718	1301	Hot Spring Inn	Komatsu Ishikawa
37	Nakagawa Masashichi Shoten	1716	303	Maker and Distributor of Household Goods	Nara city, Nara
38	Okaya	1669	350	Real Estate Management	Nagoya
39	Toraya	1600	419	Confectionary Maker (Wagashi)	Tokyo
40	Yamamotoyama	1690	329	Green Tea and Nori Seaweed Producer	Tokyo
41	Yamasa	1645	374	Soy Sauce Maker	Choshi, Chiba
42	Zaiso Lumber	1690	329	Lumber and Plywood	Nagoya
<b>Switzerland</b>					
43	Banque Lombard Odier & Cie SA	1796	223	Private Banking	Geneva
44	Les Fils Dreyfus & Cie SA, Banquiers	1813	206	Private Banking	Basel
45	Banque Pictet & Cie SA	1805	214	Private Banking	Geneva
<b>The Netherlands</b>					
46	De Kuyper Royal Distillers	1695	324	Spirits and Liqueurs	Schiedam
47	Van Eeghen & CO B.V.	1662	357	Producer of Functional Health Food Ingredients	Amsterdam
<b>UK</b>					
48	C. Hoare & Co.	1672	347	Private Banking	London

\*Base year: 2019

## Appendix 2

### *Brief History of the Hénokiens*

In 1980, Gerard Glotin, the family leader of the French anisette maker Marie Brizard, then 225 years old, came up with the idea of creating an association of bicentenary family businesses. His timing was near perfect as it came between two important bicentenary celebrations, the 1976 bicentenary of America and the 1989 bicentenary of the French Republic.

Before embarking on his project, Gerard Glotin had to choose a name for the association. He came up with “Les Hénokiens,” which to his way of thinking would conjure up the biblical story of Henok, son of Cain, who lived for 365 years before he was called to heaven. He believed that the long-living Henok would set a good example for members of the Hénokiens as embodying the qualities of longevity and permanence.

After a year of preparation, with the help of 164 chambers of commerce and 25 embassy attachés, Gerard Glotin was able to identify 74 family-owned firms that were 200 years old or more. From these, he invited approximately 30 companies to join his association. The first meeting of the Hénokiens took place in Bordeaux in 1981. Since then, the Hénokiens Association has grown in size and had held congresses in a different country every year.

At 1,301 years old, the oldest member is Hoshi Ryokan, a traditional Japanese inn founded beside a hot spring in 718. The hostelry has been owned and managed by the Hoshi family for 46 generations. The most junior member of the Hénokiens is the Austrian member, A.E. Köchert Juweliere, which turned 200 years old in 2014.

## Appendix 3

### *Presidents of the Hénokiens, 1981-2018*

No.	Last Name	First Name	Country	Company	Term Dates	
1	Glotin	Gérard	France	Marie Brizard <sup>5</sup>	1981	1986
2	Durand-Texte	Gérard	France	Griset <sup>6</sup>	1987	1990
3	Gussalli Beretta	Ugo	Italy	Beretta	1991	1995
4	Piacenza	Riccardo	Italy	Fratelli Piacenza	1996	1997
5	Mellerio	François	France	Mellerio dits Meller	1998	2001
6	Amarelli	Pina	Italy	Amarelli	2002	2005
7	von Möller	Peter	Germany	MöllerGroup	2006	2009
8	Viellard	Christophe	France	VMC	2010	2013
9	Van Eeghen	Willem	The Netherlands	Van Eeghen & Co. B.V.	2014	2017
10	Okaya	Tokuichi	Japan	Okaya & Co., Ltd.	2018	Present

Gérard Lipovitch is the Secretary General of the Hénokiens and has held this post since 1995.

5 Founded in 1755, Marie Brizard remained in the hands of the Roger family for 10 generations until 1998  
[https://en.wikipedia.org/wiki/Marie\\_Brizard\\_et\\_Roger\\_International#cite\\_note-Cocktailtimes-2](https://en.wikipedia.org/wiki/Marie_Brizard_et_Roger_International#cite_note-Cocktailtimes-2), accessed 18 August 2016

6 Founded in 1760, Griset remained in the hands of the Grizet family for eight generations until 1998,  
[http://www.lesechos.fr/13/01/1998/LesEchos/17562-045-ECH\\_apres-237-ans-d-actionariat-familial-griset-se-vend-a-un-industriel-allemand.htm](http://www.lesechos.fr/13/01/1998/LesEchos/17562-045-ECH_apres-237-ans-d-actionariat-familial-griset-se-vend-a-un-industriel-allemand.htm), accessed 18 August 2016

## Appendix 4

### List of Case Writers and their Published Cases Commissioned by the Hénokiens up to 2018

No	Members	Case Writers	Current Institution	Date	Link
1	Toraya	Tetsuya O'Hara	University of St Andrews School of Management	2014	<a href="http://www.henokiens.com/userfiles/file/Toraya_Case_study.pdf">http://www.henokiens.com/userfiles/file/Toraya_Case_study.pdf</a>
2	Van Eeghen Group	Mickaël Buffart & Vincent Mangematin	Grenoble Ecole de Management	2014	<a href="http://www.henokiens.com/userfiles/file/Cas_Van_Eeghen.pdf">http://www.henokiens.com/userfiles/file/Cas_Van_Eeghen.pdf</a>
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5	Friedrich Schwarze	Andrea Calabrò, Ann Sophie Loehde & Tom Rösen	Witten Institute	2015	<a href="http://www.henokiens.com/userfiles/file/Friedr.%20Schwarze%20GmbH%20%20%20Co.KG.pdf">http://www.henokiens.com/userfiles/file/Friedr.%20Schwarze%20GmbH%20%20%20Co.KG.pdf</a>
6	Mellerio dits Meller	Valérie Tandeau de Marsac	PhD Candidate and Laureate of Institut Louis Bachelier	2015	<a href="http://www.henokiens.com/userfiles/file/Mellerio.pdf">http://www.henokiens.com/userfiles/file/Mellerio.pdf</a>
7	Garbellotto	Salvatore Tomaselli	Palermo University	2015	<a href="http://www.henokiens.com/userfiles/file/Garbellotto%20S.p.A.pdf">http://www.henokiens.com/userfiles/file/Garbellotto%20S.p.A.pdf</a>
8	Gekkeikan	Tetsuya O'Hara	University of St Andrews School of Management	2016	<a href="http://www.henokiens.com/userfiles/file/Gekkeikan_Case_Study.pdf">http://www.henokiens.com/userfiles/file/Gekkeikan_Case_Study.pdf</a>
9	Hénokiens Collection Part 1	Brian Henry & Morten Bennedsen	INSEAD	2016	<a href="https://cases.insead.edu/publishing/case?code=35326">https://cases.insead.edu/publishing/case?code=35326</a>
10	Catherineau	Gérard Hirigoyen	University of Montesquieu Bordeaux 4	2017	<a href="http://www.henokiens.com/userfiles/file/Catherineau-Case-Study.pdf">http://www.henokiens.com/userfiles/file/Catherineau-Case-Study.pdf</a>
11	Yamasa	Tetsuya O'Hara	University of St Andrews School of Management	2017	<a href="http://www.henokiens.com/userfiles/file/Yamasa-Case-Study.pdf">http://www.henokiens.com/userfiles/file/Yamasa-Case-Study.pdf</a>
12	Revol	Vincent Mangematin	Grenoble Ecole de Management	2017	<a href="http://www.henokiens.com/userfiles/file/Revol-Case-Study.pdf">http://www.henokiens.com/userfiles/file/Revol-Case-Study.pdf</a>
13	Banque Hottinguer	Rania Labaki	EDHEC	2017	<a href="http://www.henokiens.com/userfiles/file/Cas_Banque%20Hottinguer_uk.pdf">http://www.henokiens.com/userfiles/file/Cas_Banque%20Hottinguer_uk.pdf</a>
14	Amarelli	Salvatore Tomaselli	Palermo University	2018	<a href="http://www.henokiens.com/userfiles/file/Amarelli_Case_Study.pdf">http://www.henokiens.com/userfiles/file/Amarelli_Case_Study.pdf</a>
15	Pollet	Vincent Molly & Eddy Laveren	Antwerp Management School	2018	<a href="http://www.henokiens.com/userfiles/file/Case_Pollet.pdf">http://www.henokiens.com/userfiles/file/Case_Pollet.pdf</a>
16	Hénokiens Collection Part 2	Brian Henry & Morten Bennedsen	INSEAD	2019	<a href="https://cases.insead.edu/publishing/case?code=38225">https://cases.insead.edu/publishing/case?code=38225</a>



# The Toraya Case Study

Author : Tetusya Ohara

(University of St Andrews School of Management)



## TORAYA Business Case Study

Tetsuya O'Hara

### TORAYA

*Providing Enjoyable Delicious Japanese Desserts*

- TORAYA Business Philosophy

Mitsuo Kurokawa, the CEO of TORAYA which manufactures and sells quality Japanese sweets, *wagashi* (和菓子), who is also the seventeenth head of the family, was drinking coffee at the hotel in Germany after breakfast, when he was on his business trip. He was thinking about the business vision for TORAYA while looking at the garden in the hotel that had somewhat the same atmosphere with his home garden.

Mitsuo Kurokawa was appointed as the CEO of TORAYA in 1991, at the time the bubble economy collapsed. For the past 20 years while the Japanese economy was declining, he had a new vision for the business and actively introduced technical business management into this traditional company which was established 480 years ago. For the first 10 years, he technically analyzed TORAYA together with an outside business consulting company. In 1992, he established "Year 2001 TORAYA Vision" and helped TORAYA take a step toward advancement. He established the business policy, set the long-term sales goals, modernized its factories, strengthened the training of employees, put more focus on environmental issues, and strengthened branding. During the next 10 years, he presented "TORAYA V Vision" in 2001, created "TORAYA Value", developed the group business strategy including a new brand, "TORAYA CAFÉ", and established the TORAYA research institute. The annual sales of TORAYA were 12.7 billion Japanese Yen in 1991, but it has grown to 18.1 billion Japanese Yen in 2012, and the number of its employees has increased from 670 to 900.

Currently, Mitsuo Kurokawa has a vision of expanding the target area for the Japanese sweets, *wagashi*, overseas and he is in the process of creating a business plan with a mission statement "Yokan (sweet bean jelly 羊羹) to the World". TOYARA Paris, which was opened in 1980, has been steadily manufacturing and selling *wagashi* and operating as a café at the same time. We can call it as a success model. On the other hand, the New York store opened in 1993 closed its business after 10 years in 2003. Mitsuhiro Kurokawa dreams to reopen the business in the United States and expand it to other countries. To make his dream a reality, he knows that he must continue to be more innovative while still incorporating the important parts of the traditions in the business that have lasted throughout the years. This understanding and knowledge was passed down to him from previous generations who had run the company throughout tough times. He must create a practical plan to secure the ingredients for the sweets and artisans to maintain its quality and how to adjust and develop the products to targeted countries.

Furthermore, there are many factors he has to deal with; how to increase the market share of *wagashi* in Japan as it has been decreasing, what is now required of TORAYA, and how to become involved with the surrounding circumstances such as the Lehman Brothers Bankruptcy, Great Eastern Japan's Earthquake and Tsunami, and the Fukushima nuclear power plant issue. TORAYA has strengthened the training of the employees and has put effort on making strategies for group business. In the near future, will TORAYA be able to show the company at its best?

## **History of TORAYA**

There are no historical documents of how TORAYA was founded. However, there is record from the Edo era that TORAYA was making sweets for the Imperial Household during the reign of the Emperor Go-Youzei (1586-1611). To become an official sweets manufacturer for the Imperial Household, it was necessary to establish its trust which took a long time. If it took at least two generations to establish its trust, it is thought that TORAYA was founded around the year 1526, which was about two generations (60 years) before the beginning of the reign of the Emperor Go-Youzei in 1586. This means that TORAYA has over 480 years of history.

Throughout the generations, the owner of TORAYA has always been the head of the Kurokawa family. Enchu Kurokawa was the founder and the first owner of TORAYA, and Mitsuhiro Kurokawa is the seventeenth generation head of the family.

It can be said that the biggest turning point of TORAYA was in 1869. TORAYA opened a store in Tokyo because the capital of Japan was moved to Tokyo from Kyoto in that year. TORAYA had been a long-term manufacturer for the Imperial Household and half of its business was from the sales for the Imperial Household. Mitsumasa Kurokawa, the 12th owner, made a wise decision of opening the Tokyo Store while keeping the Kyoto Store, thus creating the foundation of the current TORAYA's business.

Throughout the dark times of the Great Kanto (Tokyo area) Earthquake in 1923 and World War II, Takeo Kurokawa, the 15th owner, who also later became the Minister of Health and Welfare of Japan, overcame those tough situations with his vitality and creativity. It was during this time that TORAYA incorporated the new sales promotions and advertising methods such as direct mailing and advertisements in the newspapers use of trucks for delivery, creating new products, and implementing the training for the employees.

When the free competition era (??) arrived after the War, Mitsutomo Kurokawa, the 16th owner, expanded the business to department stores in order to reach out to more customers (1962- ??). Accordingly, he hired more employees, reviewed human resources, restructured company structures, and progressed to make a foundation to utilize computers. At the same time, he reviewed the quality of the products, merchandise management, packaging, and the delivery and distribution system. In 1978, he built a new factory in Gotenba and improved the production system. Mitsutomo said, "Tradition is the continuance of innovations. Innovative methods allow the business to last long, thus tradition is created." \*"Kashiyanozaregoto" Published by TORAYA in July 1984.

These traditions and innovations of business management are succeeded into Mitsuhiro Kurokawa, the 17th owner.

## **Business Model of TORAYA**

### **1. Craftsmanship and Quality of TORAYA's Japanese sweets, *wagashi* – Business carefully cultivated in Japan**

Since over 90 % of TORAYA's sales come from domestic sales in Japan, and most of their ingredients are supplied domestically in Japan, its business hasn't been influenced by changes in the foreign exchange rates. Japan has a unique culture where many people there exchange gifts at each season and events, and the *wagashi* industry is deeply involved in that culture. Therefore, it has escaped from the heavy influence of macroeconomics, and even at the time of the Lehman Brothers Bankruptcy, it did not get much damage.

TORAYA is careful and particular about manufacturing *wagashi* to achieve TORAYA's business philosophy, "Providing enjoyable delicious *wagashi*", and it is reflected in its policies such as "a little bit hard, a little bit sweet, and have a good aftertaste" and "use vegetable ingredients". Both traditional *wagashi* and new *wagashi* are manufactured based on these standards. It requires unthinkable patience and energy to continue making classic *wagashi* that have been handed down for generations, while also creating innovative sweets that are not only custom-made sweets, but also a beautifully designed package of sweets, which is called, "haute couture *wagashi*". Both types of *wagashi* are reflected by the Japanese cultural tradition and can be considered as one of the most unique cultural expression in the world.

The backbone of this tradition and creativity is TORAYA's "best quality management". Currently, TORAYA has 80 stores domestically in Japan and decided on a business policy of not expanding any more but focusing on its quality. This policy contributes toward retaining their image of being a specialty store for high quality *wagashi*. TORAYA handles almost everything from the supply of their ingredients to the sales of their products in-house, and manages their quality with high standards at each process. After the radiation leak of the Fukushima nuclear power plant's issue surfaced, they immediately implemented and confirmed the safety of their products by installing radiation detectors.

### **2. Training Employees – Necessary to continue business**

It is said that it takes at least 10 years to become a professional Japanese dessert chef. At TORAYA, it is critical to pass on to their employees and chefs their knowledge and craftsmanship which has been attained through many generations, and it requires much time and effort. TORAYA has a unique training system. Employees and chefs are trained by their years of employment and by their different job positions. In 1992, TORAYA introduced a self-development support program called "Egg21" to those who wanted to grow, achieve their dreams, and live a fulfilling life. This program supports its employees through time and finance, even if the time and finance spent by its employees is not directly related to their duty in TORAYA. Employees have been utilizing this program to climb the Himalaya Mountains, or

obtain a certain license and/or certificate, and so on. In addition, human resource development programs such as training at overseas stores, experience with raw material manufacturing, and training in logical thinking are implemented. In addition, benefits such as maternity leave and elderly and child care leave have been improved. These ingenuities in human resources have resulted in employees staying with the company for a long time. There are almost 100 employees, which is 10 % of TOYARA's employees, who have been with TORAYA for over 30 years. Business that requires the passing on of traditions ceases to exist without structures based on nurturing and training employees so that they may commit to the company for a long time.

TORAYA believes that individuals who have professional skills need to organically unite together as a team to work efficiently to reach their goals. They established their business plan together with an outside consulting company and in addition they set up a business strategy, and presented "TORAYA V Vision (Value, Vitality, Victory)", which was a five-year vision started in 2001. It aims to be a professional team to accomplish various tasks such as new product development, store development, and solving environmental issues by recycling.

Mitsuhiro Kurokawa emphasizes, "We need to think of a company as a group of established individuals, not just as a 'chunk'. I believe that a company becomes strong when each individual becomes strong, uniting without compromise. At TORAYA, we need to focus on human resource development so that unique individuals will grow. As a result, TORAYA will become a strong company."

### **3. Overseas Expansion and Group Strategy**

TORAYA accomplished the first overseas expansion in 1980, when the 16th owner, Mitsutomo, opened a store in Paris. Before opening the store, many advantages and disadvantages were discussed; "Is it OK to open a store overseas without any experience?" "We may be at a loss for a long time." "Our company's status will rise." "We will gain a global perspective and achieve new ideas for product development." "It will stimulate traditional business." The path was more difficult than expected because of the challenges of obtaining the ingredients, getting the necessary equipment for manufacturing, conflicts between employees due to the cultural differences between France and Japan, and the products of unfamiliar *wagashi*. However, the flavor of using only vegetable ingredients has been gradually accepted by The French people. together with the assimilation of Japanese food which was becoming popular. Twenty years later, TORAYA was ranked number three in the French magazine, *Le Figaro's* best 30 cafés in Paris (Salon de thé). It has been operating for over 30 years in France and 80 % of its customers are local French residents.

In 1993, TORAYA purchased a townhouse that was built over 100 years ago, remodeled it, and opened a store in Manhattan, New York. However, there were many difficulties and cultural differences, just like in France. Therefore, it required much time and great effort to introduce and establish *wagashi* into the US market. After the bubble economy collapsed, the Japanese economy had declined for a long time and many Japanese companies withdrew their businesses from the US market,

which greatly influenced TORAYA. They tried to sustain their business by creating events and changing the menu but 9-11, the terrorist attack in New York in 2001, also impacted the sales as they declined further, and ultimately the store was closed in 2003.

In the meantime in 2003, TORAYA opened the first “TORAYA CAFÉ” in Tokyo, which is a café restaurant which also sells TORAYA’s *wagashi* products. 10 years later, the number of cafe restaurants increased by three (Roppongi Hills Store, Omotesando Hills Store, and Aoyama Store). The goal of TORAYA CAFÉ is to combine the East and West into their sweets by utilizing experiences and the know-how in Paris and New York. They have developed a new market by adding the European sweets ingredients (chocolate, honey, dairy, etc.) to the base ingredients of the *wagashi* and by introducing the European manufacturing method. The majority of TOYARA’s customer base is over 40 years old, but the majority of customers at TORAYA CAFÉ are women in their 30’s to 40’s. Additionally, 10 % of the interviews that TORAYA receives from media are for TORAYA CAFÉ, and 30% of media coverage is to introduce these three cafés, which have been receiving much attention.

TOYARA has TORAYA France and TORAGEN as group companies. TORAYA CAFÉ is managed and operated by TORAGEN. TORAGEN also operates “TORAYA KOBO” and manages a real estate business. TORAYA has strengthened their group businesses along with their *wagashi* business.

### **New Vision**

Although the nature of TORAYA’s business is rarely influenced by the global economy, the dramatic changes in the world economy as a result of the Lehman Brothers Bankruptcy definitely influenced their sales. The market of European sweets and mass manufactured sweets at low prices are increasing, while the market of *wagashi*, is decreasing. TORAYA requires a new vision of how to accomplish their business philosophy, “Providing enjoyable delicious *wagashi*”.

The greatest challenges are thinking of ways to develop new innovations and how to keep the tradition and craftsmanship. At the same time, there are problems such as the difficulty of supplying ingredients for traditional *wagashi* and the lack of successors in the traditional cooking tools and ingredients industries. The special ability in producing 3,000 different kinds of *wagashi*, which can greatly satisfy the customers’ needs, is important hereditary property as well as the chefs, who seek to pass down their artistic skills, and their brand image that has lasted for about 500 years. TORAYA needs to review these properties, and to set new visions in a way in which the company would make the best use of its qualities.

After the earthquake, as people are rediscovering that *yokan* (sweet bean jelly) is nonperishable and can be eaten without being cooked, a new market is predicted. The mission statement, “*yokan*, the main product of TORAYA, to the world”, was presented and TORAYA is currently in the process of planning their next 10 years of business strategies in the global market. Currently, the high quality soybean, which is a main ingredient of *yokan*, is mostly grown in Japan since the seeds of the soybeans are restricted from being sent overseas. To expand its business overseas, TOYARA has to solve this supply problem.

Not only does TORAYA desire to present *yokan* to the world, they also desire to provide the opportunity for people in the world to experience the Japanese culture

reflected in *wagashi*. To achieve this goal, TORAYA needs to analyze new demands, new styles, and the global market; then build strong business plans and strategies that include new product developments and creating new values.

To create "TORAYA V Vision" in 2001, much data was collected from their employees. However, the vision was predominantly based on the view of the management level employees. The "2010 Co-working Vision" was created and established by all employees. During these times of global expansion, we can ask ourselves what kind of vision should we have, and how do we attain that vision? Mitsuhiro Kurokawa desires to set a creative and unconventional vision that is mainly made by skilled and unique employees.

Mitsuhiro Kurokawa saw the light being reflected off of a leaf while looking at the garden in the hotel in Germany. At the same time, he heard the news being broadcasted in the hotel lobby announcing that the 2020 Olympic Games were to be held in Tokyo, Japan. He believed this to be the grand opportunity to present the Japanese culture to the world. Mitsuhiro Kurokawa felt his heart leap for joy while listening to the excitement of the Olympic Committee at Buenos Aires.



# The Van Eeghen Case Study

Author : Vincent Mangematin

(Grenoble Ecole de Management)

# Van Eeghen Group: almost four centuries of strategic changes

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*Mickaël Buffart – Vincent Mangematin*

The Van Eeghen Group is now a functional food company from the Netherlands, member of the Henokiens Association, as a 351 years old company. Founded in 1662 by Jacob van Eeghen, the Van Eeghen group started as a trading company, shipping wool, wine, salt, sugar in Baltic Sea, England, Mediterranean Sea and West Indies (see appendix 1). A typical quality of the company has been its strategy and capacity to change its activities numerous times whenever it felt the need to adapt itself to new circumstances. It has therefore subsequently expanded or contracted the size of its operations many times. However, it always kept its basic and main capability: understanding customer needs and market requirements and finding the best supply partners to match with them. The philosophy of the company is centered on continuity. Such a long term objective deeply influences the strategic decisions along its existence over the last four centuries.

In the seventies, they became leaders on the market of dehydrated food ingredients. Meanwhile, after having divested the dehydrated ingredients business in 2006 their core activity consists entirely of functional food ingredients: infant & clinical formulae and sports & nutritional supplements. Their customers comprise of small, medium and multinational companies mostly in Western Europe. Until recent the company was managed by Willem van Eeghen and the shareholders are still the Van Eeghen family.

## **Continuity philosophy and innovation**

### ***Dehydrated product history***

During the early 1960's Van Eeghen commenced to invest in the niche market of dehydrated vegetables and culinary herbs. In those days dehydration, both by means of freeze drying and high temperature drying, was a new, unique and safe preservation method to apply to mass produced vegetables, herbs and fruits which regardless of crop seasons enables consumption year around. The dehydrated vegetables and herbs fitted in very well with VE's existing spice business as they could be targeted at the same customers. Simultaneously, the market of all these products was expected to grow along with the nascent convenience food market (dry soups and sauces, exotic meals, foreign influences and new eating habits).

Origins of these ingredients were mostly in developing/emerging countries in Asia and South America, but also in the USA and Eastern Europe. VE's sales activities soon expanded to all continents and VE stocked their products on various strategic locations. Eventually VE became one of the worldwide major players in this market.

As so often, niche markets after a period of time tend to turn into commodity markets where margins come under pressure and disequilibrium develops between profitability and risk. In our case these risks consisted of ever growing stringent product specifications, difficult to control production at origins (traceability from farm to fork)

and growing costs in order to control quality. All this eventually after 45 years amounted to eroding margins which finally led to VE's decision to disinvest from this market and wind down its European operations in 2006, followed by the sale of its equivalent activities Canadian a few years later.

### *Replication with functional food*

Meanwhile, during early 1990's VE had invested in the newly developing functional foods market which had already commenced in Japan and the USA. Functional food ingredients describe meant to enhance individual health. It includes such products as vitamins, mineral, fatty acids like Omega 3, pre- and probiotics, etc. More information about the definition of functional food and the evolutions of the markets can be found in *appendix 2*.

The functional food replicates the dehydrated food story. VE was confident that these health enhancing products would become popular in Europe as well. It did so, on the basis of the following hypotheses:

- changing demography with an increasingly aging population prone to illnesses;
- Changing attitude towards prevention rather than cure of diseases;
- Higher degree of health consciousness amongst younger population;
- Privatization of health care and encouraging maintenance of health;
- Supplements are often consumed as a counterweight against eating of unhealthy foods (sugar and fats).

Thus VE's functional food ingredients Business Unit forms the beginning of yet a new cycle in the evolution of its niche activities. A new niche market which on this occasion has its roots in Japan and the USA. Indeed, Van Eeghen pioneered the market in Western Europe on the intuition that functional foods would eventually take off there as well. And indeed after a few years this market started showing steady growth rates and now has become common place in this part of the world. And as this market matures Van Eeghen continuously searches for those products possessing a niche character before they may turn into commodities.

Within the functional food ingredients market Van Eeghen chose to address two sectors: Infant Foods and Sport & Nutrition. The infant food market is difficult as it serves a highly vulnerable population. Total quality is required and no risk allowed. The number of baby food manufacturers of reasonable size worldwide remains limited (approx. 25) and therefore is highly concentrated. Most are located in Europe and the USA. The Netherlands is a large source as it is one of the largest milk powder producers. The infant food market is difficult to penetrate for new comers.

Van Eeghen diversified to a second niche: sport nutrition. This market is expanding enough to accommodate new entrants. Van Eeghen entered the market by developing new specialized functional ingredients with their clients. They are closely related to a research laboratory to develop prototypes and have adequate knowledge to comply with food safety regulations.

Van Eeghen's strategy on functional food can be summed up as follow: high quality products complying with European and American food regulations. They are able to

compete on costs/prices by outsourcing the production in low cost countries. They are also performing research to offer differentiated products. Finally, they are innovating to be ahead of the competitors. (See appendix 2: The evolution of functional food)

The functional food activity becomes the main activity of the company which is designed to be lean and highly adaptive. Lean as the company outsources all production activities. However, it handles logistics and storage to maintain traceability and to be able to guaranty quality. Adaptive as the main asset of the company is to be able to scan and identify quickly the needs of the customers, to work with them to develop and finalize the product formulation and to find the right producers. Today, the turnover of VE is about 15 millions euros, with an EBITA about 26-27% and 20 employees.

Van Eeghen competes on the traditional logistics criteria like delivering the right product just in time with a good supply chain management and storage capacities. It also targets high margin niches by sourcing new materials and by providing new product formulations which comply with food regulations. Finally, van Eeghen is moving to high intensive knowledge products, selling simultaneously the concept and the product as solutions to emergent problems. The proximity of Food Valley, a high quality food research cluster near the Agricultural University of Wageningen in the Netherlands, has been a key asset to Van Eeghen's innovation strategy.

### **Questions**

The emergence of the functional food is now almost 20 years old. What next? The CEO of the company asks you to explore different avenues (developing niches to functional foods, moving from functional to "smart" food which includes more information, personal nutrition markets, ...) and to propose evolutions compatible with the philosophy of van Eeghen Group.

### **The genetic code of van Eeghen Group**

Van Eeghen is a family business held 100% by the van Eeghen family since its inception 350 years ago. The genetic code of Van Eeghen is continuity. It has been a corner stone of the strategy: limiting risk, maintaining recovery capabilities in case of market slow down by limiting sunk costs and over investment within one market. The company may limit profits to maintain continuity and prefer adaptability to market creation. The company also keeps a reasonable degree of diversification to balance the risks.

Willem van Eeghen started as a CEO in 1989. He was nominated by his father who was the previous CEO. The transition has been very smooth, Willem's father managing a long and fruitful overlapping period before retiring. Willem has four kids who are training in management. The family tradition suggests hiring the elder son as the new CEO.

**XXXXX exhibit genealogy of the van Eeghen family (one page – 100 years)**

The choice of a new CEO in a non-family business follows generally a different process: non-executive directors are commissioned to manage the process which is technically handled by a consulting company which opens and advertises the position and selects potential candidates based on profiles and interviews. A short list is presented to the shareholders who finally decide.

Willem wonders which way to follow: either hiring his elder son who seems capable to run the business properly as he already set up his own company. Willem is willing to help him to continue van Eeghen Group and to transmit his know how; or to ask consultants to run the selection. It may end up with a CEO who does not belong to the van Eeghen family. It also supposes to have formal procedures and commitments on a short overlap period and official stepping down.

### Question

Can you help Willem van Eeghen in his choice? Which is the best process? Under which conditions? To what extent being an Henokeins (see appendix 3) may influence the choice?

### Appendix 1: The initial days

Jacob van Eeghen found the Van Eeghen Merchant Company in Amsterdam. The products sold are linen, linseed, wool, wine, timber, salt and sugar. They are sold in the Baltic, England, the Mediterranean and in the West Indies.



Christiaan van Eeghen

1705: Christiaan van Eeghen dies. His wife Suzanna takes over and leads the Business with success. And does so again when her eldest son dies early.

First succession crises of the company overcome.

1785: Van Eeghen provides loans to newly independent USA.

1792: Van Eeghen, through a newly founded venture called the Holland Land Company, acquires land in the states of New-York and Pennsylvania in order to diversify the business. They buy shares in new infrastructure ventures in the USA (*see also Wikipedia on Holland Land Company*)



## Van Eeghen Company in the USA

1797: Founding of Bank Oyens & Van Eeghen. In the 18<sup>th</sup> and 19<sup>th</sup> century, Van Eeghen reduced risk with geographical diversification first (developing in Europe, North America and West Indies), and also by diversifying the activities. They started selling goods, especially food, during one century. Just after the period of the French revolution, Van Eeghen tried to reduce the risk of the French domination (Continental System) on Europe by developing the business in North American. Therefore, they start loaning in North America, and then founded a Bank. They also bought lands in New York and Pennsylvania and invested in new infrastructure ventures.

They keep doing this activity as business in Europe stopped during the Napoleonic wars. In parallel, they continued developing business in tobacco and cotton in North America. To sustain the trade with the America's during the 19<sup>th</sup> century, company invests in a new shipping fleet.



Later, with the introduction of steamships and accompanying huge investments, Van Eeghen withdrew from shipping (which never was its core business) and moved into niche markets. It has been reducing the company's exposure to crisis (1929).

## The after WWII

1952: new import-export company founded in east Africa and founding of Kilombero sugar company, the beginning of the agro-food involvement.

1976: While the banking division has been sold (for legal reason) in 1965, Van Eeghen founded the International procurement and consulting company (co-operates with World Bank and UN financed projects in Africa and Far East). After the Second World War they start specializing in food ingredient products, especially the market of dehydrated spices, vegetables and herbs. Since the Second World War and until today, they kept investing in emerging markets or niche markets: they invested in import-export Company in the new countries that just got independence and then they invested in servicing company for project financed by the World Bank.

## Appendix 2: Functional Foods 2.0: A Natural Evolution

The category has moved in some unexpected directions, but ultimately, consumers are demanding products that fit naturally into their lifestyles are convenient and taste good.

By Julian Mellentin, New Nutrition Business

[http://www.nutraceuticalsworld.com/issues/2013-11/view\\_features/functional-foods-20-a-natural-evolution/](http://www.nutraceuticalsworld.com/issues/2013-11/view_features/functional-foods-20-a-natural-evolution/) Published November 1, 2013

Over the last 20 years the term “functional foods” has evolved to be industry shorthand for the marketing of any food or beverage with health benefits. It’s not an expression that consumers use. And while in industry we can easily get excited about “the next hit ingredient,” consumers are driven by benefits. Ingredients only take off when consumers see the benefit as credible, and when the product is relevant to their lifestyles, available in a convenient format and tastes good.

### *‘Naturally Functional’*

Functional foods have taken off in some unexpected directions. For example, there has been a confluence between health benefits and being “naturally functional”—now the most influential driver in functional foods. Here are the two best examples:

- 1. Coconut Water** has rocketed from zero in 2007 to a \$400 million market today in the U.S., where Vita Coco holds a 60% market share. Sales have surged both in Europe and the U.S. on the back of its strong image as an “all-natural” sports recovery beverage—“nature’s answer to Gatorade,” as one industry executive put it. When you use an ingredient with a strong “naturally functional” image you don’t need to worry about health claims. In Europe, where coconut water is not allowed to make any health claims, one of the biggest brands, Green Coco, saw sales jump 60%, “with no advertising, no marketing, no health claim,” as its CEO explained, driven solely by its positive image.
- 2. Almond Milk** is another category that has emerged from almost zero. U.S. sales of almond milk rose 51% in the year to \$497 million as of August 2013 (SPINS and Nielsen). By contrast, sales of soy milk slid by more than 12% to \$408 million.

The great nutritional profile and health halo of almonds (which in whole form can use an FDA-approved heart health claim) in the minds of consumers extends to most things that contain almonds, including almond milk. However, as an industry executive explained: “A single serving of almonds would have a very beneficial nutritional profile. But a serving of almond milk contains less than a single almond.” Put simply, almond milk is not the best way to get the health benefits of almonds. However, that’s not front-of-mind for consumers. It tastes good, it’s convenient and it has a health halo.

### *Functional Dairy: Dairy 1.0 to Dairy 2.0*

The power of “naturalness” can be seen very clearly in the dairy category. Internationally, dairy has long been at the leading edge of functional food development, with brands such as Yakult and Danone Activia achieving global success. **Dairy 1.0**—the first wave of functional dairy products—was a two-decade-long effort to shoehorn ingredients such as plant sterols, omega 3s, conjugated linoleic acid (CLA), glucosamine and many others into dairy products in order to market medicalized benefits, such as lowering cholesterol and supporting heart health and joint health. The added ingredients provided the health benefit, rather than a “whole dairy food” product format.

Some attempts were very successful, such as probiotics. Others, such as marine omega 3s, were not. Among the reasons were: 1) ingredient was not a logical fit with the carrier (fish oil in yogurt); 2) the product didn’t deliver an effective dose (you can supply a full dose of probiotics in a yogurt easily enough, but a significant dose of omega 3s, magnesium, etc. may have a negative taste effect and turn consumers away).

But this period is over. The new direction is what some companies are calling “**Dairy 2.0**.” In this new wave, innovation is no-longer focused on positioning dairy as a competitor with dietary supplements. Instead, emphasis is being placed on:

- Ingredients and benefits that are a more logical and “easy-to-accept” fit with dairy;
- New and more interesting product formats—usually in the form of companies reinventing “old formats” or taking traditional, regional dairy products from one geography and launching them into new markets where they are “new and exciting,” but adapted to suit the tastes of the new demographics.

Here are three examples of Dairy 2.0 in action:

**1. Greek Yogurt.** An entrepreneur took what is an everyday and unexciting product in Europe and presented it as new and exciting to consumers in the U.S. under the brand Chobani. The Greek segment has grown to about \$1.6 billion in the U.S., from essentially nothing five years ago. Naturalness, great texture, a focus on great flavors and the perceived benefits of naturally high protein content have all contributed to the Greek success story. Danone launched its own Oikos brand in 2012; since then it has become the most successful new product launch ever in the U.S., according to IRI, with \$400 million in sales in 2013.

**2. Kefir.** Originated in Eurasia, where its digestive health benefits have been known for centuries, kefir was introduced to Americans by Lifeway Foods, Morton Grove, IL, which has created a successful business with \$100 million in sales in 2012.

**3. Quark.** A soft fresh cheese, quark is commonplace in many parts of northern Europe. In the last 12 months, its all-natural, high-protein, low-fat credentials have produced 100% growth in some markets. But it’s a little-known product in the U.K., where the Lake District Dairy Company, a farmer-owned co-op, has launched the U.K.’s first quark brand.

	DAIRY 1.0	DAIRY 2.0
<b>Ingredient focus</b>	Calcium Added science-based ingredients	Protein "Natural" ingredients that are easy to accept in dairy
<b>Benefit focus</b>	Zero fat/fat reduced Medicalized benefits (heart, blood pressure) Probiotics for immunity and gut health	Better taste and texture Natural benefits Weight management Sugar reduced Probiotics retain a place as they are a logical fit with dairy
<b>Innovation focus</b>	1. Take "bad" ingredients (specifically fat) out of existing product types 2. Add ingredients with a high science content to existing product types	1. Reinvent old product types 2. Bring unfamiliar product types from "far away" and present them in new markets as new and exciting new product types
<b>Complexity</b>	Complex: adding functional ingredients (sterols, omega 3s)	Simple: only added ingredients are the ones the consumer accepts as natural for dairy (protein for example) Probiotics are the only "complex" ingredient to have made the transition from Dairy 1.0 to Dairy 2.0, because after 20 years the consumer now accepts them as "natural" in dairy foods.
<b>Consumer</b>	Products that can be difficult to understand; High content of communication needed about ingredients and benefits	Simple products, easier to understand; High content of communication needed about new and unfamiliar types, re-assurance about tastes

Table 1: Characteristics of Dairy 1.0 and 2.0 Compared

## Protein

Protein went "mainstream" in 2012 in the U.S., where General Mills' Nature Valley protein bar was one of the 10 most-successful new products, earning \$95 million in sales, according to IRI.

The Nature Valley brand has been one of the most successful growth stories. Launched back in 1975, it was marketed from the outset as "100% Natural" long before this idea became ubiquitous in our industry.

With more than \$740 million in retail sales, Nature Valley's growth rate of almost 30% over the period 2010-2012 is an amazing achievement for any brand.

Nature Valley was the first mainstream bar brand to seize the protein opportunity, launching its Protein Granola bar, with 10 grams of protein per 40-gram bar. The product boldly proclaims "Protein" on the front and features a circle around the 10 grams attribute below it.

The brand's strong "natural" identity in the mind of the mainstream consumer legitimizes the protein. "Consumers think 'If it's in Nature Valley it must be natural,'" as one executive said.

In the wake of this success, there has been a surge in launches of products featuring protein. At the moment, the dairy category is in the lead, according to Mintel's Global New Product Database (GNPD), with more "high protein" claims on new products than any other category (other than meats).

This trend is adding pressure on what was already a growing global demand for protein. We are likely to see companies increasingly experiment with protein forms other than the traditional mainstays of dairy and soy as they look for price stability, higher quality and sustainability.

Microalgae, for example, is attracting intense industry interest for its excellent nutritional profile; some varieties can be as much as 50% protein, as well as having essential fatty acids and more than 20 different vitamins and minerals.

In some parts of Asia it is an established part of the diet, but for western consumers, basic acceptance remains a challenge and that is not something that can be resolved overnight.

Netherlands-based algae producer Phycom is one of the companies working on this challenge. Its first step has been to create a bakery mix for fresh bread with microalgae integrated into the recipe, with 5% by weight *Chlorella pyrenoidosa* microalgae. Called Meerbrood, today it's produced by 125 Dutch bakeries; its success has led to requests for the Meerbrood mix from the Nordic countries, Germany, France, the U.K. and the U.S. It's a first step on the way to "normalizing" algae as a source of good nutrition, and enabling manufacturers in a variety of categories to use it. (For more on the Marine Nutraceuticals market, [click here.](#))

We are at Day 1 of a new market for protein. At the moment, it has the virtue of being seen as a "good ingredient" by a wide range of consumers willing to respond to a variety of messages about it, which, according to consumer research by a leading beverage company, include:

- Helps you meet your weight goals
- For a firmer, healthier body
- Balanced diet
- Feel fuller
- Energy to get through your busy day

### *Slow Energy*

A number of factors have come together to make "slow energy" one of the key areas of interest for some companies, although most are still figuring out how to make the message work in practice. Among the three most important factors were:

**1. The Diogenes Study.** The benefits of both slow blood sugar response—also known as low glycemic index—and high-quality protein got a shot in the arm from a New England Journal of Medicine article, which detailed the results of the world's largest-ever diet study. Called Diogenes, it involved 14 universities and research institutes and investigated the optimum diet composition for preventing and treating obesity. Researchers found that high-protein, low-glycemic index (GI) diets were the most effective for weight management. The quality and scale of the study is slowly gaining media attention and it is already having an impact on food marketing.

**2. Breakfast Transformation.** Breakfast cereal is no longer convenient enough and breakfast itself is undergoing a shift, with urban dwellers—the majority of the world's population—increasingly looking for something that is:

- Convenient and easy to eat in a hurry
- Delicious
- Satisfying
- Provides an energy boost to "keep you going" all morning
- Healthy (or has a halo of health)

These changes have made the breakfast meal occasion ripe for “disruptive innovation.”

**3. Kraft Belvita.** Belvita is just such a disruptive innovation. Mondelez International—the new name for Kraft Foods—debuted its belVita Breakfast Biscuits in Europe in 2003, where they grew into a mega-brand, with \$400 million in sales. Launched in the U.S. in 2012, the cookies offering “sustained energy” became an instant success, with sales of \$67 million in 2012.

The idea behind Belvita was to meet the unmet breakfast need by providing sustained energy to fuel the body throughout the morning. A graphic on the side of the package in Europe reinforces the balanced breakfast message and adds: “They are carefully made and gently baked so that, as part of a balanced breakfast, the carbohydrates are regularly released over 4 hours to keep you going all morning. This has been proven in several clinical studies.”

The brand’s message reassures people they can eat sweet biscuits for breakfast and still feel virtuous by emphasizing slow energy-release carbohydrates. It was a formula that already proved successful in Europe, where the brand has benefited from an approval of the science underpinning its slow release energy claims by the European Food Safety Authority (EFSA). Fruit sugars, too, can use an approved slow release energy health claim in Europe.

It is slow release energy, not “diabetes,” that presents our industry with a big functional foods opportunity. Ingredion, maker of one of the ingredients in Belvita, has already recommended that manufacturers don’t make explicit connections between their products and diabetes. “If a healthy blood-sugar claim gives you an easy to understand message that consumers gravitate to, why put on a scary medical-sounding label?” said an executive. “You don’t need to put a medical diagnosis on it. It has to be friendly and easy to understand.”

### *Weight Management*

The subjects of protein and “slow energy” are tied strongly to people’s desire to maintain a healthy weight. So you can say that people’s desire to maintain their weight by eating “regular foods,” rather than “specially formulated” foods, is now a driver across all food categories.

When you look specifically at clear weight management positioning, there’s no brand in the world that does it better than Kellogg’s Special K. In recent years, its growth rate has never dipped below 8% annually, despite a down economy. Sales in the U.S. alone have grown from \$1.1 billion in 2010 to \$1.38 billion in 2013. Globally, it’s a \$2 billion-plus brand.

Special K is based on no clever science or amazing ingredients; its success is based on a clear, consistent communications strategy, with a tangible promise of “drop a jeans size,” a promise backed by a full (and free) service of information, advice and motivational groups.

What’s more, Special K challenges the myth that a brand that works in one country won’t work in another. The positioning is the same whether it’s France or the U.S.—two very different countries—or Mexico or Dubai. The flavors are the same—with red fruits and chocolate (this last one developed for France originally) leading in most markets.

### *Digestion*

For the past decade, digestive health has rivaled energy as one of the biggest and most important trends, ranking consistently among consumers’ top needs.

It has demographics on its side. The core consumer is 40+ and the largest growth will be among the growing number of people 60+.

The story so far has been dominated by probiotics, with Danone's Activia yogurt the world's biggest digestive health brand; but the opportunity is opening for other ingredients.

Many products now communicate that they deliver 20% of the RDA of fiber per serving. However, this message isn't a point of difference, as it's so widely used and there's little evidence that it does much for sales.

Much more successful has been General Mills' Fiber One, positioned as "the expert brand" for fiber, with its bars and cereals delivering 25-55% of the RDA per serving. It's a dose that enables people to "feel the benefit"—another key success factor. From \$35 million in 2005, the brand grew to \$420 million in 2010, according to IRI InfoScan data, and to \$500 million in 2013, when sales were up 8% over the previous year.

Other digestive health ingredients are emerging. One example is a French ingredients start-up that was spun off from a major multinational chemical company. Solactis has already had its GalactoFructose product—based on lactulose—approved for digestive health claims in foods and beverages in South Korea and Europe. One of the first significant applications of GalactoFructose is in Korea in a 100 ml, shot-style, fermented-dairy product called "Gut," which contains 5 grams of GalactoFructose. The claim enables a 40% higher price for Gut than a typical shot product.

### *Food vs. Supplements*

Many companies have been misled over the last 15 years to think the functional food category must compete with supplements—offering the same benefits but in a food form. However, the biggest successes have come where functional foods and beverages have focused instead on benefits that are a strong and logical fit to food, or on benefits that supplements cannot yet provide.

Trying to carve out a slice of an already established supplements market has proven a hard road. The hype over joint health beverages for example—drinks offering the clinically effective dose of 1,500 mg of glucosamine and 200 grams of chondroitin sulphate—remains steady, even while sales of joint health beverages are in free-fall. The two leading U.S. brands, for example, had combined sales of \$50 million in 2010, plunging to \$20 million by 2013.

The reason is simple: the \$900 million joint health supplements market already has "share of mind" with consumers as the most effective way to obtain the benefit. It's also the cheapest, with the cost per day of supplements about 35% below that of beverages. In France, for example, magnesium milks were briefly marketed, and have largely disappeared, because French people were already spending \$110 million a year on magnesium supplements, which offered a higher (and more effective) dose than a glass of milk and at a lower cost per dose.

Foods and beverages cannot be a carrier for every benefit—taste, dose and format all play a role in success—and if the benefit the food is offering is already "owned" by a supplement category, the challenge becomes even greater, as supplements may be significantly cheaper per dose. It's better to focus on "food values" and "beverage values" and offer benefits where foods and beverages have a competitive advantage (as with dairy and protein), or seem "more natural" as a way of getting the benefit.

### *Asian Ideas Work in the West*

Lastly, one of the great, exciting opportunities about functional foods is how ideas can be found in faraway places and made to work in totally new markets. It's a fact that some of the most successful ideas of the last 20 years are ones that originated in Asia, such as:

- Energy Drinks. Red Bull, first launched in Thailand in 1973, has created a \$50 billion category, worldwide. And it was first inspired by energy drinks launched in Japan in the 1950s.
- Energy Shots. 5-Hour Energy's 100 ml shot format, launched in the U.S. in 2007, has created a \$1.5 billion business in the U.S. But the idea is an old Asian one; energy shots first appeared in Japan in 1962.

Other Asian ideas that have succeeded in other markets include: probiotic dairy products, soy milk, green tea (and indeed black tea), Kombucha (a fermented tea drink with probiotics and yeast widely consumed for its health benefits in north Asia and already a \$300 million business in the U.S.).

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**About the author:** Julian Mellentin is an expert on the business of functional foods, who has been involved in this area for nearly 20 years. He is also the editor of *New Nutrition Business*, a long-established international journal covering the global nutrition business. He can be reached at [julian.mellentin@new-nutrition.com](mailto:julian.mellentin@new-nutrition.com);  
Website: [www.new-nutrition.com](http://www.new-nutrition.com).

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<http://www.fdin.org.uk/output/Brigid%20McKevith's%20Definitions.pdf>

### Appendix 3 : The Henokiens

An association of family and bicentenary companies, the Henokiens intend to enlarge their family circle.

Henokiens Association membership criteria are:

- company longevity – a minimum age of 200 years
- permanence – the family must be owner of the company or the majority share holder - one member of the founder must still manage the company or be a member of the board – and the company must be in good financial health.

In addition, being modern is a final requirement.

Created in 1981, the objective of the Association is the development of its membership throughout the world around a common philosophy: the value of the concept of the family company, real alternative to the multinationals.

It is not a brotherhood, the sectors in which the members carry on their activities are in fact highly diversified: craft industries, trades, services, publishing, heavy industry...

Nor is it a businesses club (certain firms may even be competitors). The Henokiens do not exchange services, they exchange only ideas.

### *Why Henokiens?*

In 1981, the idea of creating an association of bicentenary family companies came from the Chairman of Marie Brizard, a descendant of the creator (in 1755) of the first anisette. He decided to place it under the aegis of Henok (or Enoch) a name coming from the Bible.

Henok (or Enoch) was one of the greatest patriarchs. Cain's son and Methuselah's father, he lived before the flood, and was 365 years old when he ascended to Heaven without having died. After a year of research, Gérard Glotin, Chairman of Marie Brizard (with the help of 164 Chambers of Commerce and 25 embassy attachés) was able to identify 74 companies and among them made a selection of about thirty.

The first meeting took place in 1981 in Bordeaux. Since then, the Henokiens meet each year in a different country for their general meeting. For the year 2008 it was in Japan, 2009 in Switzerland and 2010 in Italy.

Each of the companies has a fascinating history. One can find at various times characters of legend and industrial adventures which could serve as inspiration for literature, television or film, all three media being great amateurs of dynasties.

Despite or perhaps because of their illustrious ancestors, the Henokiens are deeply rooted in the economic realities of the present and they manage their companies with talent, navigating between modernism and tradition, between know-how transmitted from the past and innovation or diversification.

Not resting on their laurels, always trying to do better than the previous generation, such are the guiding principles of the descendants. The development of their firms has been continuous.

But the power of a company is not a criterion to become an Henokien; preference is given to solidity.

That is why companies of very different sizes may be found among them, famous names or others less known by the general public.



# The Viellard Migeon Case Study

Author : Nicolas Battard

(ICN Business School)

# Local embeddedness as a driver for innovation: The story of VMC and steel transformation<sup>1</sup>

*‘We have to look towards the future, and be confident, but never forget that the history of VMC is deeply embedded in the past and the surrounding towns’* (Christophe Viellard – President of VMC, June 2010)

Viellard Migeon & C<sup>ie</sup> (VMC)<sup>2</sup> is a more than bicentenary industrial family-owned company specialised in the transformation of steel. The company is involved in three main activities: (1) the manufacturing of fish hooks and other fishing tackle, (2) production and distribution of welding consumables and methods, and (3) manufacturing of automobile, aerospace fasteners and medical implant devices. While all these activities take their roots in the forge industry in the Eastern part of France, one is particularly representative of the fine balance that the family has managed to maintain over the generations between tradition and innovation, and of the development of acquired knowledge to other activities: *fish hook manufacturing*. In line with the production of steel string, VMC started to make fish hooks at the beginning of the 20<sup>th</sup> century to now being one of the most important actors of this sector with four millions fish hooks produced per day. VMC is also the world market leader in the production and sales of treble hooks. The company exports 70% of its production over 70 countries and is still run by the Viellard family from the same area where the 4th generation started this industrial fishing tackle story.

## **FISH HOOK MANUFACTURING HISTORY: FROM MARKET RESPONSE TO WORLD LEADER**

The story begins in Morvillars, a small town close to the Swiss and German borders. In 1796, Jean-Baptiste Migeon and Jean-Baptiste Dominé acquire the forges of Morvillars and start the industrialisation of the town (see Appendix 1). In 1835, Laure Migeon, Jean-Baptiste Dominé’s granddaughter and Jean-Baptiste Migeon’s daughter, marries Juvénal Viellard who goes on to run the company and to diversify its activities. The two names are now reunited to

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<sup>1</sup> Version written by Nicolas Battard.

<sup>2</sup> <http://www.viellardmigeon.com/en/>

form Viellard-Migeon and C<sup>ie</sup>. At the time, VMC has not yet developed the fish hook branch. Indeed, a non-compete agreement was signed between European manufacturers of bolts and screws. Each company has its own geographical B to B market: G\*\* for the British and British Empire markets, K\*\* for the Germanic and central European markets, Mustad for the Scandinavian market and VMC for the French and French Empire markets. However, in 1909 Mustad starts a fastener manufacture in France and, therefore, breaks the non-compete agreement. In response to that, VMC decides to invest in the manufacturing of fish hooks, a promising market in which Mustad is already present. In 1910, VMC acquires a hook brand of diverse fishing items as well as manufacturing instrumentation located in Redditch in England. The instruments, together with ten families are brought back to France to safeguard the specific techniques that are required to shape fish hooks and swivels.

The growth of this activity goes along with a willing to focus on downstream activities because of the difficulties in the fastener industry. In the aftermath of World War II, the company faces the need to renew and automatise its equipment because of the Norwegian competition<sup>3</sup>. The production of salt water hooks is, therefore, enhanced with the acquisition of a tunnel oven allowing a 60% increase without hiring personnel. Still in order to meet the growing demand in the French Indochina and in the United States, two other factories are built – one in Brittany (Blain) and a second one in Switzerland (Courchapoix). Henri Viellard selected the site of Courchapoix because it is close to the border, located only 60km from Morvillars, to manufacture treble hooks for the US market. Then, an increase from 7.8% in 1939 to 12.1% in 1950 of the turnover shows the success of these activities.

The loss of Indochina (Dien Bien Phu in 1954) brings the period of prosperity to a premature end. The Swiss factory is sold and the salt water hook plant in Blain is closed. A definitive stop is even considered given the fierce Norwegian competitor Mustad. Turnover falls from 6 400 000 francs (about 17 593 000€, actualised value) in 1950 to 9 431 francs (about 26 000€, actualised value) three years later. The decision to cease the activity is, however, postponed and a reorganisation of the halieutic branch is undertaken. Ranges are reduced and more automation is implemented. Along with these measures, the number of employees is downsized from 300 to 196 and advertising is improved. Although a slight improvement can be noticed, the activity remains in deficit by 17 000 000 francs (about 46 733 000€, actualised value). Orders of 4 million hooks per month do not manage to balance the high fixed costs related to production, and the number of employees has again to be downsized from 126 to 95.

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<sup>3</sup> Lamard, P. 1996. De la forge à la société holding: Viellard-Migeon et Cie (1796-1996). Polytechnica: Paris.

Even though the automation of the production continues, the bad conjuncture and the competition put pressure on this activity and the deficit increases to 40 000 000 francs (about 109 959 000€, actualised value). From 1961, an increase of the orders from European countries enables the number of employees to increase from 75 to 98.

When Christophe Viellard heads this activity in May 1968, the activity is very unstable. However, Christophe Viellard succeeds in convincing the board that this activity has some potential. Equipment needs to be improved and an investment of 3 500 000 francs is made. With internal knowledge and competencies, a new technology is created and enables, four years later, to drastically improve the productivity of treble hooks from 5 000 pieces per day per employee to 60 000 per day per employee. With the first benefits comes the question of autonomy for the fish hooks manufacturing branch and after debates about the fear of losing control of the activity, a new subsidiary is created, VMC Pêche, with a capital of 2 600 000 francs. In 1981, as the activity increases, two new subsidiaries are created: one in the U.S., V.M.C. Incorporated U.S.A in Saint Paul, Minnesota; and one in Canada, V.M.C Pêche Canada Limited in Halifax, New Scotland. By being closer to the local markets, suggestions and complaints are treated more quickly. To counter a new kind of competition coming from Asia, the company undergoes more restructuration. The branch now exports in 60 countries and has become the second hook manufacturer in the world. In 2000, now world leader on the treble hook market, VMC Pêche merges with Rapala, the world leader in lures, in order to form one of the major actors on the fishing tackle market. Sport fishing is an important and growing globalised market which encompasses various technical products (see Appendix 2) where quality is of tremendous importance for users.

### **HOOKING INNOVATION INTO LOCAL KNOW-HOW**

At the time of the acquisition of the machines, employees were still doing manual work with the help of specific tooling. However, shaping fish hooks is directly related to the working of steel wires, as they both concerned the transformation of steel wires. In this sense, this acquisition provided more than just new machines and the start of a new business; it brought complementary knowledge to an existing know-how. Even though the activity was growing, the increasing international competition and the loss of markets forced VMC to innovate. An increase of the production was needed but without compromising the quality of the product and the financial health of the company. Automation was a way to reach such objectives. A key innovation came in 1970s with the development of a machine which would automate the

full process from the steel wire to the treble hook. This apparently simple product requires various very specific steps to be made such as cutting the point and the barb, bending the wire and shaping the eye to be knotted on the line. A fish hook can take various shapes and sizes to suit the fish that needs to be caught and the type of fishing that is practised. Treble hooks make the automation process more complex as three hooks must be welded together and hold in place when a fish is caught. Although this major innovation could have come from an external new engineering process, it was developed by a local employee who had always been immersed in this culture of ironwork. This new instrument has not been patented and is kept secret within the factory in Morvillars. Even after forty years after its conception, this instrument is part of the competitive advantage that VMC holds over its competitors.

To innovate, VMC combines both the know-how embedded in the culture of ironworks and that of professional fishermen. They created the lightest hook for competition, new reels, and so on and also improved their top-end products. These two types of innovation are both equally important as they provide the company with a competitive advantage regarding the manufacturing and new ideas for the shaping of the hook itself in terms of shape, size as well as other features. This fine balance which has enabled VMC to reach the position of world leader on this market is made possible by the involvement of the Viellard family in this market for over a century. By staying involved in this market despite the market and financial losses, personnel downsizing and crises, the Viellard family has gathered, over the years, a strong knowledge of this market and its dynamics. This involvement enabled the company to go through a phase of discovery and to build technological barriers such as this automation system in the 1970s. It also enabled the family to understand the underlying trends, technological innovations, macroeconomics effects and so on that are peculiar and significant to a market.

Whilst family stability enabled the gathering of knowledge, geographical stability enabled a culture to be forged. Although relocating production may have enabled the company to lower its production costs, this would also have jeopardised the knowledge related to ironworking and probably made it disappear. Indeed, it is the deep-rooted nature of the knowledge in the family and also in the local community that enables the process to be improved. Machines as well as the production process are, in this way, constantly improved by the operators and products by the collaboration with professional fishermen. It is this two-way innovation process that provides the company with a sustainable competitive advantage.

VMC provides a good illustration of how innovation can be fostered by both capital and geographical stability. By staying involved in the fish hook manufacturing for over a century, the Viellard family have learnt and understood the dynamics of this sector. They have been able to improve their production and the quality of the product by investing in new machines and also by taking advantage of the knowledge and know-how that are embedded in the company and the local community. This long-term involvement secures both the day-to-day activity and future developments by providing support and back up to middle managers. Indeed, as the family sees in an activity not only the return on investment or the internal rate of return, but also whether it is strategic for the company and whether it will secure its longevity, innovation is given a frame within which both employees and managers benefit from a space of freedom and are allowed to take risk and to innovate. By remaining 'loyal' to a product, a local area and the know-how of what the company has been doing for over a century, VMC has gone through crises, overcome the major economic downturns and is still maintaining its position as world leader.

## QUESTIONS

You are mandated by the Viellard family to help them to make a diagnostic of the company and to answer important questions regarding its future.

1. What are the strategic resources of VMC? Which ones are the most strategic?
2. What advice would you give to the Viellard family to further protect its strategic assets?
3. In context of fierce competition, cost control and managerial control are crucial for any company. Discuss the different options that the Viellard family has to maintain its costs without compromising its values. To what extent being a Henokiens (see Appendix 3) can influence the propositions?
4. Sport fishing is an important market in which VMC is growing. Growth of firms can lead to challenge the structure as well as the governance of firms. To what extent the growth of VMC might bring new challenges to its core values?

## Appendix 1. Key dates for VMC and the fish hook manufacture

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**1796:** Jean Baptiste Migeon, associate and son in law of his associate Jean-Baptiste Dominé, becomes director of the Forges in Morvillars.

**1835:** Juvénal Viellard marries Laure Migeon, Jean-Baptiste's daughter. He will, then, run the company and develops the activity of steel manufacturing and steel strings.

**1910:** In response to the construction of a fastener manufacture in France, Charles Viellard buys the production activity of fish hooks from Redditch in England to able the production of fish hooks and organise the venue of ten English families to Granvillars.

**1938:** The activity is transferred from Granvillars to Morvillars where a fish hook-dedicated factory is created.

**1960:** Decolonisation leads to the loss of several markets but also to the scarcity of raw materials and to the decrease of their quality.

**1971:** Christophe Viellard takes over the activity and brings new dynamics to the business.

**1974:** The first automated machine that enables the making treble fish hooks is created.

**1996:** VMC celebrate its 200<sup>th</sup> anniversary and becomes a member of the Henokiens Association.

**2000:** VMC joins Rapala, a lure manufacturer, to form Rapala-VMC.

**2005:** VMC strengthens its participations to become the first Rapala-VMC's shareholder.

**2010:** The Company receives the label 'Living Heritage Company' which rewards companies for both their industrial and traditional skills.

## Appendix 2. Fish hook's market

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Fish hook is one of the most ancient tools of mankind and was first made out of wood, shell, bones, and later steel and different types of alloy. The oldest fish hook was discovered in the East Timor and dated between 16 000 and 23 000 years old.<sup>4</sup> Although the fish hook got its basic ideal shape thousands of years ago, it is a very technical tool. Indeed, depending on the fish



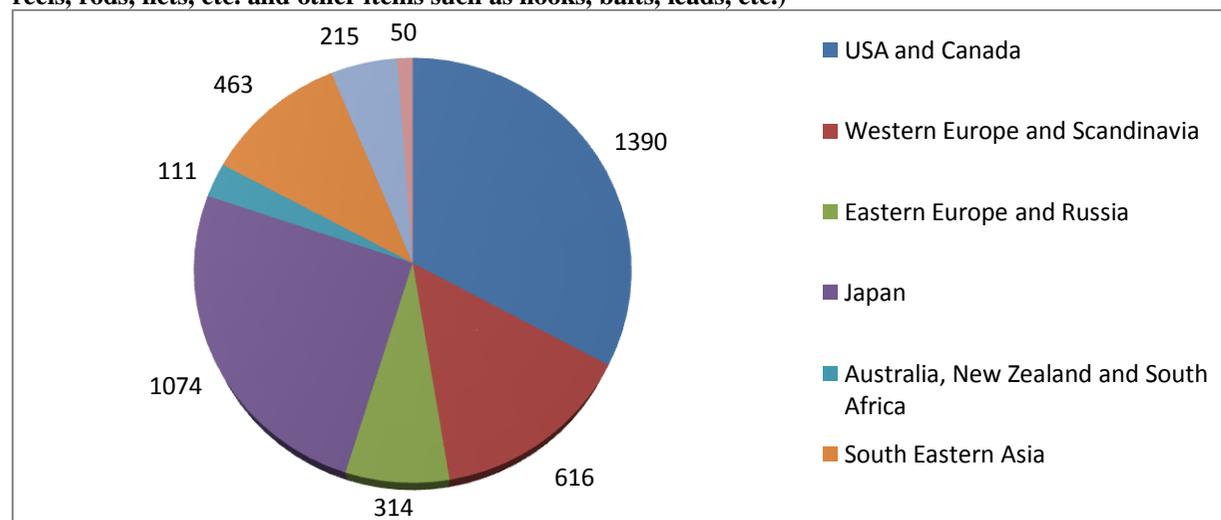
to catch, the characteristics of the fish hook such as the point, barb, bend, shank, and so on can take different forms. Innovation and the improvement of each of these characteristics are very important as even a tiny modification can increase the chance of catching a fish. Fish hooks are not only assembled with a mere line but also on different types of baits.

Sport fishing items are a growing market that is spread worldwide. North America and Japan are the most important market with respectively 33% and 25% of the world's wholesales (see graph below). However, Japan is the first country in terms of Average annual individual spending.

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<sup>4</sup> Corbin, Z. 2011. Archaeologists land world's oldest fish hook. Nature News, Nov 24, 2011. Last consultation: Feb 2, 2014. URL: <http://www.nature.com/news/archaeologists-land-world-s-oldest-fish-hook-1.9461>

**Sport fishing world's wholesale in million US \$ - June 2010 (including both equipment articles such as reels, rods, nets, etc. and other items such as hooks, baits, leads, etc.)**



**Sport fishing: World estimations (June 2010)**

(million US\$)	USA and Canada	Western Europe and Scandinavia	Eastern Europe and Russia	Japan	Australia, New Zealand and South Africa	South Eastern Asia	Central and Latin America	China	<i>TOTAL</i>
Hooks	42	18	16	31	5	23	11	7	<b>153</b>
Snelled hooks	25	30	12	48	2	32	11	1	<b>161</b>
Finished lines	5	11	4	9	1	7	5	0	<b>42</b>
Spinners	39	17	15	18	5	6	4	0	<b>104</b>
Hard baits	108	30	19	37	11	17	9	1	<b>232</b>
Soft baits	78	13	10	25	7	9	4	0	<b>146</b>
Other baits (flies, etc.)	7	1	1	3	1	1	1	0	<b>15</b>
<b>Total</b>	<b>304</b>	<b>120</b>	<b>77</b>	<b>171</b>	<b>32</b>	<b>95</b>	<b>45</b>	<b>9</b>	<b>853</b>
Fishermen (million)	50	20	25	26	6	30	51	20	<b>228</b>
Average annual individual spending (US\$)	27,8	30,8	12,56	41,31	18,5	15,43	4,22	2,5	<b>18,57</b>

### Appendix 3. The Henokiens

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The Henokiens<sup>5</sup> is an association of companies that have been within the same family for at least two centuries. Created in 1981 by the Chairman of Marie Brizard, a descendant of the creator of the first anisette, the Henokiens were placed under the protection of Henok (or Enoch) a patriarch of the bible and Noah's great-grandfather. The association gathers family-business from Belgium, Netherlands, England, France, Germany, Italy, Japan and Switzerland and from various sectors such as craft industries, trades, services, publishing, heavy industry, and so on.

Being in the same family for two hundred years is not the only condition to become Henokien. Indeed, companies must be in good financial health and share the philosophical values which are the core of the association: the value of the concept of family companies, a real alternative to multinationals.

Each company has a fascinating and inspiring history that challenges our conceptions of doing business. Indeed, they are deeply embedded in economic reality and manage to maintain the fine balance between modernism and tradition, or between transmitted know-how and innovation. Power is not a criterion to become Henokiens and solidity along with longevity is favoured. This why companies of various sizes and from famous to less known to the general public can be found among the Henokiens.

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<sup>5</sup> For more information, visit the Henokiens' website: [http://www.henokiens.com/index\\_gb.php](http://www.henokiens.com/index_gb.php)



# The Hoshi Case Study

Author : Tetusya Ohara

(University of St Andrews School of Management)

# LES HENOKIENS CASE COLLECTION

June 28, 2015

TETSUYA O'HARA



## HO-SHI

*Learn from water, learn by oneself*

*The business philosophy of 1300 years*

### **1. Outline of Ho-shi Ryokan and Its Spirit of "Omotenashi (Hospitality)"**

Ho-shi Ryokan, a 1,300-year-old hot-spring hotel, is situated in the Hokuriku hot-spring resort of Awazu in Komatsu City, Ishikawa Prefecture. It has the world's longest record as a lodging facility run by a single family.

Hot-spring hotels in Awazu<sup>1</sup> were originally built as lodging facilities for people who sought rejuvenation and cures for their illnesses. And during Japan's high-growth period of the 1960s to '70s many of these hotels were rebuilt into modern facilities, just like in other hot-spring areas. Chain hotels backed by big capital were also constructed one after another, and the town prospered. However, the collapse of the country's bubble economy in the early '90s forced most of the hotels in Awazu to close their business. Today, only ten hotels remain. Nevertheless, the surviving hotels are reinventing the small hot-spring town as an attractive destination, and some of the shine is returning to Awazu. The famous Natadera Temple, located nearby, adds atmosphere to this tourist area. The colorful Kutani pottery<sup>2</sup>, which was born in Ishikawa Prefecture and continues to evolve with the incorporation of modern styles and techniques, enchants visitors. The Kutani pottery village and Kutaniyaki Art Museum<sup>3</sup> are popular destinations among tourists. According to the statistics<sup>4</sup> for Ishikawa Prefecture, tourism to the prefecture in 2013 grew 2.7% over the previous year (2012) to 21.63 million people, of which the number of foreign tourists jumped nearly 50%

History,  
Geography  
and Culture  
of Awazu

from 162,000 to 242,000 people.

Ho-shi Ryokan<sup>5</sup> dates back to 718, when Taicho Daishi (a great teacher of Buddhism), who established Natadera Temple, found a hot spring by following the divine prophecy of Hakusan Daigongen (the deity of Mt. Hakusan). He ordered his disciple Garyo Ho-shi to build and run an inn for people seeking cures for their illnesses. This hot-spring inn, named "Ho-shi" after its first innkeeper Garyo (the first Zengoro), has continued for 46 generations. The present proprietor is the 46th Zengoro, and Ho-shi is a member of the Henokiens Association.

The History  
of Ho-shi

The Ho-shi Ryokan, with a staff of 70, welcomes 2,800 to 3,500 visitors each month<sup>6</sup>. Guests are welcomed by kimono-clad staff at the entrance of the wooden building. Upon entering through the entrance, one will see a large, tatami-mat area facing a graceful Japanese garden. All guests are treated by *maccha* green tea and Japanese sweets in this area. This is the beginning of the 1,300-year-old "*omotenashi*" (hospitality) spirit the guests will enjoy during their stay. The four lodging facilities are built around a beautiful Japanese garden. The guests can see the garden through glass windows from anywhere along the long corridors while they are guided to their room by the staff. The guests can also enjoy the pond, rocks and trees in the glass-walled lobby and lounge areas along the corridors. Before entering their rooms, the guests can feel as if they were transported to a "different world" which exists in Ho-shi Ryokan. Each guest room has a tatami floor and an alcove, and the large glass windows and doors through which the garden is visible make one feel as if he is resting in the middle of the greenery. At the center of the garden there is the honored guest room "Enmei-kaku," which has hosted historical figures, members of the Imperial Family and other dignitaries. The meals are basically Japanese, made with fresh local produce. According to the hotel's philosophy, "Hot dishes should be eaten hot and cold dishes, cold," some dishes are prepared right at the dining table. The price ranges are from 12,000 to 60,000 yen per person per night, including dinner and breakfast, while a night at the honored guest room costs approximately 200,000 yen<sup>6</sup>.

Ho-shi  
Artifact -  
Exceptional  
Hospitality

## **2. Sustainable Management Philosophy**

## -Being One with Nature and the Community – 小欲知足 Less greed and realization of enough

Natural Environment of the Region

Awazu, where Ho-shi is located, is approximately 20 minutes by car from the Sea of Japan, or 30km as the crow flies from Mt. Hakusan, whose summit is at 2,702 m above sea level<sup>7</sup>, and is surrounded by Hakusan National Park. Awazu is close to the ocean and the mountains, and it has abundant fresh produce. The waters from Hakusan make this area a great rice-producing region. Nature has always had an influence on Ho-shi.

Being One with the Community  
1. Natural Disasters

Ho-shi has experienced many typhoons, earthquakes, floods and other natural disasters over its 1,300-year history. Although no clear records remain that tell us exactly when they occurred, Ho-shi has surely sustained damage each time the Hokuriku region was hit by them. However, it has remained and the business has survived. According to the present proprietor<sup>6</sup>, the hotel survived the disasters by being "one with the community" and benefiting from the good fortune of happenstance. He also states that, through various crises in addition to natural disasters, the business has accumulated the wisdom to face and survive adverse events together with the community, and enjoy together what little happiness the events bring.

Being One with the Community  
2. Protect the Hot Spring

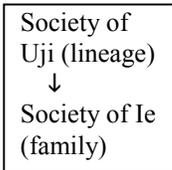
The community has had strong influence over the business not only in times of natural disasters, but also in terms of saving hot spring water in day-to-day operations. Hot spring water is a limited natural resource and will run out if used blindly. Knowing this, the community of Awazu has protected their precious natural resource by minimizing the pumping of hot spring water. Ho-shi's hot spring is approximately ten meters deep, which is far less damaging to nature compared to several other hot-spring resorts in Japan where the hotels are digging 1,000 m or deeper and pumping up hot spring water.

Less greed and realization of enough

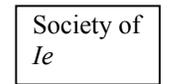
The traditional teachings, "return 80% of profit to others for their favors, and get by with the remaining 20%" and "sharing happiness with people brings good fortune" are still closely observed by Ho-shi today. Ho-shi also goes by the philosophy of "*shouyoku chisoku* (小欲知足 *less greed and realization of enough*)<sup>6</sup>". One should not be self-centered and must remember that one's being is at the mercy of nature and other people, and should

seek a balanced life with them. Ho-shi has practiced this, which is the one of secrets as to why it has survived for 1,300 years.

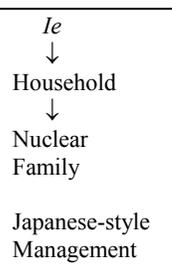
### **-Family and Staff Who Are Same as Family**



As in other countries, Japan has seen the meaning of "family" change with the changes in society. The "Society of *Uji* (ウジ lineage)<sup>8</sup>" that began in or around the first century was based on families sharing the same ancestors. In the eleventh century, the "Society of *Ie* (イヱ family)<sup>8</sup>" emerged, being centered on communities of people living together, and the tradition developed during the Tokugawa era and continued until the Civil Code of Meiji was enacted.



Characterized by the culture of "close relationships" as opposed to individualism, the Society of *Ie* focused on the relationships between individuals. It was also an extreme blood society, having a hierarchy in which families adopted children and couples in order to strengthen military force. To maintain the family continuity, the leader was succeeded by patriline, while the family had a strong management system and hierarchical structure to develop and cultivate land, be self-sufficient and fight. Additionally, each family was independent and free from external interferences. Under the decision-making system in the Society of *Ie*, all family members were considered equal and importance was given to consensus-building through informal communications among family members of different ranks. It was different from the majority system of the Western world.



Families (*Ie*) in the traditional sense were dissolved in the Meiji era. Social ranking was abolished, and "households" resembling traditional families (*Ie*) were created as legal entities, while individualism and the family system of Europe were adopted. Unlike in the Society of *Ie*, the next generation was no longer guaranteed a status or stipend. Instead, the head of the household assumed direct responsibility for the family's survival and development. Later, many of these "households" became nuclear families that lived in cities on salaried income, and family and production became separate. However, some of the characteristics of traditional families (*Ie*), such as the single-heir-policy, persisted in the

business entities run by local ruling families or wealthy farmers. Although blood relatives were gradually removed from the management of these family-run businesses, as the business size grew, the relationship between the master and the employee did not become heterogeneous. Rather it grew in affinity, creating a culture whereby the master protected his servant and the servant swore allegiance to his master. This affinitive relationship developed in Taisho and Showa eras, and consequently the corporate family or business family system was born. This in turn led to the creation of lifetime employment, in-company training, the employee welfare system and other key elements of what is called "Japanese-style management." Successfully growing loyal and self-motivating employees, this culture was also accepted by small and medium enterprises run by an owner-manager.

Ho-shi was already present in the Society of *Ie* period, and it survived the subsequent changes in society such as introduction of the "household" system and acceleration of the nuclear family after World War II. Nevertheless, the managing family of Hoshi still carries on the traditions of the Society of *Ie*. The present proprietor wouldn't know the specifics of how the social and family systems have influenced Hoshi over the course of 1,300 years during which Hoshi has kept its family business, but he reflects on the changes that happened from the time he was growing up until today. He talks about the meanings<sup>6</sup> of what his grandparents and parents did, the regret for certain things done in his time, questions about the current society and families, and advice for the next generation. In his reflections, one can find some clues on the new systems and management approaches that will be needed for family businesses to survive.

Ho-shi  
Family  
in the  
Society  
of *Ie*

In his grandparents and parents' time, all family members ate together and the parents taught family traditions to the children at the dining table. The staff also lived at the hotel and supported one another like a family. Moreover, the family and staff shared the same values and purposes, and there was a sense of loyalty that was similar to the one in the Society of *Ie*. In the present proprietor's time, however, the number of nuclear families in Japan has increased and the separation between family and corporation in family-run companies has accelerated. Sadly, the eldest son of the present proprietor of Ho-shi, who had been the obvious successor, died young. Because the remaining brothers are now in

Changing  
Families  
Before and  
After the 46th  
Zengoro

different trades, it isn't clear who will inherit the business. Thus, Ho-shi faces the crisis of continuing a family business brought on by the development of the nuclear family. A daughter of the present proprietor is now working at the hotel and learning the business so that she might be able to succeed to the business. The loss of the eldest son led the present proprietor to realize the importance of keeping strong ties between the family and business.

He also questions<sup>6</sup> the meaning of family in Japan today. Children should be taught in the family setting to respect their parents and recognize the importance of life, but this is not the case now. He suggests that the traditional values of family should be restored as a way to improve education. After World War II, Japan has approved of "Westernization" in many areas as a good thing, but it was a mistake to think of the strict value education within the family as "outdated" and blindly admire the freedom expressed in the Western world. He points out that the West has in fact valued the family education of mutual respect more than Japan has. He conveys the urgent need to do something to prevent family businesses in Japan from declining while those in Europe and the U.S. continue to grow.

Concerns over Family Education in Japan

The present proprietor's reflection on feedback infers the need to build a new approach to family business in Japan. That approach includes carrying on some of the advantages of the organization in the Society of *Ie* such as affinitive employment relationship and decision-making system while integrating the scientific and logical ways of running a family business in the West. This might shed light on the ideal relationship between the family and employees as well as between the family and the business.

Balancing the Family Organization and Western-style Organization

### **-Philosophy: 水から (自ら) 学べ Learn from Water, Learn by Oneself**

"Springing hot water is the only constant, and everything else has changed<sup>9</sup>," says the present proprietor. Ho-shi Ryokan has kept its door opened by relying on and learning from nature. The core of their management philosophy lies in the existence of nature.

Management Dependent on Nature

An important traditional philosophy<sup>6</sup> at Hoshi is "Learn from water (by oneself)" (the Japanese words for "from water" and "by oneself" have the same pronunciation, *mizukara*).

Learn from  
Water

We should learn from water, which changes shape to fit any container, flows from high to low without going against gravity, and enters any space it encounters. The concept is somewhat metaphoric, but with some imagination we can apply the teaching in many different situations. For example, when we join an organization we should first absorb the ways of the organization and try to adopt them; we should change ourselves to fit the current environment (short-term adjustment of the business, continuation of reform); and we should test byways in order to possibly break away from fixed views. The family and employees of Ho-shi have experienced the abundant blessings of nature and learned life lessons from them. Thus, "learn from water" indeed represents an emotional, philosophical, sustainable management approach that is as effective and valuable as the academic management theories taught today.

Learning by  
Oneself

Also, "learning by oneself" means learning from one's own experience in addition to being taught. "*Sottaku douji* (啐啄同時 breaking from the inside and outside at the same time; in other words "wait for the most opportune timing"<sup>6</sup>) is a philosophy that bears the same idea as "learning by oneself." As the chick breaks the egg from inside with the optimal timing when the hen pecks it from the outside, the one who teaches should refrain from showering the pupil with words. Instead, one should patiently wait for the student to learn by himself and provide guidance as necessary at the most opportune timing just like the hen pecks the egg from the outside. In other words, education must be balanced between, on one hand, excessive teaching to the point of inhibiting self-learning and, on the other, non-interference whereby the student is let alone and left to his own devices. "Learning by oneself" and "waiting for the most opportune timing" are the cherished philosophies at Hoshi in patiently teaching the next generation the values of family, ideal marriage and education. We should learn various things by ourselves without simply being forced by tradition or by simply copying the generation before us. The idea applies not only to family education but also to employee education. In today's fast-paced society, which constantly demands change, this thinking is increasingly relevant.

A movement has emerged in recent years among family businesses, which seek to eliminate the three '*mu*'s<sup>6</sup>--namely "*muri* (unreasonableness), *muda* (wastefulness) and

Value in  
Muri, Muda  
and Mura

*mura* (irregularity)"--in order to improve business efficiency. At Ho-shi, however, some "unreasonableness" is accepted by customers as tasteful things instead of trying to achieve perfect hospitality. Moreover, some seemingly "wasteful," time-consuming steps are considered important expressions of welcome, such as erecting support columns and securing tree branches with ropes in November to prevent the branches from breaking under the weight of snow in winter and thereby affecting the beautiful view, and then removing the columns and ropes in spring, or treating all guests to maccha green tea and Japanese sweets. Furthermore, value is found in "irregular" things such as services that change or are good or not so good according to the situation. We, as a society, may should have the wisdom or peace of mind with that we can appreciate *muri*, *muda*, and *mura* as pleasant and tasteful, instead of treating them as faults. At Ho-shi, these unreasonable things represent emotional values that family should "learn by oneself."

### **3. Issues in Recent Years and Going Forward**

#### **-Aging Facilities**

Aging  
Mammoth  
Facilities

Ho-shi has expanded its facilities several times. Particularly, it grew to huge proportions during the period of high economic growth when group tours gained popularity. The large communal bath had been moved multiple times before settling in its present location. The current buildings include large, reinforced-concrete buildings that have replaced the older structures, are showing their age and needed repair. However, the nearby modern and pretty hotels offering inexpensive packages are a threat to Ho-shi Ryokan, whose charges are relatively high. Because more and more people travel individually than in groups today, many giant hotels in other hot-spring resorts, including Japanese and Western-style ones, are struggling by running and labor costs, and closing the business. Hotels can't be updated continually in order to meet society's rapidly changing needs and travel modes. "It was a mistake to demolish the old structures and build reinforced steel buildings, but we didn't know that then. From now on, we should decide not according to the changes in society but based on our own set of values, regarding what to change and what not to change," says the present proprietor in a regretful tone.

Balancing  
the Long-  
Term and  
Short-Term  
Strategies

The issue of repairing aging facilities must be considered in the context of overall business management of the company, as it requires significant capital. It's necessary to balance the long-term and short-term strategies. Synthesizing various strategies including conserving cash, adjusting loans, observing the subtle changes in the society in short term, and setting a company's long-term vision, Ho-shi should determine which part has more priority to reconstruct and make a solid plan. Creative thinking is crucial to success to maintain large facilities.

### **-Maintaining High Quality**

Influence  
from  
Deflationary  
Economy of  
Japan

The quality of other areas than facilities, such as meals, garden maintenance and human services, must also be given consideration. The business approaches based on low-quality, low-cost, and low-ROI (return of investment) that have taken roots in Japan over the many years of its deflationary economy is pressuring Hoshi and other businesses that have thrived on high quality and added value to do the opposite. The challenge is to respond to the pressure in a sensible way while ensuring that the next generation continues the hotel's values and traditions.

Differentiation

Ho-shi must first recognize what represents high quality, such as the history and ambience of its Japanese garden, the design of the hotel's Japanese-style buildings, the meals and ingredients, and other aspects not usually found in other Japanese or Western-style hotels. It's also important to prioritize the items whose quality must be maintained, according to the hotel's vision and preferences of society. Additionally, ingenious measures must be taken to spread information to customers about what separates Ho-shi and its high values from other low-priced hotels. This way, the guests will not feel unsatisfied with the high prices they pay because they can see the value. There are various methods can be considered in order to draw more customers, such as developing hotel packages targeting foreigners as well as repeat customers who understand very well the value Ho-shi offers, and creating the new ways of hospitality for health-conscious and nature-loving customers with taking a fresh look at hot spring as a source of "cures for illnesses" not only a place for

recreation. Thus, it is necessary to offer services that allow the customers to recognize the difference from other hotels in order to fascinate more customers despite of high price.

### **-Ties with the Family and Employees**

Absence of  
Successor

The passing of the present proprietor's eldest son made the heir to the Ho-shi business no longer apparent. The present proprietor states, "I will choose the successor by considering who might fit well to do the duty." The process of choosing the successor may strengthen the family ties as the family members recognize what unites the family and how the next generation should be educated.

Aging  
Employees

They also have the issue of aging of the employees. The young generation must be recruited and educated. The traditional system of employees living on the premises like family and receiving education in the environment no longer works for today's society. Because it's impossible to nurture employees by sharing the value set and vision of the company in a casual setting of day-to-day life, Ho-shi must send its employees to outside seminars for the development of leadership, teamwork and other skills, or adopt systematic employee education which is appropriate for its management style under the guidance of outside advisors. Although the mode of employee education may change, the advantages of the family-run business should be maintained by ensuring that what is taught is consistent with the philosophy of "learning from water (by oneself)" and values of "unreasonableness, wastefulness and irregularity" that the family has handed down through generations.

## **4. Summary: Building a Family Enterprise**

### *- Family or Business?*

Ho-shi, as it goes forward, must find ways to integrate the mutually exclusive concepts of "**family**," where love between the parent and child, the equality of siblings and other emotional elements are given priority over numbers, theories, or rationality, and "**business**," whose purpose is to eliminate wastefulness, unreasonableness and irregularity and to generate profit by analyzing data, utilizing technology and organizing.

Paradox

*- Individual or Whole?*

"We have built a history, and I'm responsible for handing down that history and maintaining the hot spring. That's why I have to bear with many things and endure it all," states the present proprietor. What are the choices available to him to fulfill his personal responsibility and role in the organization, while satisfying the individualism he was taught to advocate after World War II? Ho-shi, like other family businesses, has a conflict in between the individual and the whole.

*- Long-Term or Short-Term?*

As long as Ho-shi is part of economic society, its business will be influenced by temporary modes. Thus it must develop strategies for response to these temporary things. On the other hand, in order to hand down its tradition over many generations, Ho-shi must also adopt strategies that reflect its long-term perspectives.

It is therefore necessary to build a family enterprise that can conceive business strategies to meet the aforementioned paradoxes. In regard to family governance, Hoshi should create a book explaining the history of the family and Ho-shi Ryokan, clearly present the mission statement of the family, prescribe and document a set of rules, and organize periodic family meetings and social gatherings, education seminars to nurture next-generation leaders and other events. Furthermore, Ho-shi should improve the skills of its family members and business staff in order to ensure better communication between family and business, and keep the consistency of both visions by which the enterprise has always functioned.

Building a  
Family  
Enterprise

Additionally, it is necessary to paint the picture of ideal new leaders. The new leaders should be deeply loving and caring with respect to family ties. However, such leaders should also continue to run the business successfully with their emotional intelligence. The new leaders think "outside the box" and patiently implement long-term strategies that consider the generations of their children and grandchildren but, at the same time, are sensitive to short-term currents and shifts in society. The new leaders are not reluctant to freely depart

Ideal New  
Leaders

from the existing framework, while having planning skills and acts reasonably at the same time. They are kind and compassionate, but also rational and respectful of efficiency. Ho-shi needs leaders and family members who can handle these seemingly contradictory things.

Ho-shi, in trying to grow its next successor, is at the juncture where it must tackle various issues and find creative business solutions so that the 1,300-year-old business will continue to run and prosper. First and foremost, Ho-shi must take a fresh look at the assets and values that have been handed down through generations, and build a strong-knit family that has a unifying vision of the future. The philosophy of "learning from water (by oneself)" is the foundation of the workings of family, and the concept must also be applied to the business for the sake of consistency. Ho-shi is indeed at the crossroads of balancing the family and business and trying to grow and develop as a family enterprise.

Building a Family Enterprise by Drawing on the "Learn from Water (by Oneself)" Philosophy

A family business is complex and difficult, but these factors make it all the more feasible to make the business stronger. After 1,300 years of learning from water (by oneself), Ho-shi is well positioned to achieve it.

#### Questions

- What is their secret as to the maintenance of their phenomenal multi-generational lifeline?
- What were and are the challenges they have recently faced in terms of transition and how do they expect to secure a stable future leadership for the coming half century?
- Which typical assets could favorably be adopted in other family run enterprises?

## Endnotes

<sup>1</sup> Awazu Hot Spring <http://www.awazuonsen.com/>

<sup>2</sup> Kutani Pottery Museum <http://www.hitwave.or.jp/kutani/index2.htm>

<sup>3</sup> Kutaniyaki Art Museum <http://www.kutani-mus.jp/en/>

<sup>4</sup> Statistics of Tourism in Ishikawa Prefecture 2013  
<http://toukei.pref.ishikawa.jp/dl/2848/kankoutoukei25.pdf>

<sup>5</sup> Ho-shi <http://www.ho-shi.co.jp/>

<sup>6</sup> Zengoro Hoshi, The 46<sup>th</sup> proprietor, Owner, interview, April 24, 2012; April 17, 2014; November 20, 2014

<sup>7</sup> National Park of Japan <https://www.env.go.jp/en/nature/nps/park/parks/hakusan.html>

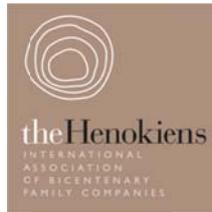
<sup>8</sup> A Study of Global Economic Crisis and Diversity of Capitalism  
[https://www.mof.go.jp/pri/research/special\\_report/f02\\_2011\\_03.pdf](https://www.mof.go.jp/pri/research/special_report/f02_2011_03.pdf)

<sup>9</sup> This Japanese Inn Has Been Owned By The Same Family For 1300 Years  
<http://digg.com/video/this-japanese-inn-has-been-owned-by-the-same-family-for-1-300-years>



# The Friedr. Schwarze Case Study

Author : Andrea Calabrò  
(Witten-Herdecke University)



**Friedr. Schwarze**

**The Friedr. Schwarze GmbH & Co. KG**

*A Hénokien through Family and Business Cycles*

by **Andrea Calabrò, Ann Sophie Loehde & Tom Rösen**

**Prof. Dr. Andrea Calabrò**

Full Professor/Chairholder, Chair of Business Administration & Family Entrepreneurship  
University of Witten/Herdecke, Witten Institute for Family Business (WIFU), Germany  
E-mail: [andrea.calabro@uni-wh.de](mailto:andrea.calabro@uni-wh.de)

**Ann Sophie Loehde**

PhD Student at the Chair of Business Administration & Family Entrepreneurship  
University of Witten/Herdecke, Witten Institute for Family Business (WIFU), Germany  
E-mail: [ann.loehde@uni-wh.de](mailto:ann.loehde@uni-wh.de)

**Prof. Dr. Tom Rösen**

Managing Director, Witten Institute for Family Business (WIFU)  
University of Witten/Herdecke, Witten Institute for Family Business, Germany  
E-mail: [tom.ruesen@uni-wh.de](mailto:tom.ruesen@uni-wh.de)

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## 1. Introduction and motivation

If we look back on what is nowadays a 351-year family firm, its history, tradition, legacy, and evolution can be summarized by the motto: “Brands, people and milestones”. The Friedr. Schwarze GmbH & Co. KG was, indeed, able to preserve and nurture its traditions and values with a real passion for details. Honoring the family inheritance, ensuring trustful partnerships and good employee relations, listening and reacting to customers’ needs are all equally important elements of the company philosophy and represent the key for sustainability through time and over generations. The Friedr. Schwarze GmbH & Co. KG puts high emphasis on always looking ahead by setting new market trends with the introduction of new brands at the right time, acquiring exciting products, and reshaping, as well as, further developing existing brands. Is this the core of a “secret” or “magic formula” that made it possible for this family firm to survive for more than three centuries and across changing times?

Writing about the Friedr. Schwarze GmbH & Co. KG has been a unique, exciting, and challenging experience. Exciting, especially because it is not so common to have the opportunity to investigate such an “old” family firm. Moreover, it becomes even more exciting if you realize that it is not just about a firm surviving for more than 350 years, but that it is also a unique opportunity to understand how is it possible for the family to preserve its legacy and perform its influence along this exceptional time-frame. Is this maybe another part of the Schwarze family’s “secret”? Is keeping family control and influence through time and generations a *conditio sine qua non* to survive for such a long period in a sustainable way?

Among others, these have been some of the main reasons why we have decided to take the challenge to start our journey through the Friedr. Schwarze GmbH & Co. KG case. Our aim is to explore, get to know, reflect, understand, and systematize this very interesting case of an exceptionally long lasting family firm.

Different angles of observation have been assumed to fully grasp the main elements and different aspects of this case at hand. They will be presented along its development and we hope you will enjoy this journey and take the opportunity to reflect and challenge, through your own perspective, some of the aspects being presented and discussed.

## **1.1 The Schwarze family and *Les Hénokiens* association**

One of the main distinctive characteristics of Friedr. Schwarze GmbH & Co. KG compared to many other family firms is its ability to survive for more than three centuries. How is this possible? Is it a special “episode” which only applies (or happens) to family firms? Furthermore, and elaborating more on the last question, is this a special case of a Darwinian effect which just few family firms worldwide have been able to achieve? Indeed, also among the universe of family firms, it cannot be taken for granted that by being a family firm, the family will always be able to preserve its control over the firm and as such survive as entity. These and other fundamental questions about family firms’ longevity and survivability are addressed and explored by the *Les Hénokiens* association which is localizing, understanding, and connecting family firms from around the globe that are older than 200 years.

You might agree with us in saying that this is a special setting to investigate, analyze, and discover more about the “magic formula” or the “untold secret”, which has allowed those family firms and in particular the Friedr. Schwarze GmbH & Co. KG<sup>1</sup> to survive throughout time, history, environment, and sometimes, also, themselves.

## **1.2 Main focus of the case study: Key research questions**

In order to identify the distinctive aspects of the Friedr. Schwarze GmbH & Co. KG, we have used a combination of deductive and inductive approaches. Being one of the central investigators active for many years in the family business research field, we were able to use existing knowledge and capabilities in order to derive some core research questions. This lens of analysis, stemming from previous research and practical experiences on family firms, leads us through the first part of the analysis. Nevertheless, as the main antecedents of longevity and survivability throughout time are still uncovered, demanding for further investigation, we have decided to use an additional inductive approach by keeping the exploratory aim of this case study through a set of discussion points (through the means of a semi-structured interview), which have allowed us to maintain the discovery and exploratory character of this journey.

In sum, by combining an explanatory and exploratory case study research setting through deductive and inductive techniques, we believe to have reached a sophisticated level of

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<sup>1</sup> Friedr. Schwarze GmbH & Co. KG is a member of *Les Hénokiens* association.

understanding the Friedr. Schwarze GmbH & Co. KG. The main research questions, which we approach, are listed below:

- How have the family and the firm evolved in the timeframe where Mr. Friedrich Schwarze has been in charge (relating also to industry and market developments)?
- How have the family, ownership, and governance structures as well as mechanisms evolved from the 10<sup>th</sup> to the 13<sup>th</sup> generation?
- Which future developments in terms of family shareholders and management of the firm will Friedr. Schwarze GmbH & Co. KG face?
- How have the succession processes in ownership and management been managed? How will they be managed in the near future? What will happen in the 13th generation?
- What are the governance mechanisms (formal and informal) that were in place, are in place, and possibly need to be implemented for the future?
- Have there been critical situations from one generation to the other and through which mechanisms have they been managed and solved?
- What is the vision of Mr. Friedrich Schwarze on how to successfully and sustainably manage family-related and business-related goals in order to survive for so long and across different generations?
- What is the actual structure of the business group?
- How has Mr. Friedrich Schwarze considered or does consider critical aspects in some “specific” decision-making processes? And, which actions have taken place during his time in the firm?
- How does the international outlook of the firm look like? What are the plans for the future?
- How is it possible to manage so many different brands and keep the Friedr. Schwarze GmbH & Co. KG’s identity still visible for potential customers and also for future family shareholders/managers?

### **1.3 The methodology**

To develop this case, we used a consolidated research approach widely recognized and accepted in management, entrepreneurship, and family business research: the case study analysis. This method, if rigorously conducted, offers the possibility to explore, understand, and systematize the evidence emerging from the case. Hereafter, we will motivate why a “single case

study<sup>2</sup>” design is most appropriate and what have been the main “units of analysis”, “within the case” we decided to focus on.

Specific steps have been followed in order to systematically gather useful data and subsequently develop the case study. They are summarized hereafter:

- **Step one:** *secondary data collection* through multiple sources (*construct validity*) and understanding of the firm and the family (also via an initial direct contact to Mr. Schwarze). The aim was to get preliminary knowledge in order to properly prepare the case study protocol (*reliability*) and the subsequent face-to-face interview with Mr. Schwarze. In this step, we have conducted a “preliminary” telephone interview<sup>3</sup> with him in December 2014 in order to introduce each other beforehand and used this opportunity (without a fixed protocol) to discuss some core aspects of his family firm. In this phase we have specifically focused on:

- a) Understanding the structure of the family firm (and the business group). A visual representation is included at the end of the section.
- b) Understanding the genogram of the family with a focus on the 11<sup>th</sup>, 12<sup>th</sup> and 13<sup>th</sup> generations. A figure at the end of the section provides a comprehensible overview.
- c) Understanding the evolution of the firm by analyzing the period since Mr. Schwarze has been in charge (relating also to industry and markets developments);
- d) Discussing directly with Mr. Schwarze other aspects we have learned about the family firm (through our secondary data collection).

- **Step two:** developing the structure of the *questionnaire*, which has been used for the *semi-structured interview* with Mr. Schwarze. The questionnaire was sent to him in advance to provide the opportunity to think about the questions and develop additional discussion points. In this step we have investigated some main aspects such as the *family structure, the ownership structure and governance mechanisms, strategic decision-making processes and actions, industry and firm environment*<sup>4</sup>. The interview was conducted in English and recorded in order to be able to subsequently write a transcript.

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<sup>2</sup> Specifically, we use a single case study, which is embedded in a strong family context as we focus on multiple units of analysis within the case.

<sup>3</sup> The one-hour telephone interview was recorded and then transcribed. Two interviewers were present next to Mr. Schwarze.

<sup>4</sup> Those aspects were investigated by taking as a reference point the 12<sup>th</sup> generation (incumbent), which is currently active in management (Mr. Schwarze is the CEO). A comparison was made also in relation to the 11<sup>th</sup> generation (past) and the 13<sup>th</sup> generation (incoming).

- **Step 3:** preparing the transcript and start drafting the final case. In this phase we developed the overall storyline for the case by integrating the two previous parts based on explanation building, using logic models and addressing rival explanations (*internal validity*). Once the case was completed, Mr. Schwarze was asked to read and comment on the text in order to approve the final written statements. In case of disagreement on some points the open issues were further discussed (*construct validity*)<sup>5</sup>.

## **2. The Friedr. Schwarze GmbH & Co. KG: the family firm and its evolution through time**

The origins of the Schwarze family in Westphalia can be traced back to the 17<sup>th</sup> century, offering the first documentations about the family firm. What started as a small distillery in Westkirchen is today an internationally successful firm with a portfolio of more than 60 different spirits and liquors. Tradition, economic developments, and the commitment of twelve generations have contributed to shaping the family firm, which is today known as the Friedr. Schwarze GmbH & Co. KG.

### **2.1 Origins and historical perspective**

By the middle of the 17<sup>th</sup> century, the young Joan Schwarze emigrated from the small village Beelen to the neighboring Westkirchen, where he earned his high reputation as tax collector. He is said to be the founder of “Swartens Hoff und Brennhaus”, founded in 1664 in Westkirchen. The business specialized on producing cereal liquor, called *Korn*, from local surplus harvest, which is considered the cornerstone of today’s liquor producing Friedr. Schwarze GmbH & Co. KG. What started off as a “byproduct” of farming in the 15<sup>th</sup> century to make use of surplus harvest, had by then developed to be an integral part of the local culture. In 1483, Michael Schrick, a doctor from Westphalia, wrote the following: “*Wer alle Morgen trinkt geprant Korn ain halbe Löffel vol, der wird nymer krank*”, which can be translated as “*Who has half a spoon of Korn every morning, will not get ill anymore!*” Thus, entering the business of *Korn* production was following the cultural context of Westphalia at those times, and Joan

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<sup>5</sup> As the main purpose of the case study is to foster the discussion and reflection among potential readers (with and without a family background), we have decided to not use theories in order to strengthen some of the main explanations, logic models and patterns concerning the case. Hence, we have decided not to check explicitly for *external validity*. We believe that in this way we can preserve the readers’ inductive approach throughout the case.

Schwarze had the financial means to set-up the required infrastructure for local production. Joan Schwarze's grandson Joan Hermann Schwarze (1716-1794) succeeded the business in his early twenties and decided to move it to the up and coming town Wigbold Oelde, not far from Westkirchen.

In 1836, Gottfried Schwarze decided to gain some experience in the new world before entering the family firm and spent one and a half years in America to learn about their technical progress. Upon his return, he modernized the production process, introduced new technologies to ramp-up production and to reduce costs. Just in time, as he would learn later. Leveraging these new technologies, he was forearmed to face the growing competition from the potato spirit distilleries, offering a cheaper product to the rather parsimonious Westphalians.

At the same time, the first network of railroads was set-up in Westphalia and with it the Cologne-Mindener railway connection. The establishment of the rail system fostered the economic development of the area. From 1844 onwards, the railway connection allowed Schwarze to expand its distribution network to areas outside Westphalia and earned new customers. The Company started to sell bulk grain spirit to the East of Germany and thus gained a leading market position. Further, the entire area experienced an economic upswing during that time, hence regional sales also increased.

To conclude, the industrialization of the 19<sup>th</sup> century was a blessing for the well-managed Schwarze family firm. They enjoyed a competitive advantage due to their highly modern production site, a solid customer base in Westphalia, high brand identity and proximity to the railway network, allowing the distribution of their products to the wider region, thus reaching a broader potential customer base and increasing their brand visibility.

## **2.2 Milestones**

As described above, the first documentation of the Schwarze distillery is the "Swartens Hoff und Brennhaus" founded in 1664 in Westkirchen. Here the foundation stone of today's Friedr. Schwarze GmbH & Co. KG was laid. The next major documentation is the relocation of the production site to the more populated Wigbold Oelde around 1740 initiated by the young Joan Hermann Schwarze, who married the daughter of the major of Oelde and moved his production and business to Oelde. The newly set-up distillery focused on its core product *Korn*, maintained the traditional and proven methods of production and carefully cultivated the regional market with a strong focus on building a brand on the high quality of their products and the strong family

commitment.

Almost one century later, in 1836, Gottfried Schwarze decided to travel to the New World (America) before taking over the family firm in order to learn more about the use of new technologies. Upon his return, around one and a half years later, he modernized the production plant based on his obtained knowledge and experiences on the other side of the ocean. The main aim was to increase productivity and save costs through the use of new technologies, while at the same time preserving the traditional art of distilling.

From today's perspective, he basically implemented the just-in-time logic within his firm. In 1844 the establishment of the Cologne-Minderer train connection fostered not only the customer base, reach and growth potential, but also the competition. There was a particular increase of new and modern distilleries using the cheaper potatoes instead of cereal, which confronted the traditional distilleries with severe challenges. However, the lucky combination of the modernization of the production process and, just a couple of years later, the industrialization of the Westphalian region, secured Schwarze a sustained competitive advantage. They could produce at reduced costs and expand their distribution network to different geographic regions, hence ramp-up production even further. This ensured success, while many of the regional distilleries could not compete with the increasing price pressure.

In 1912, Friedrich Schwarze (10<sup>th</sup> generation), at the time running the family firm, claimed legal protection for the "typical black and white image" of showing a farmer as trademark of the Schwarze Company and Brands. At that time, this was a very visionary step, as branding had not been established as typical business tool yet, especially not in the distillery industry. When Wilhelm Schwarze<sup>6</sup> (1914-1998), 11<sup>th</sup> generation, took over from his father in law, he built on this visionary marketing strategy and creates the brand "Schwarze Weizen Frühstückskorn" the flagship for quality and tradition of Schwarze. Instead of focusing on the local market, he turned Schwarze into a well-known brand for high-quality products with a strong image representing a century-old family tradition. He established a Coca-Cola franchise in 1951 and hence founded a second enterprise for the Schwarze family.

In the early 1980s, Friedrich-Wilhelm Schwarze (hereafter Friedrich Schwarze), belonging to the 12<sup>th</sup> generation, entered the family business as the third born child (but firstborn male) of five children. At first, he was solely responsible for the franchise with the Coca-Cola company

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<sup>6</sup> Mr. Wilhelm Schwarze (born Brüning) married Ms. Ilse Schwarze (daughter of Mr. Friedrich Schwarze (grandfather) and mother of Mr. Friedrich-Wilhelm Schwarze (grandson)).

(which will be discussed in more detail hereafter) and later managed the family firm together with his father. After acquiring Koenig & Schlichte and their portfolio of traditional and established brands in 1990, they founded the Schwarze & Schlichte distribution company, which later played a major role in the successful internationalization of several brands. Between his entry in the company and the establishment of the distribution company, Friedrich Schwarze subsequently and smoothly took over responsibility until he finally became CEO in 1990.

Due to the strategic location and extended portfolio, the spirits production was moved to Steinhagen in 1992, mainly to overcome capacity constraints. Between 2001 and 2004, the acquisitions of several traditional German and international brands led to further diversification of the portfolio, without ever losing the core traditions and values of the Schwarze family. In 2003, the Friedr. Schwarze GmbH & Co. KG purchased the spirits division of the *Racke Group* and due to the far larger volume, relocated the Schwarze production to *Rinteln*.

### **3. The Schwarze family: structure and generations**

The family tree allows for a good understanding of the broad family structure as well as the evolution of the Schwarze family and the involvement of its members in the firm along 13 generations. By preserving traditions and values for more than 350 years, the family kept the business together. As the scope of the case study is to investigate and understand the current development of Friedr. Schwarze GmbH & Co. KG, we will mainly focus on the family structure

with specific reference to the 11<sup>th</sup>, 12<sup>th</sup> and 13<sup>th</sup> generations. By taking the 12<sup>th</sup> generation as main reference point (the one to which Mr. Friedrich Schwarze belongs and which has currently influence in the ownership and the management of the firm), the main aim is to understand structures and dynamics of this generation (*current* generation) in comparison to the predecessors (11<sup>th</sup> generation, the *past*) and the incoming one (the 13<sup>th</sup> generation, the *future*).

#### **3.1 The past, the present, and the future: focusing on the 11<sup>th</sup>, 12<sup>th</sup>, and 13<sup>th</sup> generations**

The generation currently leading the family firm is the 12<sup>th</sup> mainly represented by Friedrich Schwarze through his role as major shareholder and Chief Executive Officer (CEO). In the following section, we aim to depict how involvement in ownership and management has been transferred from the 11<sup>th</sup> to the 12<sup>th</sup> generation and to what extent the succession to the 13<sup>th</sup> generation is already under way. This way of analyzing family involvement in a family firm,

despite its challenges, offers a unique opportunity to grasp the essence of the family firm and allows the investigator to understand the antecedents of governance structures and mechanisms as well as strategic decision-making processes.

### *3.1.1 The 11<sup>th</sup> generation*

Friedrich Schwarze (10<sup>th</sup> generation) and his wife had four children, one son and three daughters. His son died and the 11<sup>th</sup> generation of the Schwarze family hence consisted of: Ilse Gertrud, Margret, and Hannah Schwarze. Core players in the 11<sup>th</sup> generation were Ilse Gertrud Schwarze, born Schwarze, and her husband, who took on the Schwarze family name after marrying Ilse Gertrud. She held 52% of the shares, which she received from her father. He was strongly in favor of having a majority of shares held by one tribe of the family to allow for a smooth management process. Her sisters Margret and Hannah each held only 24%.

In this context, it is of highest importance to mention that Friedrich Schwarze was originally planning to pass on the family firm to his son, as this was the tradition in the Schwarze family until then (succession based on primogeniture). However, as his son had fallen during the Second World War, he had to rethink the traditional succession strategy followed until that time. He came to the conclusion to split the ownership among his three remaining daughters, but to give the majority of shares to Ilse Gertrud, who was married to Wilhelm Schwarze (born Brüning), whom he held capable to manage the family firm. Wilhelm Schwarze held a leading position (CEO) in the family firm, after marrying Ilse Gertrud in 1947 and taking on her name. Margret also worked in the firm for about ten years, but not in a leading position. The third sister Hannah was shareholder but never worked in the company.

Ilse Gertrud, according to a “family shareholders’ agreement (contract)”, which was established by her father in 1953, had the right to buy out her sisters. However, she always preferred to keep harmonic relationships among siblings. When Hannah died in 1963, the shares were inherited following the last will of the late Friedrich Schwarze, their father. He was aiming at bringing ownership under the control of one family tribe. He had decided to redistribute Hannah’s 24% of shares between Ilse Gertrud (who got 18%) and Margret (who got 6%). Around the same time Ilse Gertrud transferred 4% of her shares to her husband, leading at the end of this succession in ownership phase to the following ownership structure for the firm in the 11<sup>th</sup> generation: 66% Ilse Gertrud Schwarze, Margret Schwarze 30%, and Dr. Willem Schwarze (Ilse Gertrud’s husband) 4%.

### 3.1.2 The 12<sup>th</sup> generation

As described in the previous section, the late Friedrich Schwarze's last will to keep the family firm under the control of only one family member leaves the family tribe of Ilse Gertrud Schwarze and her husband, Wilhelm Schwarze who jointly owned 70% of the shares. They had five children who would represent the 12<sup>th</sup> generation. It is also important to mention that neither Margret nor Hannah had children, thus the 12<sup>th</sup> generation completely derived from the family tribe of Ilse Gertrud Schwarze.

Mr. Friedrich Schwarze (our interview partner and current CEO of the family firm) is the third (in birth order) among the five children of Ilse Gertrud and Wilhelm Schwarze. He has two elder sisters Margret (firstborn) and Ursula (second born), one younger brother Joachim Arthur (fourth born), and a younger sister Gertraud-Irmgard (fifth born). Our interview partner Mr. Friedrich Willem Schwarze is the firstborn male, suggesting, as traditionally done before in the Schwarze family, he would surely be the successor of the family firm by applying a *de facto* primogeniture rule (the oldest boy gets it all logic). This is a very interesting aspect that has to be considered when trying to understand succession dynamics and logics in family firms that have traditionally been based on the primogeniture rule and, if not possible, on the eldest son logic. Indeed, the importance of this informal norm is also suggested by Mr. Schwarze during the first phone-interview: "*Since its origins, the structure of the business has always been like the one of a big farm [...] the one who runs the business gets most of the land or all of it*". As it clearly emerges from his statements, in addition to the traditional primogeniture logic there are additional motivations leading to the decision to always "prune" the family tree from one generation to the other, and the main reason is to give to the leading family member also the authority and decision-making power to efficiently run and manage the family firm.

Mr. Friedrich Schwarze received 12% of the shares – out of his aunt's (Margret Schwarze) 30% ownership of the family firm – in the course of his baptism. His grandfather, Ilse Gertrud's father, initiated this, as Friedrich was the eldest son and thus potential successor for the family firm. This direct ownership transfer is a step which is in line with his wish to make sure that there will be only one family tribe who manages the firm. Friedrich-Wilhelm is the only among his siblings who directly received shares from his grandfather.

Mr. Friedrich Schwarze's mother (Ilse Gertrud Schwarze) suddenly passed away in 1982, without leaving a clear will on how to distribute her shares; only a document stating she wanted them to be distributed among her children. The ensuing discussion evolved around the most

efficient allocation of Ilse Gertrud's shares. As Friedrich already held 12%, which he received from his grandfather, he would have been the most logical successor fully in line with his grandfather's wish to always establish a majority in one tribe. However, as this solution was neither in line with Ilse Gertrud's wish and might have caused tensions among the siblings, the option of equal allocation was preferred. In the end the following allocation of shares was agreed: Wilhelm Schwarze received 6% of the shares and the remaining 60% were equally distributed among his five children thus leading to 12% each.

After this ownership succession the new ownership structure looked as follows:

- Mr. Friedrich Schwarze held 24% (12% from his grandfather and 12% from his mother);
- Ms. Margret Schwarze held 12% (from her mother);
- Ms. Ursula Schwarze held 12% (from her mother);
- Mr. Joachim Arthur Schwarze held 12% (from his mother);
- Ms. Gertraud-Irmgard Schwarze held 12% (from her mother);
- Mr. Wilhelm Schwarze held 10% (4% from his wife and now 6% again from his wife).

As the only one of the five siblings, Friedrich always showed an interest in working for and eventually running the family firm as successor. Starting in the early 1980s, he joined the family firm on different levels, trying to find his place in the firm next to his father. Friedrich became CEO of the Coca-Cola franchise in 1987 and of the traditional family company in 1990. In 1998, Wilhelm Schwarze passed away. His will clearly stated that his 10% of shares should be solely given to his eldest son Friedrich increasing his total amount of shares to 34% and thus building another stone towards the substantial control exercised by only one family member which was so wished by his father in law.

The last set of shares held by the 11<sup>th</sup> generation belonged to his aunt Margret. Friedrich had already "received" 12% of her shares at his birth under explicit wish of her father. In 2002 Margret died, but before that, she agreed that her remaining 18% of the shares were supposed to be equally distributed among her five nieces and nephews. Thus, each of them received 3.6%. 2002 is also the year in which the ownership succession process from the 11<sup>th</sup> to the 12<sup>th</sup> generation is finally completed. The ownership structure of Friedr. Schwarze GmbH & Co. KG is the following:

- Mr. Friedrich Schwarze holds 37.6%
- Ms. Margret (Schwarze) Hosenseidl holds 15.6%;

- Ms. Ursula (Schwarze) Wiik holds 15.6%;
- Mr. Joachim Arthur Schwarze holds 15.6%;
- Ms. Gertraud-Irmgard Schwarze holds 15.6%;

The subsequent step in the consolidation of the ownership structure of the Friedr. Schwarze GmbH & Co. KG would have led Mr. Friedrich Schwarze to buy enough shares of his siblings to hold the majority. By this it would have been possible to reach the aim (envisioned by his father and earlier by his grandfather) of getting the family firm under the control of just one family tribe. However, it has not been possible for Friedrich to find an agreement with his siblings and to get a minimum 51% of the shares in the aftermath. From the face-to-face interview it emerges that Friedrich has taken this in a very constructive way and decided to “let go” the intention to “prune” the family tree and get under his control the full family ownership. Hence, in the 12<sup>th</sup> generation there are different types of family shareholders, one family shareholder who is active in the business (Mr. Friedrich Schwarze) and four passive family shareholders who are not involved in the day-by-day business activities. This also means that passive family shareholders are interested in keeping their shares and getting value (financial returns). The relationships between the current family shareholders (siblings) can be described as peaceful. There has never been any rivalry among the siblings and in particular in relation to Mr. Friedrich Schwarze’s leadership of the firm. His commitment and dedication to the family firm are highly appreciated by his siblings.

### *3.1.3 The 13<sup>th</sup> generation*

The incoming generation is the 13<sup>th</sup> and consists of four family tribes with 16 family members. The siblings of Friedrich Schwarze have altogether 14 children; Friedrich Schwarze has two children (a daughter (firstborn) and a son). Concerning the involvement of the 13<sup>th</sup> generation we can suggest that currently there is an indirect transfer of ownership (in four out of five tribes) as shares have been transferred to members of the 13<sup>th</sup> generation but still without voting rights. Specifically, in 2012 Friedrich Schwarze has transferred his shares (without voting rights) equally to his two children (18.8 % each). Three of his siblings, have partially transferred shares to their heirs<sup>7</sup>. Hence, through the growth of the family in the different tribes we have now a constellation of 21 family members (belonging to the 12<sup>th</sup> and 13<sup>th</sup> generations) which are

<sup>7</sup>For privacy reasons we do not disclose information on the other four tribes.

organized in five tribes, as shown in Figure 1.

**Figure 1:** Friedr. Schwarze GmbH & Co. KG's family tribes

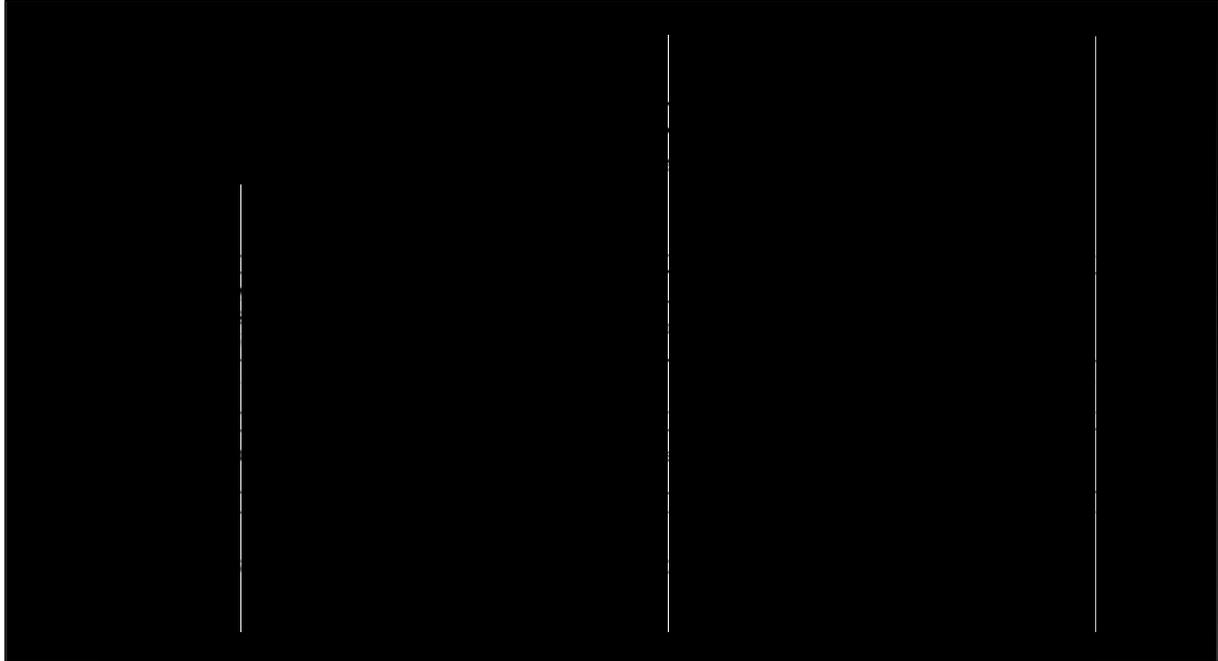


Figure 1 shows that each family tribe has one leader (from the 12<sup>th</sup> generation) and their respective children (from the 13<sup>th</sup> generation).

During the face-to-face interview we have been able to get insights on Friedrich's relationships (in the firm and family context) with his two children. They have always had a very close relationship to the business, as business issues were informally discussed and explained by their father at home (a way that is typical for family firms and through which senior generations realize a transfer of informal capabilities and tacit knowledge). As father he has always given

them the option "to choose" upon their career path (e.g., especially in terms of choices concerning their studies). They knew that the family business was always an option for them as a future employer, but Friedrich has never confronted them with this possibility. Although there has never been pressure to commit to the firm succession, Friedrich Schwarze made sure that

both his children were aware of the family firm and its legacy. Freedom of choice seems to have been the main credo he has followed as father with his children. This situation has slightly

changed after his children received part of the shares of the firm. Indeed, since then they have always been officially informed about the operations and main strategic directions of the firm. Their cousins, on the contrary, have never really been exposed to the business during their

childhood, as their parents have never played an active role in the management of the family firm.

Following the suggestion of one of his sisters, Friedrich has recognized the importance of getting the members of the 13<sup>th</sup> generation closer to each other and organized family events, which by then were rather limited, in order to give the members of the new generation the opportunity to get to know each other and the company better. Friedrich has thus initiated three family get-togethers for the members of the young generation to improve their knowledge about “their” family firm, its operations, and especially the communication between each other. He recognizes the strategic importance of having “responsible” family shareholders to make sure that they could together act as a cohesive group of family shareholders aiming at preserving the firm’s wealth and the family legacy. Indeed, the forthcoming succession in ownership and then in management (when completed) will leave the Friedr. Schwarze GmbH & Co. KG with a completely different constellation of shareholders and ownership structure, which surely will challenge the future development of the firm and also the family.

The next ownership succession will be the first one in the history of the family firm, to leave as a result a rather diverse group of shareholders, consisting of 16 family shareholders belonging to five different family tribes. Hence, all initiatives Friedrich is taking are aiming to pave the way for a fruitful teamwork among all members of the incoming generation. Lately, his daughter has applied for a position in the family company and was approved by the advisory board (*Beirat*) after discussing with the shareholders.

### 3.2 *Open issues*

As previously discussed, ownership succession has already been performed in four out of the five family tribes. Although the voting rights of Friedrich’s children have not been transferred yet, he has developed a culture of family meetings for the youngest generation in order to expose them to the business and prepare them for their future role as responsible family shareholders.

Another scenario might be one in which the minority family shareholders from the 13<sup>th</sup> generation could intend to sell their shares directly to Mr. Schwarze’s children. In fact, the capital they would liquidate under these circumstances might be used for investments in potential own businesses for their personal fortune. In case this scenario would become reality, an additional issue would derive from the question on selling to whom instead.

As Friedrich Schwarze’s daughter plans on joining the firm next year and has expressed a

strong interest in eventually taking over the business (succession in management); one option would be to create clear majority ownership conditions. Hence, this would mean for her to buy the shares from the cousins if they are willing to sell. However, there might be alternative feasible and sustainable ways to efficiently allocate the shares and voting rights among the two siblings.

#### **4. Family shareholders' agreements and meetings**

The following section focuses more specifically on the roles and responsibilities of the current family shareholders (from the 12<sup>th</sup> generation) within the Friedr. Schwarze GmbH & Co. KG. Furthermore, it presents the ways through which relationships among family shareholders are disciplined via formal shareholder agreements. Finally, it focuses on how formal family shareholder meetings are held in order to understand how family shareholders exercise influence over the strategic directions of their family firm. This discussion about mechanisms among family shareholders is considered as part of the overall discussion about formal governance mechanisms.

##### **4.1 Family shareholders' agreements**

The family shareholder group of Friedr. Schwarze GmbH & Co. KG consists of all members of the 12<sup>th</sup> generation (and also includes the majority of members of the 13<sup>th</sup> generation even if they do not participate in formal meeting due to the not yet transferred voting rights). Relationships among family shareholders with voting rights are disciplined through a limited number of agreements. This is due to the fact that family shareholders of the Friedr. Schwarze GmbH & Co. KG have a more passive role in the firm. Indeed, one of the most important shareholders' agreements mentions the transfer of voting rights from family shareholders to an advisory board (in German known as the *Beirat*). As consequence, the direct family shareholders' influence over the firm is very restricted.

Family shareholders exercise strategic influence by directly electing their representatives for the *Beirat*. Once elected, the members of the *Beirat* have a five-year mandate with some decision-making influence over the strategic direction of the firm. This includes the entry and exit of family members, managers and core strategic choices or investments. Of particular interest is the nomination process for members of the *Beirat*, which will be presented and discussed more detailed in section 5.1.

As decision-making power is directly transferred from family shareholders to the Beirat, there is no specific need to have additional shareholder agreements to guarantee efficient strategic decision-making processes nor agreements to handle occurring conflicts (through conflict resolution mechanisms) among family shareholders. According to Friedrich Schwarze, as there are no strategic decisions which are directly taken by the group of family shareholders, besides the election of the Beirat, the likelihood of having potential detrimental conflicting situations among shareholders is reduced. However, it needs to be highlighted that in order to get to this stable situation within the family shareholders group, it is crucial that the different strategic objectives, goals, and identities of the family shareholders are counter-balanced in the election of the members of the Beirat. Thus, we can argue that an efficient election of the Beirat is a necessary pre-condition to have stable relationships among the group of family shareholders afterwards.

Despite the stable and efficient family shareholding and governance structure of the 12<sup>th</sup> generation, the future will be very challenging when the number of potential shareholders is going to increase to at least 16 (assuming that all members of the 13<sup>th</sup> generation will receive shares). Indeed, each family shareholder of the 12<sup>th</sup> generation has, currently, one vote in the Beirat election. This means that, if we think in tribe logic, each tribe will have one vote, stressing that before exerting the vote, an agreement among the family shareholders of each tribe should be found. This leaves an open challenge to the future family shareholder group with the almost indispensable necessity to implement additional “family business governance mechanisms” (such as family council, family constitutions, and family meeting).

Another shareholder agreement manages the entry of family members into the business. The final decision-making power over this choice is delegated to the Beirat, which votes on whether the family member (potential candidate) has the relevant qualifications and competencies for the job at hand. Furthermore, the pre-requirement for any family member to become CEO is to have at least seven years of industry experience. Nevertheless, consistent power over this decision remains in the hand of the family through its CEO (Mr. Friedrich Schwarze) who has the right to present the potential family candidate to the Beirat. It is very interesting to reflect on the potential consequences of this agreement if there should be the case of nominating an external CEO, as he/she would not benefit from the same rights as an owner-manager.

When referring to family shareholders it is also worth understanding how dividend policies work within the Friedrich Schwarze GmbH & Co. KG. It is clear that a certain percentage of

dividend payments needs to be retained in the firm for future investments, such as acquisitions of new brands or other projects supporting strategic growth. This practice, which is prevalent among many traditional family firms, stems from the 19<sup>th</sup> century and has since then always been applied in the Friedr. Schwarze GmbH & Co. KG. Despite of this rule, a certain degree of flexibility is guaranteed as well. Indeed, according to Friedrich Schwarze, the four tribes have different expectations and needs regarding dividend payments, which he is currently managing upon request. Hence, whenever one of his siblings asks for dividend payments, he grants them as long as they are reasonable and following the rule of keeping a certain percentage within the firm.

Another important aspect in terms of family shareholders and relationships among its members is the agreement on how shares might be sold. This agreement states that if a family shareholder wants to sell his/her shares, that this is solely possible within the family. Moreover, Friedrich Schwarze can preempt only 49% of the shares. This agreement was initiated by his aunt, who did not agree with his grandfather's philosophy of keeping the absolute majority of shares (more than 51%) within one tribe. During the interview it turned out that this agreement against preempting an absolute majority of shares is a rule Friedrich Schwarze would like to abolish. However, his siblings oppose against this suggestion.

In sum, it is very interesting to observe that specific types of family shareholder agreements are in place in Friedrich Schwarze GmbH & Co. KG in order to develop a beneficial interplay between the family and the firm with regard to efficient decision-making procedures. However, it is important to emphasize that all these agreements are driven by "family orientation" and hence not always aligned with the firm-specific logic. Especially, the "one tribe one vote" rule (to elect the members of the Beirat) follows an egalitarian logic treating family shareholders in the same way even though they have different percentages of shares. Probably it could be interesting to further reflect on how family shareholders' dynamics might change if each shareholder would have the power to vote according to his/her personal shares. Currently, there are no changes planned in this direction, whereas this issue might become more pronounced in the next generations due to the mentioned increasing number of family shareholders.

In sum, the family shareholders of the Friedr. Schwarze GmbH & Co. KG seem to be satisfied with the current practices, as there are no signs of disagreement. Since the shareholder votes are predominantly transferred to the Beirat, composed out of trusted members with relevant experience and competence, the family shareholders seem to have the feeling that the right strategic choices are derived, beneficial for the firm and themselves.

## **4.2 Family shareholders' meetings**

The official shareholder meeting takes place once a year with Friedrich Schwarze and his four siblings as representatives of the family tribes. As all voting rights, but the right to accept or to reject the annual report, have been transferred to the Beirat, these meetings represent mainly informational exchange in which Friedrich is informing the other family shareholders over the current situation of the company, further strategic plans, as well as key financial numbers. Except for some questions on the balance sheet, Friedrich Schwarze could not recall any disputes or conflictual discussion during these meetings. On the one hand, this is due to the incident that the Beirat receives the balance sheet beforehand and, if not objecting against it, the approval can be regarded as act of faith by the family shareholders on the members' competence. On the other hand, as the "non-active" family tribes are interested in not losing wealth, they have no reason to criticize Friedrich Schwarze decision as CEO as long as the firm is performing well.

In addition to these official shareholder meetings, there have been several other events lately – initiated by Friedrich Schwarze and one of his sisters – to bring the 16 members of the next generation together and to properly introduce them to the company by e.g. visiting the production sites or learning about brands and the industry. As family ties among the five tribes are not very strong, it is necessary to create strong relationships between the family members of the 13<sup>th</sup> generation and also with regard to the family firm. Through these events, Friedrich is trying to develop a feeling of belonging and responsibility as shareholders of the family firm. Furthermore, he is providing the opportunity to get to know each other better. Both aspects are vital conditions for creating a strong foundation for the future of the family firm in order to avoid potential conflicts between the growing tribes, especially with regard to the imminent leadership succession transfer from the 12<sup>th</sup> to the 13<sup>th</sup> generation.

Currently, they mostly see each other in the annual shareholder's meeting. His efforts to reunite the new generation are hence not only motivated from a business point of view, but might also be an attempt to pave the way for a united family behind the firm and settle obsolete issues between the tribes once and for all.

## **5. Governance structure and mechanisms**

In the following section, we will elaborate on the rather unique role of the Beirat in the Friedrich Schwarze GmbH & Co. KG. The Beirat's structure and working style were

initiated and developed in 1987 by Friedrich's father as well as the financial auditor of the company.  
The

main intention was to ensure that the CEO could freely decide on a day-to-day business level and on midsized investments. The final decision-making authority for larger investments and path-changing strategies should lie in the hands of people who have the necessary expertise and the firm's best interest in mind with less personal biases as the management.

### **5.1 The Beirat as main formal governance mechanism**

As starting point it is important to understand the structure and responsibilities of the Beirat. As already discussed, the family shareholder agreement fully passes the decision-making authority for bigger investments over to the Beirat. Hence, it takes responsibilities over the family firms' decisions instead of its owners. The family shareholders have the main duty to elect suitable members who represent their interests in the best way possible. This agreement was established in the aftermath of Ilse Getrud's death and the following discussion on how the shares should be allocated. All shareholders at that time agreed on this regulation, as it reduces dispute among them and ensures the informed and independent decision-making body in the best interest of the firm.

The Beirat consists out of four experienced members, having the knowledge and competencies to take on that role. Although four members seems to be quite a small number at first sight for a committee that has to take decisions regularly, Friedrich Schwarze is convinced that it is the most reliable form. Any decision against the CEO has to be supported by at least three members. This system is more reliable than a committee of five – with a necessary majority of 3:2. Having four members reduces opportunistic behavior and makes decisions more effective as a 3:1 vote against a strategic decision or plan is stronger majority that the issue at hand needs to be reconsidered. So far, there was only one non-uniform vote in 1998 (3:1 in favor of Friedrich Schwarze's decision), when the decision was on when to sell the Coca-Cola franchise business – immediately or by the end of the contract in 2011.

According to their contract, the members of the Beirat are supposed to meet three times a year to take decision on important strategic issue and monitor the management. In fact, they meet twice a year – according to Friedrich Schwarze – and for complex strategic decisions, such as new acquisitions, they also include all family shareholders (although this is not part of the shareholders' agreement). Nevertheless, there has never been an objection from the family shareholders to any decision of the Beirat so far. Hence, including them is basically just a convenient way of keeping them informed and preventing any objections after a decision has

been taken. The financial compensation for the members of the Beirat is market oriented and consists of a base payment with a variable part depending on the number of meetings during the year. The variable part, however, is only a small fragment.

## **5.2 Electing the members of the Beirat**

By looking at how the election process of the Beirat works we will get to a more holistic picture on the decision-making logic within the family firm. To this aim, we hereafter shortly illustrate how members of the Beirat are elected.

Friedrich Schwarze has, as shareholder with more than 30% shares, the right to nominate one member for the Beirat immediately without any possible objection by the other shareholders. The second member is selected through a joined process including all family shareholders. However, for the nomination procedure it is of our utmost interest to identify how the two remaining seats are allocated. The four minority shareholders (the four tribes) have the right and responsibility to fill the two remaining seats and as such they consequently suggest two candidates (one for each seat). Interestingly, Friedrich Schwarze, as a CEO deriving from the family himself, has a veto right on the election of these other two candidates. The special characteristic of this right to object is that it can be exercised only once. However, it emerged from the interview that this right has never been exercised by him so far, revealing that this mechanisms, on the one side, prevents the minorities from proposing candidates that are not in the best interest of the firm (or candidates that Friedrich will surely dislike) and, from the other side, prevents Friedrich from opposing against candidates since he is eventually not anymore able to control the election of the alternative members (once exercised the veto right, he cannot use it again). The tenure of the members of the Beirat is always for five years. Figure 2 gives an overview of this election process.

**Figure 2:** The Beirat election process



This afore-described election process of the Beirat makes it possible to deduce that Friedrich Schwarze has a significantly higher influence on its composition than the other family shareholders, which is also not fully reflected in his 37.6% of the shares. Nevertheless, the fact that Friedrich Schwarze can only use his veto right once in each election entails some threats. In fact, the minority family shareholders could misuse this rule strategically in their favor by presenting a first candidate that is not viable for the business under any circumstance. By this, they would virtually force Friedrich to make use of the veto right and at the same time give them unrestricted discretion to fill the vacant seat with their favorite candidate in its consequence.

Despite this risk, there has never been any situation where the veto right has been exercised in such an abusive manner. So far, Friedrich Schwarze's experience is that the other family shareholders proactively consult him in advance and disclose the relevant information about potential candidates. On the one hand, they are asking for his professional and honest opinion on the suitability of the proposed candidate. However, on the other hand, they do not want to

unnecessarily expose their candidate – usually a friend or long-term business partner of one of the

other family shareholders – to this potential embarrassment of being initially rejected by the CEO and majority shareholder of the firm.

To conclude, the election process of the Beirat is very unique. However, it is Friedrich Schwarze, in his role as CEO, who takes the decisions, as the Beirat needs a 3:1 vote against his decisions. Thus, the actual decision-making power of the Beirat is limited to its veto.

### **5.3 Future structure of the Beirat**

During the interview with Friedrich Schwarze it became obvious that there seem to be no specific plans on changing the structure of the Beirat or reconsidering its decision-making discretion. He pointed out that that this structure is the most suitable and feasible way to manage the family firm efficiently, as it reduces potential conflicts among the members, opportunistic behaviors, and equips the firm with the necessary professional experience. Nevertheless, he is

very aware of the fact that once the ownership is transferred to the successor of the 13<sup>th</sup> generation (with full voting rights within the five tribes), there will be the challenge to find consensus on potential candidates elected among each family tribe. Indeed, if the current mechanisms of “one tribe one vote” will still be in place at that time, this will imply that every tribe needs to find proper mechanisms to derive a shared and joint decision. In fact, as shown in Figure 2, the highest threat of conflict stems from the nomination procedure of the second Beirat member (all five tribes together) as well as the third and fourth members (all four minority tribes together and the major shareholder which could exercise the veto right).

Hence, in order to preserve the current structure of the Beirat, its election as well as authority, the next generation needs to introduce new voting mechanisms and rules in order to find pluralistic consensus within the family shareholder group and among each tribe. However, this issue will be addressed when the process of succession in ownership is complete as the current generation (the 12<sup>th</sup>) is satisfied with the status quo.

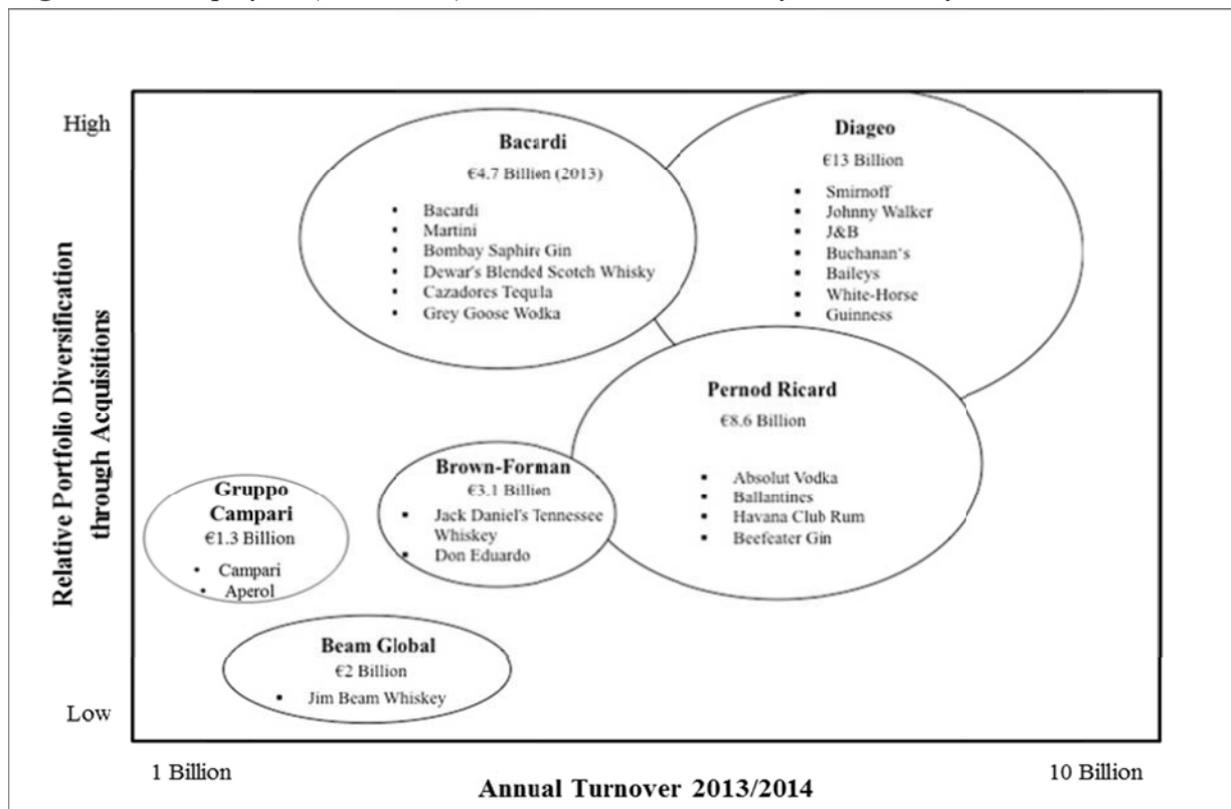
## **6. The firm: Friedrich Schwarze GmbH & Co. KG**

The following section approaches the Friedrich Schwarze GmbH & Co. KG from a business point of view, by analyzing the industry, the product portfolio, the competitive environment as well as the internationalization strategy. At first, we discuss the broader industry context to gain an understanding for the firm’s business environment.

## 6.1 Main industry

The industry of distilleries and spirits production is very competitive, but with high entry barriers and only a limited number of players in the market. Over the past decades, these big but also medium-sized players have been acquiring many of the smaller and regionally distributing companies and their related brands. Hence, the product portfolios of the remaining competitors are growing in terms of number and diversity. At first sight, the industry seems to be highly diverse, yet appearances are deceiving. While at an international level the market is dominated by six key players – owning most of the international, well-known brands, there have been some observable shifts in the last two decades. This was mainly fostered by the medium-sized players taking over the big players' strategy of expanding internationally by acquiring a diverse set of companies and brands and integrating them into their portfolio. To show the global industry, Figure 3 gives a comprehensible overview of the six core players, their most recognizable and profitable brands as an indicator of their diverse portfolios, often enlarged through acquisitions, as well as the turnover for 2013/2014.

**Figure 3:** Main players (and brands) in the worldwide industry measured by annual turnover



### *6.1.1 The German market*

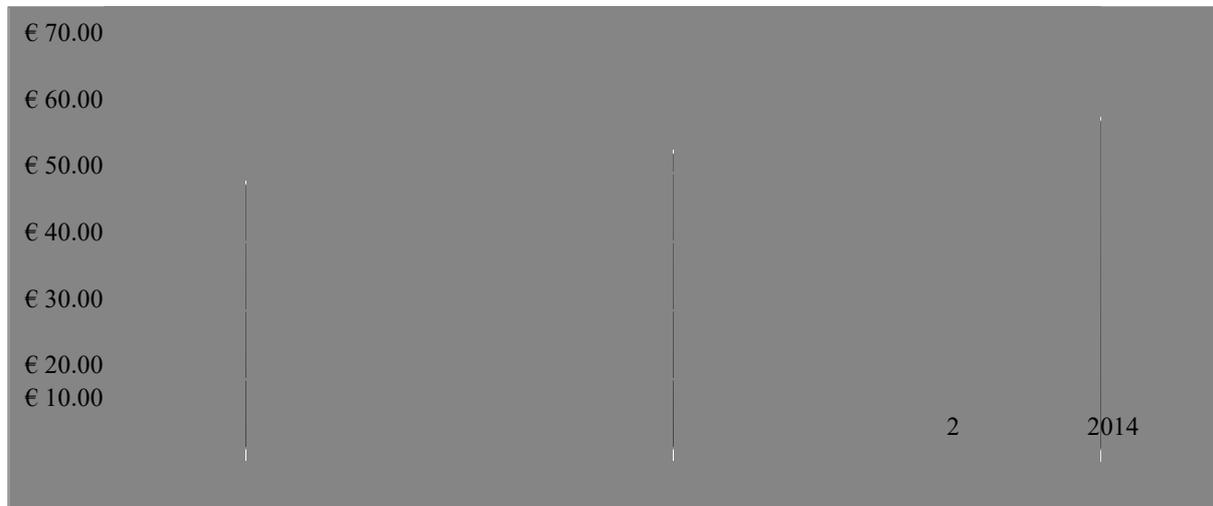
The total sales of the industry in Germany amount to around € 2 billion in 2014/2015. Compared to other European markets, the German one ranks within the three biggest markets. However, measured in terms of per capita consumption, the market becomes less attractive and has been gradually declining since 1991 by volume although slightly grown by value. Hence, German companies operating in this industry are facing the challenge of competing with the international players in a stable market, especially as many of the German companies are considerably small and do not play an influential role in the market. The two most internationally active German companies are Mast-Jägermeister and Berentzen. However, the only European company – except Diageo – playing in the same league as the big five is the Campari group from Italy, which managed to increase its annual turnover tenfold in the past 20 years. Looking at the imbalance between imports (1.5 billion in 2014) and exports (1 billion in 2014) – mainly from the US, UK and Italy – one gets the impression of German companies of playing only a subordinate role.

Nevertheless, the market in Germany is becoming ever-increasingly consolidated among a few companies that followed the big players' strategy of diversifying their product portfolio using aggressive brand acquisitions. The process started in the 1970s, when the spirits market in Germany was characterized by many local distilleries, usually specialized in only one or few products. Currently, there are roughly 50 companies in Germany and the number of independent companies is still decreasing. Their number is expected to further decline in the future, as their main competency is not the production of spirits anymore. Instead of growing organically, there has been a shift towards growth via mergers and acquisitions. Hence, the new core competency next to the production of spirits is the acquisition and promotion of brands in the national as well as international market. For potential new entrants to the market, barriers are very high nowadays and the remaining ones expected to play only a minor role in the regional markets.

## **6.2 Friedrich Schwarze GmbH & Co. KG: Key figures, group structure and production**

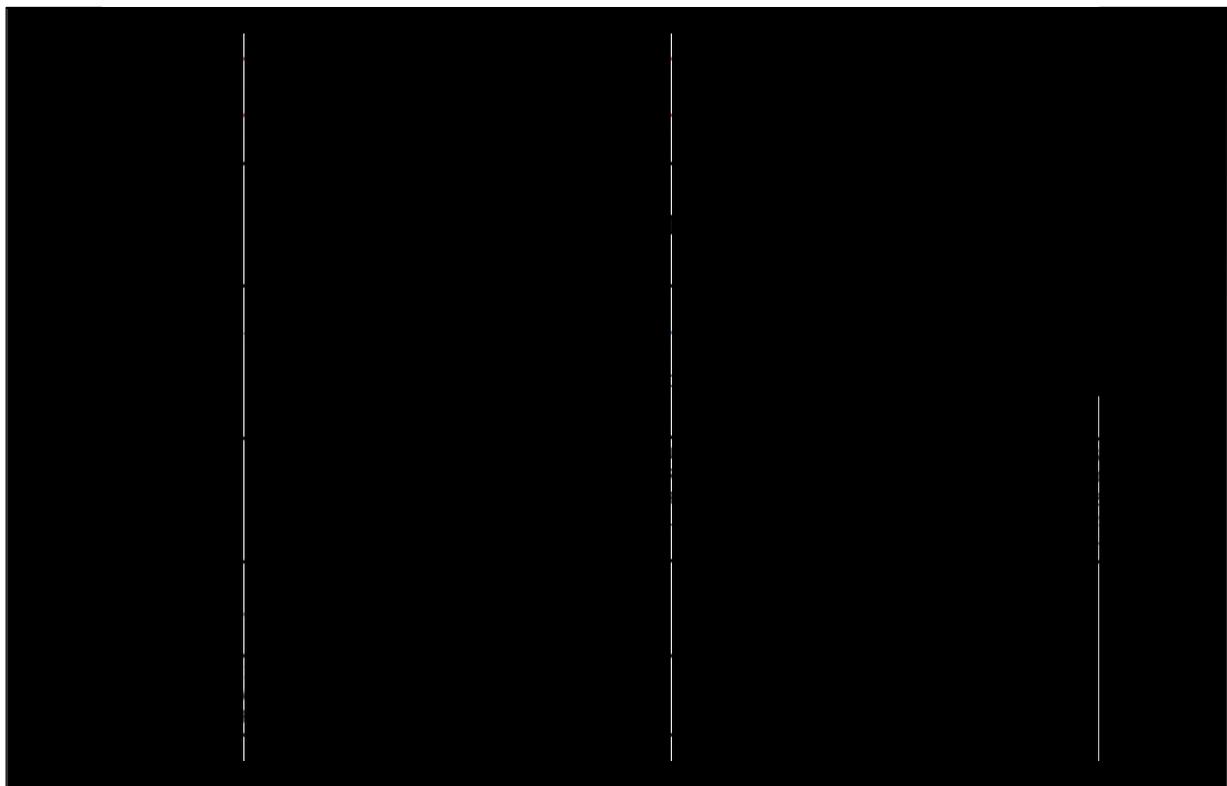
In this section, we provide a short description on key figures for Friedr. Schwarze GmbH & Co. KG. Figure 4 shows the development of firm revenues over the years 2008-2014. Concerning its employees the firm currently has 103 employees and the turnover of the group has been gradually increasing over the past years.

**Figure 4:** Friedr. Schwarze GmbH & Co. KG's turnover 2008-2014



Friedrich Schwarze GmbH & Co. KG controls multiple subsidiaries as shown in Figure 5. The holding with its controlled firms constitutes the business group under direct control of the Schwarze family.

**Figure 5:** The Schwarze business group



The production of Friedrich Schwarze GmbH & Co. KG liquors is mainly located in Rinteln, where they moved to in the aftermath of the Racke acquisition, mainly due to capacity constraints. The only production site outside Germany is in Mallorca, Spain, where the regional liquor Angel d'Or is produced. However, this liqueur is bottled in Germany.

There are two additional holdings not active in the core business of spirits, providing the business group with independent revenue streams. The *Westenhorst GmbH & Co. KG* is active in the property management sector. This holding is responsible for real estate, equity in other companies and different assets. The second one is a 50% holding in the *b+m surface systems GmbH*. After selling the Coca-Cola franchise, the Schwarze family acquired 50% shares in this company based in Eiterfeld. *b+m surface systems*, with more than 300 employees, manufactures industrial painting plants for the automotive industry and for suppliers of the automotive industry. The turnover for 2015 will be around 95 Mio. €. *b+m surface systems* is a very modern high-tech producer and is a very important asset of the Schwarze family.

### **6.3 Acquisition of other national brands**

As already described in the previous sections, acquisitions strategies seem to be highly relevant in this industry and is also emphasized by Friedrich Schwarze with an acquisition strategy supporting the Friedrich Schwarze GmbH & Co. KG to establish a competitive advantage and better position in the market. Indeed, the past acquisitions by Friedrich have strengthened the firm's competencies and capabilities. Especially the recently integrated brands are now a core asset of the firm.

The strategy is based on acquiring and creating brands to expand the firm's product portfolio. As a subsequent step and depending on the previous success of the purchased brands, Mr. Schwarze either decides to create a re-launch strategy or to build on the brand's past success. This means that the firm's product portfolio includes different types of brands, which are not directly connected with the "Schwarze" name. Indeed, there is the intention not to integrate the acquired brands into the main Schwarze brand. This strategic choice has several benefits for Schwarze as main brand but also for the acquired brands. By keeping the acquired brands as they are, the Friedr. Schwarze GmbH & Co. KG is able to leverage the image, reputation, and tradition behind them. The most important aspect is that the customer is always able to recognize the brand and the related products. As he points out, the customer is unusually not interested in knowing that the brand owner has changed (after an acquisition). Hence, making no immediate changes to

acquired brands safeguards the existing customer base. Furthermore, there is no risk of brand dilution (dispersion) for “Schwarze” and even though the portfolio of products and as such brands increases, every brand preserves its own identity and reputation, not putting it at consolidated risk.

The acquisition strategy is organized along two dimensions: brands for the national and brands for the international market<sup>8</sup>. National acquisition strategies focus on traditional German brands, often owned by other family firms, which have a strong legacy, history, and tradition.

The acquisition of the *Schlichte* family firm (1990) has been very unique in terms of strategic antecedents and brand integration into the Schwarze group. It started with the purchase of several traditional brands and resulted in the second-largest relocation in the history of the company. The entire production was transferred from Oelde to Steinhagen. The acquisition was not only meant to enlarge the portfolio of products and brands but also to create the *Schwarze und Schlichte Markenvertrieb* (a subsidiary directly controlled by Friedr. Schwarze GmbH & Co. KG), which operates as branch office for the product distribution. Hence, this specific acquisition not only contributed to the diversification of the Friedr. Schwarze GmbH & Co. KG’s product portfolio, but also contributed to a strategic reorganization of the family firm. The positive brand image that Schlichte had gained during its past activities combined with its international experience in distribution enabled Friedrich Schwarze to leverage these assets and create a structured as well as centralized distribution branch office. Friedr. Schwarze GmbH & Co. KG thus fostered the competitive advantage by strengthening the “Schwarze” brand through its combination with “Schlichte”. Both brands are characterized by long history, tradition, and positive reputation as traditional family firms operating in the industry, and, at the same time, by creating sustainable synergies between the distribution channels. Surely, this acquisition entailed substantial risks for the Friedr. Schwarze GmbH & Co. KG. However, due to his high commitment and dedication towards the firm, Friedrich made it possible to happen in a way that, when referring to this particular transaction, it is not uncommon to rather refer to a merger instead of the actual acquisition.

Another important example can be found in the acquisition of *Bärenjäger*. The *Bärenjäger* brand is not only very popular in Germany, but is also the company’s largest export contribution to a whole range of countries including USA, South America, Australia, and parts of Asia.

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<sup>8</sup> A detailed overview on acquisitions of international brands is provided in the next section.

By following this path of recent years, the Friedr. Schwarze GmbH & Co. KG has acquired almost ten companies with overall forty brands. These acquisitions have been predominantly financed by internal firm resources stemming from financial reserves, with only limited external capital needs. An important strategic acquisition of a national brand was the one of Racke in

2003. Through this operation Friedrich Schwarze GmbH & Co. KG not only acquired the main brands, but also the modern production plant with a consequential strategic relocation of the production facilities from Steinhagen to Rinteln.

#### **6.4 Acquisition of brands for the international market**

Expanding in international markets for firms operating in the spirits industry requires deep know-how, a broad and dense network as well as a certain level of experience as rules and regulations (especially for distribution) differ extensively between countries and sometimes even within the same country (e.g. US). Additionally, the five main international players (as presented in section 6.1) control very powerful distribution channels and also maintain a global network of relationships that confronts any new player with very high entry barriers, which are surely are virtually impossible to overcome.

To be able to enter into these markets, smaller players in the spirit industry have to consider strategically acquiring firms where they already have access to their markets through their own distribution channels as well as networking activities. This counts for Schlichte, but also Racke, where Friedrich Schwarze aimed at casting the fundament for the firm's internationalization activities.

Friedrich Schwarze GmbH & Co. KG was able to enter the Canadian and US market with Dujardin, the Brazilian market with Schlichte Steinhäger and diverse other foreign markets with Bärenjäger as well as Three Sixty Vodka. All these examples were markets where these brands had already been introduced. Only Three Sixty was newly launched.

For the first time, in 2006, Mr. Schwarze decided to create his first own product with the intention to position it in the international markets. The result of this decision was the brand *Angel D'or* which is, as mentioned before, produced in Mallorca. *Angel D'or* and the Whisky Racke Rauchzart are the only brands in the Friedr. Schwarze GmbH & Co. KG portfolio which are not produced in Germany.

In 2009, Mr. Schwarze bought the rights of *Three Sixty Vodka* and has invested significantly in the brand, resulting in a strengthened market position. The sales for this product

have increased from 200,000 bottles to almost 3 Mio. bottles within the last six years. Currently it is the company's number one brand and the number three Premium Vodka in the market.

In order to enter new international markets and gain stakes of international distribution channels, Mr. Schwarze set up an import partnership with *Luxardo* in 2010. *Luxardo* is an Italian family firm active in the business of providing spirits products for baking goods. In recent years, they have also entered the branch of cocktail "taste-intensifiers", such as bitters. Other important partnerships, solely focusing on distribution, have been signed with Ron Barceló from the Dominican Republic and with Limoncello *Villa Massa* from Sorrento, Italy.

The Friedr. Schwarze GmbH & Co. KG focuses on continuously expanding the product portfolio by directly acquiring brands with international distribution and by creating distribution cooperation with international firms. Their main aim is to access new markets and to develop specific knowledge in order to be able to engage in cross-selling activities in those international markets at a later stage. The focus is, therefore, not production but the acquisition and/or distribution of new products. This suggests that the expansion of production sites of Friedr. Schwarze GmbH & Co. KG is not economically rationale. Furthermore, these types of strategic moves (building a new production site in a foreign country) are very capital-intense and entail high venturing risks. As indicated by Mr. Schwarze during the interview, the logic he follows when making decisions on new investments is very straightforward and reveals the ability to do an intelligent risk-management in order to not put at stake the overall firm through bad investment decisions".

## **6.5 Branding strategies**

As the brand portfolio of the Friedrich Schwarze GmbH & Co. KG has been growing substantially in the last two decades, Mr. Schwarze has immediately understood the need to develop a well-structured branding strategy to be able to focus the main attention (and efforts in terms of marketing investments) on the ten core brands. He is convinced of strengths of the other brands included in the portfolio to perform as planned without putting too much attention on specific marketing actions. Indeed, Mr. Schwarze is aware of the consolidated market position those brands have and of their solid customer base.

With specific reference to the branding strategy of the ten main brands, it is important to mention that a differentiation exists to a certain degree. Indeed, depending on the brand and especially on whether they have been acquired without further adjustment, the branding strategies

can vary from re-launching to “further growth”. It is also important to mention that Mr. Schwarze is convinced of the fact that the nowadays’ spirit industry is not just shaped by “the ability of producing the spirit” but being able to create, acquire, and even trade with new brands. Therefore, for firms operating in this industry it is of crucial importance to monitor the life-cycle stage of the products in order to be able to substitute products that have passed maturity and are on the decline, while still looking for promising alternatives, thus creating a vital balance in the product portfolio.

Interesting examples were mentioned in the case of *Three Sixty Vodka* and *Dujardin*, which are two brands of the Friedrich Schwarze GmbH & Co. KG product portfolio that run very well and benefit from the marketing actions. Nevertheless, always bringing up enough new and attractive brands to balance the declining market of traditional brands will surely be a challenge for Friedrich Schwarze GmbH & Co. KG and the other players in this industry.

## **6.6 Partnership with Coca-Cola**

In 1951, Friedrich Schwarze’s father signed a franchise contract with Coca-Cola. At that time, Coca-Cola used this strategy to enter markets all around the world. The franchisees were solely responsible for distributing Coca-Cola products in their respective region. The intention was never to integrate the franchise into the Schwarze business of spirits. Rather, it was meant to provide the family with another independent source of income.

In 1998, Coca-Cola decided to recollect their franchise agreements and centralize the global distribution of their products. Although, the contract was supposed to last until 2011, the management of Friedrich Schwarze GmbH & Co. KG, supported by the Beirat, decided to hand over the licenses immediately. The main reason for that decision was Mr. Schwarze’s belief that in order to survive in a sustainable way the focus of Friedrich Schwarze GmbH & Co. KG should be on growing the core business thus realizing mergers and acquisitions only if valuable synergies can be expected.

## 7. Concluding remarks

Working on developing this case has been a unique opportunity to make an explorative and reflective journey on a family firm, which is in business for 351 years. By assuming different points of observation and angles, we hope to have been able to have offered a detailed and holistic perspective of the main aspects we thought to be important to grasp the “essence” of the Friedrich Schwarze GmbH & Co. KG and to foster reflections and discussion for your own family firm, business family or firm you are working in.

The driving question has been to understand the magic formula of the longevity of Friedrich Schwarze GmbH & Co. KG. Despite the fact that we cannot get to a specific and precise answer, we envision that readers of this case, based on what we have presented, could be able to discuss their issues and come to conclusions also stemming from personal backgrounds and diverse experiences. Friedrich Schwarze is convinced that the learning process among family managers in a family firm is the key to long-term success: *“As family companies are mostly managed by family members, they have to correct all the mistakes they make by themselves. While big companies execute on the ‘hire and fire’ or ‘change figures or faces’ principle, they do not profit from learning effect of management errors. Furthermore, old companies integrate this process of learning and restarting into their DNA. They do not believe in overnight success and will not give up in a crisis”*

The case furthermore offers the opportunity, by drawing on the experience of the Friedrich Schwarze GmbH & Co. KG, to reflect on questions and challenges related to succession in ownership and management. In this regard, the detailed description of the transition phase from the 11<sup>th</sup> to the 12<sup>th</sup> generation offers interesting insights and reflects the main antecedents that have led to the current shareholder structure. If at that time you had been part of the succession in ownership process, *what would you have done differently?*

By looking now at the current family structure in the 13<sup>th</sup> generation with its 16 family members (plus the ones from the 12<sup>th</sup> generation), it became clear that a major change is just coming around the corner since the 13<sup>th</sup> generation is on the way. *Will the five different family tribes be able to find a common understanding as the next generation of family owners? What can they do in order to properly manage their own family and business interests? Which types of formal and informal family business governance mechanisms might they need to consider, understand, and finally adopt?*

Another interesting learning from this case study can be found in the central position of the advisory board (Beirat) and their strategic involvement in long-term decisions. Its members have the main duty to manage and guide the different family shareholders towards growth, stable family control, but for utmost importance, preserving the firm survival. Nevertheless, things might also change here when the 13<sup>th</sup> generation is taking over. *Which role should the advisory board have?*

At the firm level, the spirit industry in Germany and internationally seems to be a very dynamic, challenging and experiencing radical changes. *Which should be the next strategic moves the Friedrich Schwarze GmbH & Co. KG should consider to do? Will the Friedrich Schwarze GmbH & Co. KG's business model still be sustainable in the future?*

As you can discover, the case offers different opportunities to critically think about different topics related to the interplay of family and business aspects. The main issue you should, however, reflect on above all other is: *what should the "Schwarze family" do or not do in order to survive for another 351 years?*

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Witten, 18/07/2015

**Prof. Dr. Andrea Calabrò**

A handwritten signature in black ink, appearing to read "Andrea Calabrò", written in a cursive style.



# The Mellerio dits Meller Case Study

Author : Valerie Tandreau de Marsac  
(Professor and family business advisor)



## LES HENOKIENS CASE COLLECTION



MELLERIO dits MELLER is internationally known for its unique skills and expertise in the selection and enhancement of precious stones: collection pieces, unique pieces, private commissions, repairs, and alterations. It is the last of the historic luxury jewellery houses in France to remain a family business.

Awarded the French Living Heritage Company label, MELLERIO dits MELLER is a member of the Comité Colbert,<sup>1</sup> the Henokiens Association,<sup>2</sup> the Family Business Network, OSEO Excellence,<sup>3</sup> and numerous other associations. Olivier Mellerio, General Director of MELLERIO dits MELLER until 2015, also authored the Mellerio Ministerial Report on the transmission of family businesses, delivered to the French Government in 2009.<sup>4</sup>

MELLERIO dits MELLER has existed for 15 generations. The history of MELLERIO dits MELLER thus spans 400 years punctuated by significant dates which are shown on the diagram<sup>5</sup> included in Annex 1.

It all started with the Mellerio family's arrival in Paris in 1515. The story of MELLERIO dits MELLER has been marked by the great crises which shaped the history of France: the Revolutions (1789 and 1848) and the major wars at the end of the 19th century and the beginning of the 20th century.

However, in studying the firm's history a pattern emerges which repeats itself at regular intervals. This consists of a cycle occurring in three stages:

- Each Cycle starts with the laying of a foundation (the "Anchoring"),
- The course of its development is then disrupted, either by external events (the Terror, the French Revolution of 1848, the First World War, the accelerated movement towards consolidation which impacted the French luxury jewellery sector starting from 2000) or by family events (the untimely death of Emile Mellerio in 1967) (the "Disruption"),
- This triggers the second stage, which is characterized by the way in which the firm deals with the trauma caused by the Disruption in order to rebuild on renewed foundations (the "Resilience").

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<sup>1</sup> Founded in 1954, the Comité Colbert brings together French luxury firms and cultural institutions who work together to promote the French art de vivre at an international level.

<sup>2</sup> An Association of 44 bicentenary family businesses with members from Great Britain, Italy, France, Germany, the Netherlands, Japan, Belgium, and Switzerland.

<sup>3</sup> The Club OSEO Excellence, now BPI Excellence, is a community of companies chosen by BPI (Banque Publique d'Investissement France, which includes OSEO, CDC Entreprises (investment fund of the Caisse des Dépôts), the FSI (Fonds Souverain d'Investissement, established under the term of office of Nicolas Sarkozy) and FSI Région) to represent growth sectors,

<sup>4</sup> Report to Hev  Novelli, Secretary of State for Commerce, Trade, Small and Medium-sized Businesses, Tourism, Services, and Consumption (2009)

<sup>5</sup> Source: Mellerio dits Meller website

At the climax of the resilience stage, the new foundations are in place, and a new cycle begins.

The history of MELLERIO dits MELLER can thus be organized into three cycles:

- **First Cycle: The beginnings (1515-1815)**

- 1515 (Anchoring): the Mellerio family arrives in Paris, but maintains strong links with the family's native village in Lombardy, Craveggia,
- 1793 (Disruption): François Mellerio leaves Paris following the execution of Marie-Antoinette, and takes advantage of the turbulent period following the Revolution to expand his knowledge of the trade by working for the great Milanese jeweller Manini,
- From 1801 (Resilience): François Mellerio returns to Paris, where he builds a clientele from among the entourage of the Emperor Napoleon I.

- **Second Cycle: The emergence of a major jewellery house (1815 - 1915)**

- 1815 (Anchoring): François opens a shop on rue de la Paix with his brother Jean-Jacques Mellerio, under the name MELLERIO dits MELLER frères,
- 1848 (Disruption): the shop on rue de la Paix closes, François' two sons, Jean-François (1815-1886) and Jean-Antoine (1816-1882), leave for Spain where they rebuild their client base with the royal court of Spain,
- From 1851 (Resilience), the two brothers return to Paris and consolidate their business activities on rue de la Paix. They build a solid clientele from amongst the aristocracy, deploying a technical and artistic creativity which establishes the firm's international reputation.

- **Third Cycle: Ensuring the continuity of a family business (1915 - 2015)**

- 1915 (Anchoring): Raphaël transfers the firm to his three sons, Charles (1879-1978), Bernard, and Maurice Mellerio and a governance system is formed based on three equal thirds held by three branches of the family at each generation (Charles, Maurice, and Bernard, followed by Emile, Hubert, and Guy, and then François, Jean-Claude, and Olivier),
- 1967 (Disruption): Emile, Charles' son, who had taken over from his father, dies prematurely and leaves the firm in the hands of his son François, age 25; this happens in a profoundly disrupting context, as the profession needs to reinvent itself to adapt to the reorganization of the luxury sector, and this combination of circumstances increases the difficulty of the transmission,
- From the 70's (Resilience): after the retirement of Emile's brothers Guy and Hubert, there is a progressive return to a three branch organization system centred around François and his brother Olivier, and Jean-Claude (Guy's son), accompanied by an increased professionalization of the firm's strategy and governance.

At the beginning of 2015, a change in ownership took place, which put an end to the governance system based on three pillars. Concurrently, major changes and challenges are affecting the jewellery market. These changes have initiated a Fourth Cycle, and it is too soon to try and characterize its stages, as the new foundations are now being laid down.

In light of this context, the objective of the Case is not to present a model or judge the quality of organization, governance, or method of transmission adopted in each Cycle, because each solution is unique and adapted to a particular context.

Rather, we aim to identify the elements of familiness (concept defined and detailed in Annex 5) which enabled the family business MELLERIO dits MELLER to renew itself at each Disruption, to continue through the centuries while preserving and developing its skills and reputation and remaining a family business, and to understand which elements of familiness have enabled and supported the resilience of a jewellery firm during a period spanning four centuries of history.

This analysis will be done through an identification of the elements of familiness present and/or developed during each of the three Cycles examined below.

## 1. FIRST CYCLE: THE BEGINNINGS (1515-1815)

The family's Italian roots along with a strong entrepreneurial spirit, which found expression with the French, and then the European, aristocratic elite, are an essential part of its identity.

### ▪ The roots of the Mellerio family in Craveggia

The Mellerio family has its roots in the village of Craveggia, located in the alpine valley of Vigevano, on the border between Piedmont and Lombardy.



The Mellerios arrived in France during the Italian Wars which had marked the first half of the 16th century, when François I ended his military campaigns in Italy.

At that time they lived within a small transalpine community established on rue des Lombards in Paris, where they worked as chimney sweeps, bankers, and seasonal traders.

But it was not until a century later that the legend began, and more precisely in 1613, the year in which the family obtained, by Royal Privilege, the right to trade freely in precious stones and jewellery, without being subject to the corporation laws which would later give rise to the professions of jeweller and goldsmith. This date marks the beginning of the Mellerio family's jewellery business.

### ▪ 1613, Royal Privilege is obtained

On 10 October 1613, Queen Marie de' Medici granted the Lombardians from three villages in the Vigevano Valley, Craveggia, Malesco, and Villette, a royal privilege, signed by her hand and registered by the Parliament, which granted them the power to: *"sell and peddle, in our kingdom, cut crystal, trinkets, and other small goods."*

The Royal Privilege was confirmed for two hundred years, first by Louis XIII, and then by Louis XIV, Louis XV, and finally by the Regent, *"for services rendered since time immemorial..."*

- **The legend surrounding the Royal Privilege**

Legend has it that as he was climbing down one of the chimney flues in the Palais-Royal, a young chimney sweep from the village of Villette, neighbouring Craveggia, overheard a conversation which was meant to remain secret... When he understood that he had fallen upon conspirators plotting to assassinate the young king Louis XIII, he informed his boss, an individual named Pido, "consul" of Villette. Pido quickly called a meeting of the Lombardians of Paris and among them was Jean-Marie Mellerio, "consul" of Craveggia.

Taking their responsibilities as "heads" of the Lombardian community in Paris very seriously, they decided to alert Queen Marie de' Medici. She immediately launched a search and the following day the plotters were arrested.

When Marie de' Medici asked the Lombardians what she could do to reward them for their assistance, they asked for royal protection.

- **The more likely truth: the geopolitical importance of Craveggia**

Contrary to this legend, no serious historical research has been able to prove the existence of a plot uncovered by the Lombardians. Intrigued by this mystery, Émilie Mellerio, member of the 15th generation, and President of Mellerio International from 2013 to 2015, has carried out in-depth historical research on the subject in order to understand what could have motivated the Kings of France to maintain, one after another, the exceptional privilege granted to the Lombardians.

According to her findings, it is all down to the geographical location - which we would today refer to as "geostrategic" location - of the villages of Craveggia and its neighbours, Malesco and Villette. Located near Lake Maggiore, in the Vigizzo Valley, these villages interested French royalty because of their geographical location. Vigizzo is one of the rare valleys which allow a descent without obstacle towards the plain of Milan.

By entering into an agreement with the families who "held" the high part of this valley, the Royalty, via its secret diplomacy, was guaranteed a passage to Italy which would allow the French army, at the chosen moment, to easily cross the border. Similar military agreements were made at the same time with strategic valleys which link Italy to its neighbours, in particular the Valtellina (on the Austrian border). The wording of these agreements matches the royal privilege given to the Mellerio almost word for word.

- **Jewellers to queens and empresses**

Upon obtaining this privilege, the Mellerios definitively specialized in jewellery and became suppliers to high society. When they were accused of unfair competition and taken to court, they invoked the Queen's protection. And won all their cases...

- **Arrival of François Mellerio in Paris in 1784**

Historian Jacqueline Viruega, specialist in goldsmithing, places the moment of the acceleration of the rise and visibility of MELLERIO dits MELLER in 1784, with the arrival in Paris of François Mellerio, an important member of the family as it was he, in 1815, who decided to open the shop on rue de la Paix, which remains to this day MELLERIO dits MELLER's head office, workshop, and the firm's main shop.

Here is how she describes the life of François:

*"François Mellerio (1772-1843), who arrived in France in 1784, remained in Paris during the Revolution, and joined the republican army, was employed by a Milanese jeweller in 1796. In 1801, he opened a small firm on rue du Coq-Saint-Honoré which was quite successful. Presented to Josephine, he did business with the Bonapartists and became supplier to the Empress. In 1815, he joined his brother Jean-Jacques Mellerio at 22, rue de la Paix, under the name MELLERIO dits MELLER frères."*

In fact, François, aged 12 in 1784, had followed his father Jean-François Mellerio (1756-1826), who had decided to leave Craveggia and move to Paris. After two years of boarding school in the countryside to learn French, François quickly became the most industrious member of the family. He convinced his parents to end the sales trips to the provinces, which were tedious and not very profitable, in order to concentrate on a clientele of noble families and financiers, who had the reputation of being rich and solvent.

He also sometimes visited his cousin Jean-Baptiste Mellerio, who later became his uncle<sup>6</sup> when François married Madeleine, Jean-Baptiste's niece, in his second marriage in 1811.

#### ▪ Mellerio, jeweller to queens

According to Marie-Émilie Vaxelaire, the Mellerios had already begun to make a name for themselves in the jewellery sector and to specialize in luxury products under the reign of Louis XIV.

Mellerio is not mentioned among the jewellers or goldsmiths to the King, prestigious individuals who were often made noble, or among the goldsmiths and jewellers of the 17th and 18th centuries before the French Revolution. However, a legal document dated 1755 states that Jacques Mellerio, jeweller, prevailed against the Corporations of Le Havre by virtue of Royal Privileges. This document is currently stored in MELLERIO dits MELLER's archives as well as in the National Archives. The firm's archives also contain an account ledger dating from 1776, testifying to the Mellerios' involvement in the jewellery business before the Revolution.

Legend has it that Jean-Baptiste Mellerio, François Mellerio's cousin, set up his stall in front of the Palace of Versailles and Queen Marie-Antoinette purchased several pieces of jewellery from him.

Here is what Joseph Mellerio says in his book written in 1893: *"The special relationship which links Mellerio to the most charming and the most majestic of queens was forged in 1777. That year, Jean-Baptiste Mellerio, a young twelve year old Lombardian goldsmith-jeweller set up for business with a small quantity of goods in front of the gates of the Palace of Versailles. As she was returning from her walk, Queen Marie-Antoinette noticed this unusual merchant and ordered her entourage to take a look at what he was offering. The table was carefully laid out and Jean-Baptiste presented his jewellery so persuasively that the lady of waiting was won over and acquired several pieces. Quickly the young man became a subject of interest, made himself known, and carried out promptly and intelligently all the small orders he received, and soon became supplier to the Queen."*

*"Although Louis XIII states, in the second decree granted to the Mellerios in 1635, that the Mellerios were already selling their wares to the Court during his reign and the Regency of his mother, the first royal client to which the Firm makes frequent reference in its history is Queen Marie-Antoinette. She seems to have purchased a bracelet with seven cameos surrounded by rubies from Jean-Baptiste Mellerio, who presented his jewellery in Versailles*

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<sup>6</sup> Source: *Famille Mellerio, son origine et son histoire par Joseph Mellerio, Imprimerie D. Dumoulin 1893*

with the assistance of a type of trunk known as a "marmotte" which has been preserved and still belongs to MELLERIO dits MELLER.

At the time, Jean-Baptiste worked with his cousin Jean-François Mellerio (1756-1826) and his son François (1772-1843), in the framework of two separate family businesses.



Jean- Baptiste Mellerio's "marmotte" (trunk) from 1780.

One day Marie-Antoinette noticed a Mellerio at the gates of the Palace of Versailles and had him enter. She bought the bracelet shown below from him. From then on, the jeweler was received at the palace.



It was then that the family specialized in luxury goods: silver and goldware, rings, jewellery, precious boxes made of shell or gold, snuff boxes, bonbonnières, shoe buckles... Their reputation extended well beyond the capital, throughout France and all the way to England.

Another element which attests to the Mellerio's close relationship with Royalty: the conservation in Craveggia of clothing belonging to Marie-Antoinette, as well as all the royal decrees and privileges, bound in a leather book with wax seals on which the coat of arms of the King of France is still visible: three fleurs-de-lis.

## ▪ The Disruption caused by the Revolution of 1789

The French Revolution put an abrupt end to this expansion. In 1793, Jean-François found refuge in Italy and his son François joined the Army of the North for two years, charged with the task of driving out the Austrians and Prussians who had joined forces against France.

Returning to Italy in 1796, François spent two years as an employee of the great Milanese jeweller Manini, where he was able to increase his knowledge of the profession before returning to Paris, in 1801, where he resumed his activities as a jeweller.

Fortune smiled on him in 1804 when one of his clients, Madame Sans-Gêne, presented him to Empress Josephine.



- **Renaissance in Paris in 1796 with the opening of "Mellerio Meller à la Couronne de Fer"**

According to other sources, the first "Maison Mellerio" of which traces have been found was founded in 1796, after the French Revolution which had all but eliminated the former privileged class of Parisian goldsmiths, many of whom also went bankrupt at the end of the Ancien Régime.

Jean-Baptiste Meller (1765-1850), the former peddler who had sold his jewellery to Queen Marie-Antoinette when he was twelve, set up shop rue Vivienne à Paris, under the name "Mellerio - Meller à la Couronne de Fer", near the rue des Lombards.

## 2. SECOND CYCLE: THE EMERGENCE OF A MAJOR JEWELLERY HOUSE (1815 - 1915)

Whatever the case may be, it was the opening in 1815 of the Mellerio jewellery shop at 22 rue de la Paix which marks the point of departure for the expansion of MELLERIO dits MELLER.

- **1815 François Mellerio opens the Mellerio jewellery shop on rue de la Paix**

François Mellerio was the first jeweller to open a shop on rue de la Paix, a very innovative choice at that time. All the others had stayed at Palais Royal. It took Cartier 80 years to open right nearby...

The address was strategically located, mid-way between the banks and the Tuileries where the government ministers met. This was the clientele targeted by MELLERIO dits MELLER. A clientele who for the most part lived close to Place Vendôme, which rue de la Paix, opened in 1806, gives onto.

It was the beginning of a confirmed commercial success with this clientele close to the Emperor. In the Mellerio archives, order forms have been carefully preserved for two centuries. The name of the Empress Josephine sometimes appears every week...

- **The development of an aristocratic clientele**

MELLERIO dits MELLER progressively became supplier to the kings and queens of France and other European royalty. The firm established itself as one of the great European jewellers, working for Napoleon I, Empress Josephine, and the Emperor's sisters Pauline Borghèse and Caroline Murat.

Its reputation was unsurpassed for the quality and the choice of precious stones, refined craftsmanship and style, and a prestigious and international clientele.

The shop on the rue de la Paix was also one of the only jewellers to serve clients from the high aristocracy: the Orléans, Rothschilds, the royal Courts of Spain, the Netherlands, England, Sweden, Russia, Italy, and Belgium, diplomats, intellectuals, artists... In the order books, called "Brouillards des comptes" and preserved since 1766, are written the grand names of the royal families and Parisian grande bourgeoisie. These exceptional archive collections show a particularly close relationship between the jeweller and its clients.

This was a distinct advantage at the moment of the Bourbon Restoration because competitors like the Nitot firm (ancestor of Chaumet and jeweller for the coronation of Napoleon) did not have access to this clientele.

- **Family reunification**

In 1816 François entered into a partnership with his brother Jean-Jacques.

Jean-Antoine, François' son, was at this time running another shop on quai d'Orsay. The two firms did not merge until 1851, one year before Napoléon III's accession to the throne.

In 1830, after the accession of the Duke of Orléans, the firm obtained the coveted title of official supplier to the Queen of France, Marie-Amélie.

In 1836, the firm moved to 5 rue de la Paix (number 9 today).

In 1843, François retired to Italy, leaving the firm's destiny in the hands of two of his sons: Jean-François (1815-1886) and Jean-Antoine (1816-1882).

## ▪ **Disruption: the Revolution of 1848**

However, the Revolution of 1848 put a halt to this successful growth. The shop on rue de la Paix closed, due to violence and above all due a strong drop in business in the framework of a political, social, and financial crisis.

## ▪ **Departure for Spain after the Disruption of 1848**

The firm recovered from the shock of the 1848 Revolution thanks to the combined and complementary talents of François' two sons, Jean-François and Jean-Antoine.

Recognizing the context of crisis reigning in Paris, they left for Madrid with the stock of jewellery and precious stones. The Palais Royal was closed but Jean-François succeeded in making contact with Queen Isabella, who bought the entire stock of jewellery.

Two years later, seeing that the business was viable, Jean-François decided with his brother Jean-Antoine to open a branch in Madrid under the name "Mellerio-Hermanos".

In 1860, Mellerio obtained by decree the title of "supplier to Her Majesty the Queen of Spain".

## ▪ **Expansion in Germany and England**

Jean-François and his brother also began a commercial relationship with Germany, relying on jewellers, probably cousins, operating in Baden-Baden, a fashionable resort which in the high season attracted many wealthy European families. It was a way of following the clientele from a distance.

They also established a regular flow of business with the Rothschild family in London.

## ▪ **Merger of the family businesses at the dawn of the Second Empire**

The merger in 1851 of the two firms founded by François Mellerio on rue de la Paix and by his son Jean-Antoine on quai d'Orsay, marked the beginning of a renewal of the MELLERIO dits MELLER firm under the Second Empire.

In 1852, Napoléon III came to power, and wanted to make Paris the luxury capital of the world. MELLERIO dits MELLER reached its financial and artistic peak under the Second Empire. Emperor Napoleon III and Empress Eugénie, who admired the Mellerios' talents, purchased numerous pieces of jewellery from them all throughout their reign and strongly contributed to the firm's success.

In 1867, Jean-François and Jean-Antoine decided, along with another brother Joseph (1827-1907), to open an annex at 28 Boulevard des Italiens. That same year MELLERIO dits MELLER obtained the title of "supplier to His Majesty the King" of Italy.

Another brother, Félix, also opened a jewellery shop in Paris on rue d'Argenteuil with a partner from the Vigizzo Valley.

Three years later, the family obtained French citizenship, in 1870.

## ▪ **Enlarging the client base**

The constant search for new clients is a necessity in the jewellery business as one of its characteristics is that it offers expensive products to a wealthy and thus limited clientele. The jewellery market is highly sensitive and reacts to the unpredictability of the economy. Surviving means enlarging the clientele by establishing oneself in other countries in order to better withstand the vagaries of the economy.

Thus, as Biarritz, which was made famous by Napoleon III and Eugénie who built a palace there, became a favourite resort town for the aristocracy, the Mellerio family opened a shop there in 1891.

This commercial expansion was also made necessary by the financial risks inherent to the profession and the great need for working capital required to constitute a stock of precious stones and materials, while payments by prestigious but capricious clients are sometimes erratic.

Throughout Europe, people admired "these imaginative jewellers, with good taste and high-quality creations". In order to retain its demanding and refined clientele, the jewellery was created and produced by the finest craftsmen of the day.

## ▪ Consolidation of know-how

MELLERIO dits MELLER took advantage of this period to file numerous patents, which concern, in particular, the method of setting precious stones.

During this period the Firm also created many religious objects for the Vatican, Notre Dame of Paris... including the crown of the archangel Michael (copies of the crown can be found in the Maison du Pèlerin in Saint-Michel) or those of the statues of Lisieux, Notre-Dame de Fourvière, Notre-Dame de Lourdes or Sacré-Cœur and the Crown of the virgin of Brebières (photo to the right).



Although the Mellerios all knew how to draw - in particular, Jean-François (1815-1886), one of the best artists in the family - they supervised a large number of their creations; i.e. they entrusted their ideas to their workshops or to craftsmen who gave form to them. Of course, this creative process was not a one way street and, on their side, the craftsmen, on the basis of their talents, contributed to influencing and embellishing the object. A piece of jewellery is above all a collective work, which reflects all of the individuals who created it, but then takes only one name which is that of the jeweller.

The Mellerio archive collections show that the making of jewellery calls upon individuals from several crafts: designer, setter, lapidary, engraver, stone-setter, and enameller. Between 1830 and 1870 two hundred and twenty artists worked more or less permanently or regularly with the Mellerio firm. Lalique designed jewellery for them and his drawings can be found in the workshop book.

In addition, the Mellerios knew how to recognize the artistic talents of their craftsmen. For example, they allowed Henry Foullé (1833-1882) to sign his drawings and requested that he be awarded a medal for his work at the International Exposition of 1867.

## ▪ The Creation of a precious collection of archives and drawings

Jewellery is weakened by being worn: metal gets scratched, stones fall out, enamel cracks. To this can be added the traditional practice of taking it apart in order to create something more in line with the fashions of the day, which means that drawings are an important source for preserving the memory of jewellery. The Mellerio drawing collection is thus capital for the history of jewellery.

It testifies, as from the 1830's, to the firm's creativity, retracing the tastes and fashions of the time. The portfolios, tracings, and preparatory drawings show an abundance of shapes and ideas inspired by a reflection on the surrounding world. The flora, fauna, characters and shapes were taken from books, magazines, paintings, engravings, and various settings.



MELLERIO dits MELLER's reputation was based above all on its capacity to skilfully cover an extremely diverse range of jewellery, the result of the great variety of styles which characterized the period. The military campaign in Egypt, and the archaeological discoveries in Herculaneum and Pompeii were also sources of inspiration. This mix of creativity, daring, and the capacity to satisfy or even anticipate the desires of a versatile clientele was truly the key to the firm's success.

Contrary to the First Empire which was a complete break with the 18th century, the second half of the 19th century was not dominated by any particular style. Concerned with tradition and assimilation, it borrowed shapes, materials, and iconography from earlier periods, and enriched them with technical and stylistic innovations. The International Expositions during this period made it possible to show off this diversity and the technical progress which accompanied it.

A stylistic analysis of the Mellerio jewellery produced during the July Monarchy and the Second Empire is particularly revealing as concerns the tastes of the second half of the 19th century. MELLERIO dits MELLER was able to respond with talent to the most diverse expectations, creating very classic, timeless jewellery, such as pearl or diamond necklaces ("*rivière de diamants*"), and also unique jewellery, which found its source in the large decorative repertoire of motifs: neo-Gothic, neo-Renaissance, Louis XV, Louis XVI, classical, and naturalistic were an endless source of inspiration.

#### ▪ **The invention of the flexible shank setting**

The International Expositions during this period provided MELLERIO dits MELLER and its peers with privileged opportunities to show off their most daring creations to a wide public. They also enabled them to exhibit new fashions in jewellery or to present their new techniques.

With a view towards the International Exposition of 1855, MELLERIO dits MELLER frères filed a patent on 3 August 1854, for a flexible shank for mounting all types of gemstones: "*The purpose of this request is to gain ownership of an application forming an entirely new jewellery item insofar as it imitates natural hanging fruit with no stiffness, which no one has been able to do until now [...]*". This discovery constituted significant progress; it would make it possible to give natural flexibility to floral arrangements which until that time had been rigid. The Mellerio firm was awarded a gold medal for this.

#### ▪ **Recognition of this exceptional talent for innovation**

Mellerio successfully participated in numerous International Expositions. The firm won the "Prize Medal" at the International Exposition of 1862 in London, the gold medal at the International Exposition of 1867 in Paris, and the grand medal of the Religious Exposition of 1870 in Rome.

The Mellerio archives show that through its innovations in technique and form the firm succeeded in reinterpreting the creations of its predecessors and developing its own style combining fashionable taste inspired by an evocation of the past.

## 3. THIRD CYCLE: ENSURING THE CONTINUITY OF A FAMILY BUSINESS (1915-2015)

It was during the 20th century that the firm truly consolidated its capital, by organizing the shareholdings at each generation around three family groups, and by adding real estate holdings, which were also a source of recurring cash flow, to the jewellery business: the building located 9 rue de la Paix, held through a non trading real estate company<sup>7</sup>, while calling upon limited external financing in order to maintain control of the capital.

### ▪ Continuity during the two World Wars

World War 1 did not really constitute a Disruption for MELLERIO dits MELLER and neither did World War II.

The significant events which occurred during this Cycle were more family related (Disruption caused by Emile's death) and strategic (growth of the world jewellery market and strong concentration of market players into a small number of very large international groups in the second half of the 20th century).

### ▪ Continued recognition of the Mellerios' talent

The post-war years allowed MELLERIO dits MELLER to "surf" the wave of success of French Haute Couture, thanks to profitable collaborations with prestigious houses such as Christian Dior and Balenciaga.

At an artistic level, the Mellerios continued to deploy their considerable talents during the 20th century, as is attested to by the prizes which the family continued to receive, in particular, Charles Mellerio (1879-1978), Doctor of Law, Jeweller "*Meilleur Ouvrier de France*" and "*Prix de Rome*" for drawing.

This is undoubtedly the key to the longevity of this dynasty: each generation is dedicated to improving upon what the previous generation has accomplished, driven by a passion for their profession, and charged with a duty to pass on its know-how and talent.

### ▪ Principle of organizing the shareholdings around three family groups

The transfer of the firm by Raphaël Mellerio to his three sons Maurice, Charles and Bernard Mellerio, at the beginning of the 20th century, marked the start of a governance system based on three equal thirds held by three branches of the family at each generation, a system which the following generations sought to emulate and sustain over time, despite the shareholding complexities caused by the continual enlargement of the family circle as a result of having large families.

The principle is that the firm can count on three family shareholder branches which are completely equal in order to any avoid conflict of interest: the same salary for the individuals representing each branch, the same number of shares, the same number of shares in the real estate holding company which owns the building, and the same amount of current accounts. None of the branches holds a blocking minority. The partners much reach agreement in order to make a decision. Each individual finds his place on the basis of his competencies. Leadership is determined by discipline on the basis of talent and skill.

The idea is that at least two of the three shareholders are physical persons, the third can be a group of several individuals, who must then chose just one person to represent them for general meetings of shareholders and meetings of the board of directors.

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<sup>7</sup> *Société Civile Immobilière in French*

The intention of the family was to move away from branch combinations and to identify the shareholders on the basis of their individual identity, their capital, and their respective contributions, including on a human level. This is why the term "shareholder pillar" was preferred over the term "branch" which evokes the idea of persons who are descendants of the same father.

Each Mellerio involved in the firm was also advised to choose the individual from among his descendants who had the desire, and if necessary the financial means, to take over the shares held by his father, in order to avoid fragmentation of capital which is not conducive to the implementation of a sustainable strategy within the company and can lead to the forming of minority alliances likely to harm shareholder cohesion.

These principles were later set out in a family charter and a governance charter drafted and discussed in 2010.

- **Disruption: the firm simultaneously faces the untimely death of Emile Mellerio, in 1967, and the upheaval of the luxury sector**

The premature death of Emile, at the age of 57, happened at a time when the jewellery craft experienced profound transformations which threatened the equilibrium of the family business, and put the balance of the three pillar system at risk, precisely when Emile's son François, age 25, took over.

Emile's brother Hubert became President, while Guy, another of Emile's brothers, decided to retire. Ten years later, in 1979, Hubert retired and François became President. The three pillars system was maintained through a progressive association of François's brother Olivier, who successively purchased shares held by Guy's branch and later those held by his brothers and sisters.

At the end of the 1980's, the Hubert branch withdrew. The group was restructured in order to finance the purchase of the shares held by this branch (shares and shareholder current accounts shares in the real estate holding company): SA MELLERIO dits MELLER, which up until then had held 51% of the shares in the real estate holding company, acquired them and became holder of 90% of the shares, and financed this purchase by means of a bank loan.

- **Developments in the luxury sector**

During this capital restructuring period, the luxury jewellery market underwent profound upheavals.

It was a rapidly growing sector which took advantage of the economic growth at the end of the 20th century and beginning of the 21st century to grow by more than 7% per year, according to estimations, to 150 billion euros in 2015. This growth can be explained by several factors: a strong period of worldwide economic growth led by the United States and Japan up until 2001, the opening of markets in certain emerging countries and also the "democratization" of luxury products in developed countries.

Luxury products are not anymore ordinary purchases for exceptional people, but exceptional goods purchased by ordinary people.

Starting in 1998 the market became more globalized and consolidated:

## The last Jewellery House to remain a Family Business

MELLERIO dits MELLER is not only the oldest and the most prestigious Jewellery House in existence, it is also the last to remain a Family Business.

### MELLERIO dits MELLER

Still independent and 100% held by the Mellerio family

### CARTIER

Belongs to the Richemont Group since 1988

### VAN CLEEF & ARPELS

Belongs to the Richemont Group since 1998

### CHAUMET

Belongs to the LVMH Group since 1999

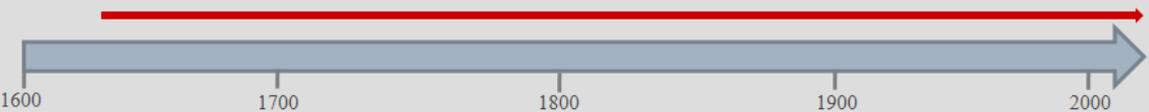
### BOUCHERON

Belongs to the PPR Group since 2000

### MAUBOUSSIN

Acquired by Dominique Frémont in 2002

### MELLERIO dits MELLER



### 1993 Diversification into watchmaking

In this context and thanks to a controlled and limited call to private investors, starting in 1993, Olivier Mellerio was able to start diversification into watchmaking, which once again gave rise to new inventions and patents, continuing the tradition of creativity which MELLERIO dits MELLER has always shown.



Mellerio makes every effort to create a sensation and stand out: the MELLERIO dits MELLER watch has a novel face: a new shape, oval, uncluttered yet complex, obvious yet subtle, familiar yet symbolic. This innovation was the subject of a patent filed in 1993. The watch was awarded the "Prix du Cadran d'Or".

This shape also gave rise to a new diamond cut, under a patented method unique to MELLERIO dits MELLER.

This development was first carried out in a separate framework, by the Laurivier company, founded by Olivier Mellerio in 1989 with his own capital, under license granted by MELLERIO dits MELLER. Laurivier became MELLERIO International when in 2005 the entire branch of jewellery and goldsmithing activities was transferred to it by MELLERIO dits MELLER, which thus became the family holding company.

## ▪ 2004 new patents for the "Mellerio Cut"

At the same time, the tradition of innovation continued; a new patent was filed for a gemstone cut which bears the name of its creator; oval, after the brilliant, pear, heart, or emerald cuts: the "Mellerio Cut".



In 2005, Mellerio filed a new patent; a gemstone cut which bears its name, the "Mellerio Cut".

This cut shapes gemstones in the same proportions as those of the "Neuf" watch, but its design presented numerous challenges: thus a "Mellerio cut" diamond has as many facets as a brilliant cut but their arrangement was entirely rethought in order to reveal a much more intense and finer grained radiance, instantly identifiable.

This never-before-seen ovoidal shape is natural and universal.

## ▪ Limited opening of the capital to outside investors

In order to retain control over the capital while continuing with international development and organic growth, which are necessary in the context of the evolving luxury market, MELLERIO dits MELLER decided to bring in TEPA<sup>8</sup> investors wishing to direct the product of their wealth tax<sup>9</sup> towards Small and Medium-sized Businesses.

In order not to put at risk the family's objective to retain control over the capital, which remains a key family policy, these investors are issued shares, preferably without voting rights, totalling approximately 30% of the capital. The investors have granted options to sell in order to avoid dilution.

## ▪ Reorganization of the firm's governances

The firm's governance was also reorganized in 2006 in order to implement a two tier system:

- The family holding, MELLERIO dits MELLER, is held by the three family branches; its role is to preserve the firm's heritage and identity: protect the value of the name and its reputation, risk level (debt), development of capital, significant investments and divestments; it has a small board of directors (3 to 5 persons),
- The firm's operating subsidiary, Mellerio International, responsible for operations; its shareholders are MELLERIO dits MELLER for 90%, and approximately 10% of minority shareholders; its board of directors is made up of independent board members, and family representation is limited to one person.

<sup>8</sup> The law of 21 August 2007 in support of work, employment and purchasing power, abbreviated as the "TEPA law" and known as the "tax package" because it set up tax credits for individuals who invest in SMBs.

<sup>9</sup> French wealth tax known as Impôt sur la Fortune or ISF



## ▪ A professionalized firm for its 400 year anniversary

At the dawn of its fifth century of existence, MELLERIO dits MELLER was transferred to the 15th generation: Emilie Mellerio, an HEC graduate (1998), with a degree in gemmology, became Chairman of the operating company, Mellerio International, after having created the Marketing department and reorganized internal auditing.

She also created a structured collection which makes it possible to envisage international distribution, and redefined the collection, distribution, and marketing strategies.

This professionalization also involved the hiring of a Managing Director from outside the family who brings 20 years of experience in the sector to MELLERIO dits MELLER.

## ▪ Challenges for the 21st century

MELLERIO dits MELLER is currently facing numerous challenges:

- Heightened competition from large international groups with the financial means to engage in large scale international commercialization and distribution of standardized iconic objects forces MELLERIO dits MELLER to rethink its strategy on the basis of new opportunities available, in particular through technical developments.
- For example, the development of Big Data offers possibilities for personalization, the creation of bespoke jewellery allowing the client to help design unique pieces suiting their individual tastes, with the assistance of the extensive documentary resources held by MELLERIO dits MELLER,
- The impact of new technology makes it necessary to re-examine many aspects of the jewellery business (rapid prototyping, laser, man-made stones, e-commerce, etc.).

However, MELLERIO dits MELLER is ideally positioned to respond to the new aspirations of a large international clientele who are demanding and who desire creative and personalized services and products.

Remaining in the artistic domain, it has not wished to stray from its core business and can today find a financial model which allows it to attract the finest talents and remain at the top of its business sector throughout the world.

## Questions for Students

### ▪ Overall objective of the Case

The overall objective of the case study is to identify the familiness (concept defined below and in Annex 5) which has enabled the family business MELLERIO dits MELLER to endure through the centuries while preserving and developing its know-how and reputation, and remaining a family business

In order to clarify this objective, it should be noted that the concept of familiness has three components which include, in and of themselves, all the characteristics of family businesses, and which can be summarized as follows:

- the surplus of social capital, which explains the resilience of family businesses, and their relative financial outperformance during periods of crisis, and which can be defined in every sense of the term as "social capital", i.e. the funds invested in capital (or precious stones in the case of MELLERIO dits MELLER), the intangible assets (the archives), know-how, human capital, the family's emotional and even symbolic capital through, in particular, eponymy and transmission, which guarantees the orientation over the long term,
- the local foundation, rootedness, which itself guarantees the continuity of the firm held by family shareholders, and the enrichment of its know-how, without in any way hindering the firm's international expansion,
- the network: the social network, in the traditional sense of the term, i.e. the family's network of influence, which interacts with that of the firm, to produce values which are all the more credible in that they are embodied by the members of the family, which makes management by values more efficient than in non-family companies.

### ▪ Assignment

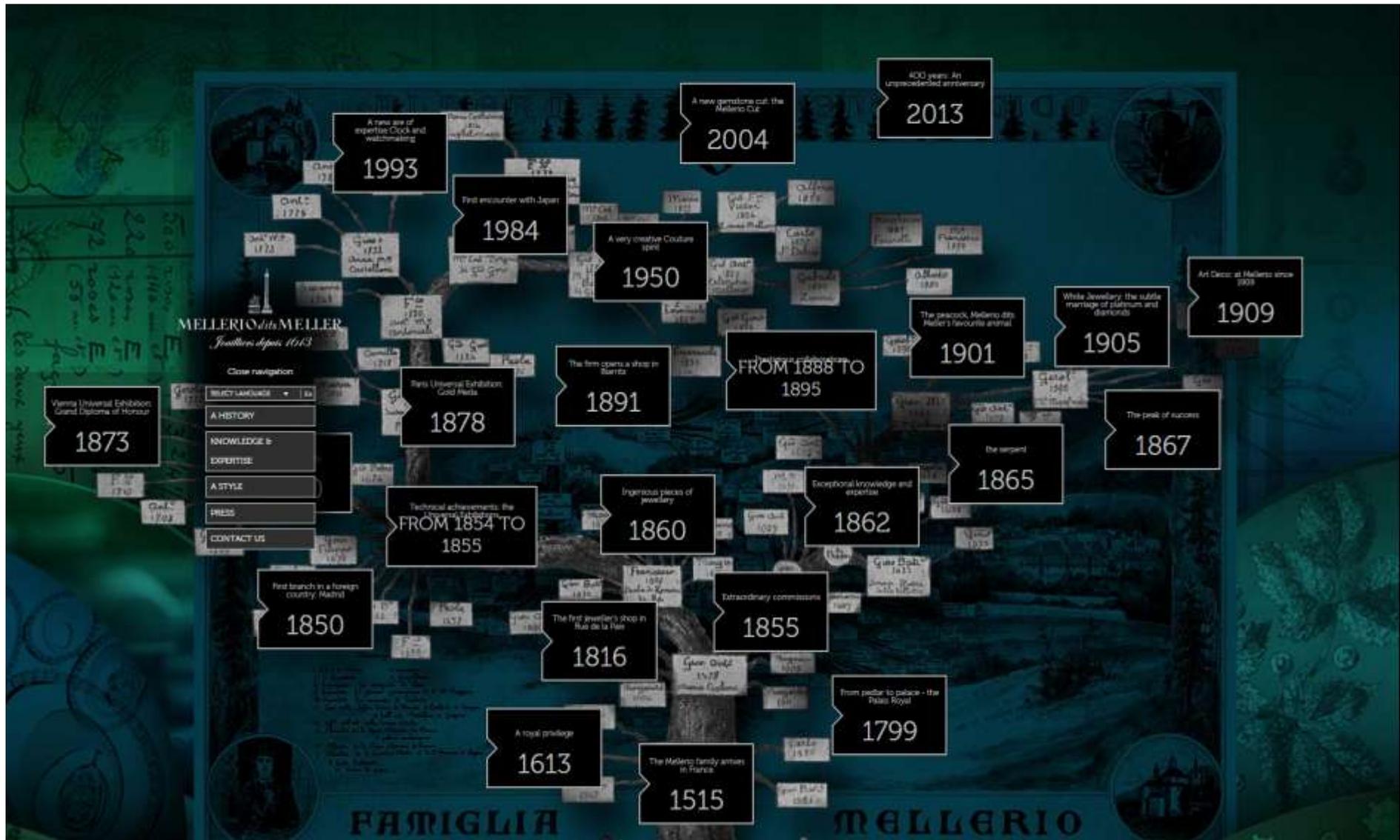
Students are asked to show how this familiness has developed and enriched itself during each of the three Cycles shown in the MELLERIO dits MELLER Case Study, and to pay particular attention to the two aspects of surplus of social capital which make up familiness:

- The dimension of symbolic capital which represents the sum of human capital, know-how, the combined history of the firm and the family, the importance of the eponymy and shared values, and the preservation of a geographical link and a remembrance in spite of the family's move from Italy to France, and the question of financing innovation and growth in order to allow the firm to reinvent its business model and continue to grow in an ever-changing jewellery market; the analysis of human capital will focus on the concepts of network and *affectio familiae*,
- The dimension of financial capital and the related issue of financing the repositioning over the generations on a core group of majority shareholders to ensure continuity in the control of capital; the analysis will include a shareholding analysis and the methods used to link family governance with the firm's governance.

Valérie Tandeau de Marsac (HEC 1982)  
Attorney, Family Business Law specialist  
(see list of books and publications at [www.vtm-conseil.com](http://www.vtm-conseil.com))



Annex 1 - Diagram showing the key dates in the history of Mellerio dits Meller

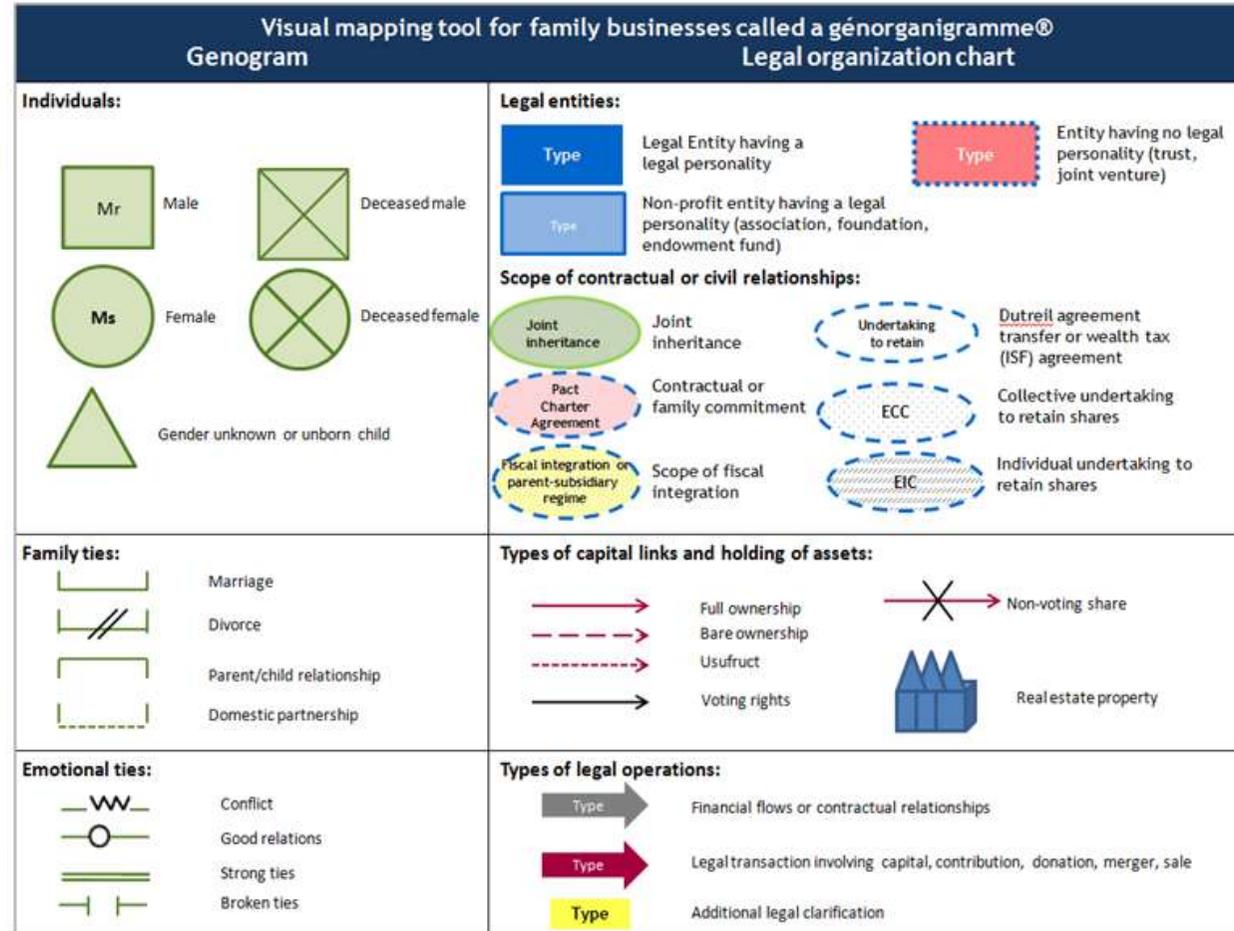




## Annex 2- Visual mapping tool for family businesses called a génorganigramme®

The **génorganigramme®** is an innovative mapping tool designed to provide a visual representation of family businesses. Created by Valérie Tandeau de Marsac, it combines:

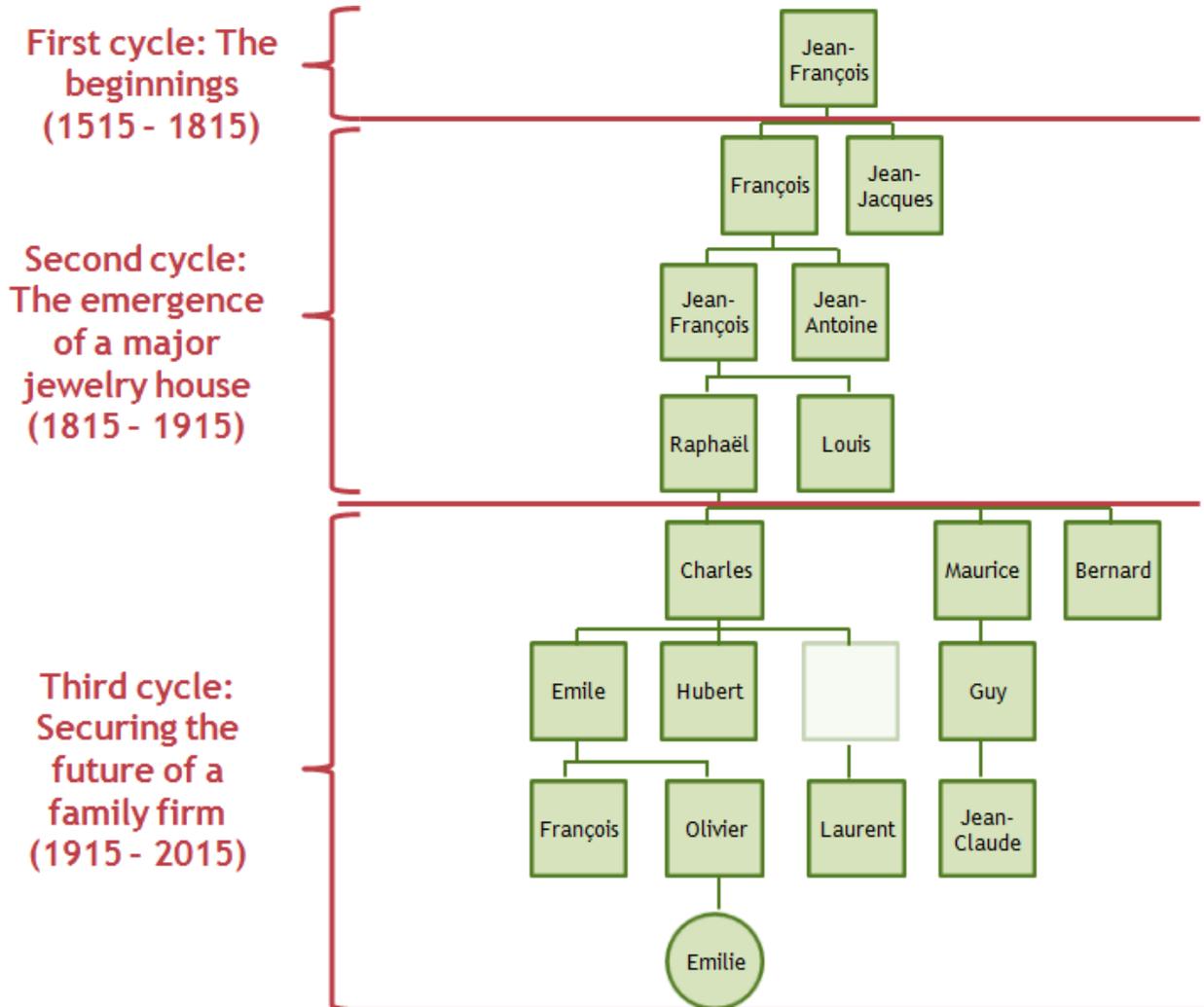
- a coded diagrammatic tool used in medicine to graphically represent family trees and assess family relationships, known as genogram,
- A diagrammatic code created by Valérie Tandeau de Marsac to draw the legal organization chart which describes the business and its shareholding,
- And a standardized graphic and color-coded representation of the legal and financial flows and operations, used to illustrate and explain each solution envisaged.



*génorganigramme® is a registered trademark of Valérie Tandeau de Marsac - all rights reserved*



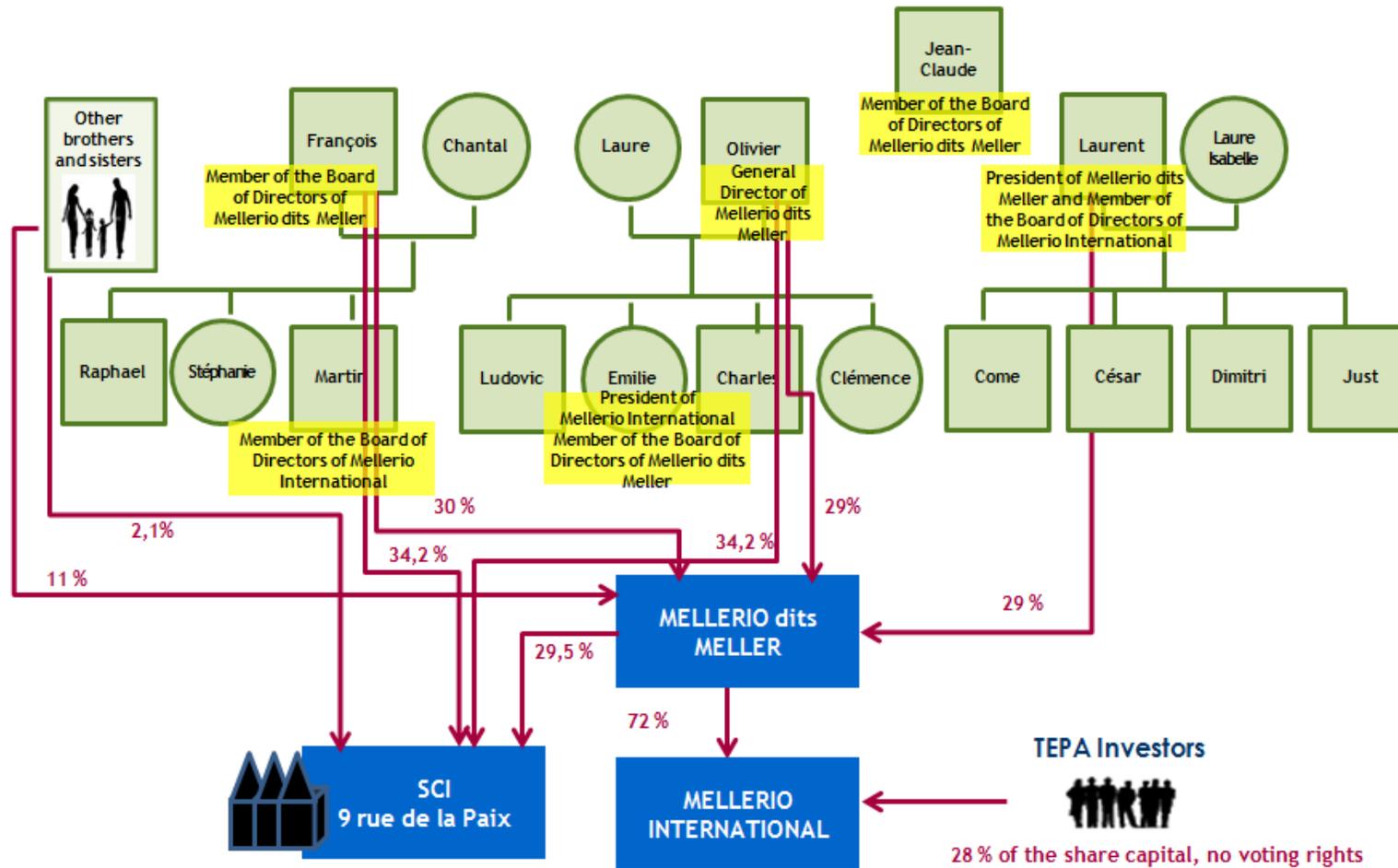
Annex 3- Simplified Génomogramme of the firm's three life Cycles

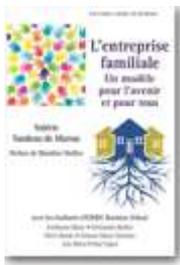




## Annex 4- Génorganigramme at the end of the third Cycle

### Génorganigramme® of MELLERIO dits MELLER On January 1<sup>st</sup> 2015





## Annex 5 - Familiness

Translated from Chapter 4 of the book "L'entreprise familiale, un modèle pour l'avenir et pour tous", by Valérie Tandeau de Marsac with the EDHEC Business School in 2014 (Editions Lignes de Repère)

Academic research uses the term "familiness"<sup>10</sup> to designate "the unique set of resources of a family business which arise from the interactions between the family system as a whole, the individual family members, and the business itself".

Researchers have even proposed a measurement unit for "familiness" called F-PEC,<sup>11</sup> via a scale with three dimensions: power, experience and culture:

- **Power:** influence of the family on the governance and management of the company; the concept of power takes into account the control family members have over the company and the number of family members involved in the company's governance or management,
- **Experience:** knowledge, judgment, and intuition, accumulated over the generations; this concept refers to the experience brought by the family to the company, which is all the more significant where several generational transfers have occurred,
- **Culture:** alignment of the family's objectives with those of the business; culture corresponds to the involvement of the family in the business and to the family values which are apparent from the style of communication and way in which conflicts are handled.

After having defined what research considers "familiness" to be, we will examine these three dimensions through the three lines of approach developed by academic research:

- family governance, corresponding to the power measurement in the F-PEC scale,
- values, corresponding to the culture dimension on the F-PEC scale,
- the local roots of family businesses, combined with a strong international presence, which, although it is not quite the same thing, relates to the concept of the experience dimension on the F-PEC scale.

### ▪ **Familiness: family, values and humanism**

#### *Familiness": a surplus of social capital*

The EDHEC and EM Lyon<sup>12</sup> have proposed to translate "familiness" by "familialisme".<sup>13</sup>

Their idea is that agency theory (saving of agency costs by combining the functions of ownership and management) is not sufficient to explain the

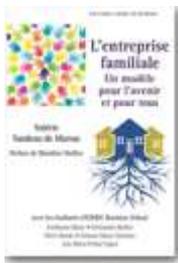
Note: the concept of "familiness" explains the better performance of family businesses by "the unique resources possessed by a company due to a system of interactions between the family, the family members, and the business.

<sup>10</sup> TG. Habberson and Williams (1999): "A resource-based framework for assessing the strategic advantages of family businesses", Family Business Review, Vol. 12, pp. 1-15.

<sup>11</sup> Sabine B. Klein, Joseph H. Astrachan, Kosmas X. Smyrniotis (2005): "The F-PEC scale of family influence: construction, validation, and further implication for theory"

<sup>12</sup> Jean-Luc Arrègle, Rodolphe Durand and Philippe Very (2004): "Origines du capital social et avantages concurrentiels des firmes familiales".

<sup>13</sup> In French, I suggest to use the word "Familisme", in conjunction with the baseline "L'ADN des entreprises familiales"



better performance of family businesses but that the explanation is found more in the way in which social capital applies to family businesses.

*Social Capital is defined by Baron and Markman as “the collection of resources the individuals can acquire by being connected with others, by being part of a social network or by simply being known among them and having a good reputation»<sup>14</sup>.*

Individuals can thus benefit from belonging to a social network and use these social resources for financial purposes under three conditions:

- they have the opportunity to enter into social transactions;
- The members of the network must be motivated to act in favor of the individual;
- They must have the capacity to do so.

This definition applies both to the family and to the company, and it can be considered that family businesses benefit from these two types of social capital, as each can interact with the other and contribute to better structuring it, which is likely to generate distinct competitive advantages.

The family can therefore be considered as an educational establishment which pervades and shapes its members with the patterns of behaviour and collective knowledge which constitute the family's values. The family members who work in the business will thus reproduce this family behaviour and fill the business with the family spirit.

### **How to measure "familiness"?**

The creation and strength of the social capital in a family business depend on four factors<sup>15</sup>:

- the stability of the network (of the education received) over time,
- the interdependence of the family members,
- the interactions between them,
- closure (the network is closed: only family members can join).

The heterogeneity of the practices and performances of family businesses can also be explained by factors linked to the family (structure, size, and definition of the family) and others linked both to the family and the business (generation in power, issue of succession).

### ▪ **The family's power: importance and characteristics of family governance**

#### ***"Affectio familiae" is a key concept in the understanding of family governance***

In "Guide pratique des entreprises familiales", I proposed to characterize family governance by the presence of an "*affectio familiae*", a concept defined by analogy with the legal notion of "*affectio societatis*", which designates the intentional element that characterizes and defines a company, whether it be civil or commercial. Without the willingness of several partners to work together on a joint project, there can be no company.

It could also be said that family businesses would also not exist without the shared willingness of several members of a family to work together on a collective project, embodied by the business. It is this shared willingness that is defined by the term "*affectio familiae*".

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<sup>14</sup> Baron, R. A. and G. D. Markman (2000): "Beyond Social Capital: How Social Skills Can Enhance Entrepreneurs' Success, *Academy of Management Executive*", 14(1): 106-115.

<sup>15</sup> Jean-Luc Arrègle, Rodolphe Durand and Philippe Very (2004): "Origines du capital social et avantages concurrentiels des firmes familiales".



Of course, "*affectio familiae*" is not necessarily present right from the founding of the family business, and this differentiates it from "*affectio societatis*" which is one of the legal conditions for the existence of a company. In order for "*affectio societatis*" to develop into "*affectio familiae*", and thus become a factor of cohesion in the family business, it is necessary for the latter to reach a certain level of maturity, unless the firm was founded by several members of the same family.

"*Affectio familiae*" is the cornerstone of the family business's equilibrium. Without the cohesion of the family group, the business is in danger. "*Affectio familiae*" expands upon the legal concept of "*affectio societatis*" by adding a psychological dimension, which is the willingness of the family to work together towards a shared goal, which is perceived and recognized as such.

The concept also makes it possible to understand family businesses for what they are: a complex system where each party interacts with the others. Like a family, a family business can be compared to a mobile where each element is interdependent with the whole. When one part moves, the entire system moves to integrate the change.

	Niveau élevé (note de 5)	Niveau Faible (note de 1)
Critère 1	Périmètre de la famille connu	Périmètre flou ou non connu
Critère 2	Sentiment d'appartenance fort	Individualisme
Critère 3	Accord sur des objectifs communs	Désaccord
Critère 4	Principes d'éducation partagés	Principes divergents
Critère 5	Existence d'une personnalité exemplaire	Absence ou disparition du modèle d'identification
Critère 6	Connaissance de l'histoire commune	Ignorance des racines
Critère 7	Existence d'un symbole fédérateur (nom patronymique ou marque)	Absence de symbole lisible

Les critères d'appréciation de l'*affectio familiae* proposés par la Commission Gouvernance de l'Association Française des Family Offices (AFFO)

### Diagram 1 – criteria for the measurement of *affectio familiae*

The level, low or high, of "*affectio familiae*" can be measured with the assistance of criteria established by the members of the family governance commission of the Association Française des Family Offices (AFFO),<sup>16</sup> of which I am a member, charged with drafting a White Paper on governance intended for use by family businesses and family offices.

### *Family governance and corporate governance are closely linked*

The term "family governance" is widely used to refer to a set of rules for organization and operation that the family agrees to follow in order to ensure that its interaction with the business circle is both harmonious and efficient.

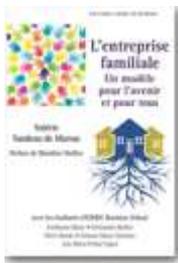
Indeed, these two circles operate according to very different, and sometimes opposing<sup>17</sup>, value systems, which requires that two sets of distinct rules must be defined.

On the family side, governance is generally based on a family charter, often accompanied by the creation of a family council.

The family charter defines the family's shared values and objectives, which characterize the "*affectio familiae*". It sets out the ways in which the family ensures that information circulates within it concerning the business in order to create unanimity within the circle of family shareholders, whose position can be relayed to the business to ensure efficient management. It also deals with sensitive issues, such as the criteria to be met (as concerns experience and professional qualifications, level of

<sup>16</sup> L'association Française du Family Office (AFFO) is an independent association founded in 2001 bringing together both mono- and multi- Family Offices, and the professional partners of the Family Office professions.

<sup>17</sup> A family operates on values which are affective and emotional, involving attachment and filiation whereas the business world is oriented more towards results, profitability, and efficiency.



education, etc...) in order for a family member to hold a position within the business, the dividend policy, or even the methods for resolving intra-familial disputes.

*The family counsel plays a pivotal role in family policy. Sometimes associated with a family assembly, especially in large families, it is the family's governing body, through which it implements the operating principles defined in the family charter.*

On the business side, the term "governance" refers to the traditional rules of company law, and to the manner in which a company's decision-making bodies (board of directors, management board, supervisory board) organize themselves in order to ensure that their decisions are effective and appropriate with respect to the needs of the business, and from a legal standpoint, its corporate interests. Insofar as the corporate interest does not coincide with the shareholders' interests, a *fortiori* where they are family shareholders, it has become common practice to appoint independent board members to the company bodies, or at the very least, persons chosen from outside the family. Their presence can also present the advantage of appeasing the tensions which can exist within the management bodies if the family atmosphere holds latent or overt conflicts.

In addition, although there is no applicable legal standard in the matter, the drafting of rules of procedure for the board of directors is a good practice recommended by professional organizations such as the Institut Français des Administrateurs. In addition to the rules governing the board's composition and operation, they usually also cover the existence of attributions and the operating guidelines for any specialized committees, as well as the remuneration of board members and the procedures for regular evaluation of the work of the board.

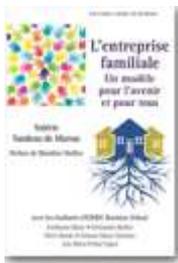
Where the composition of the board of directors is heterogeneous, mixing family board members with independent board members, it is not uncommon to draft a board member handbook, sometimes referred to as a "vade-mecum", which sets out the obligations and responsibilities attached to the exercise of the term of office and makes recommendations to ensure that professional standards for the position of board member are adhered to.

In addition, the shareholders' agreement, unlike the articles of association which are binding on all company shareholders, present and future, is an agreement which is legally binding only on those who sign it. Its purpose is to set the procedure for the exercise of power and control of capital between the shareholders. The usual clauses concern the procedures for organizing governing bodies, the exercise of voting rights (e.g., prior consultation), clauses intended to limit the free movement of shares (such as approval and preemption clauses) and financial clauses which guarantee compliance with the dividend distribution policy in the family charter. It can also include provisions to ensure a certain liquidity of capital and stipulate the methods for evaluation of shares.

*Agreements and articles of association are often the translation into the legal sphere, in company law, of the general principles of organization of the family business as set out in the Family charter.*

Research does not always clearly show how the various tools work between each other and interconnect.

In order to understand this relationship, it is necessary to keep in mind that some of them, like the charter, the family assembly, or the family council exist within the scope of family governance, while others, like the articles of association, shareholders' agreements, and the governing bodies of the company, are found within the scope of corporate governance.



*It is often said that family charters have no legal value and usually have only moral value.*

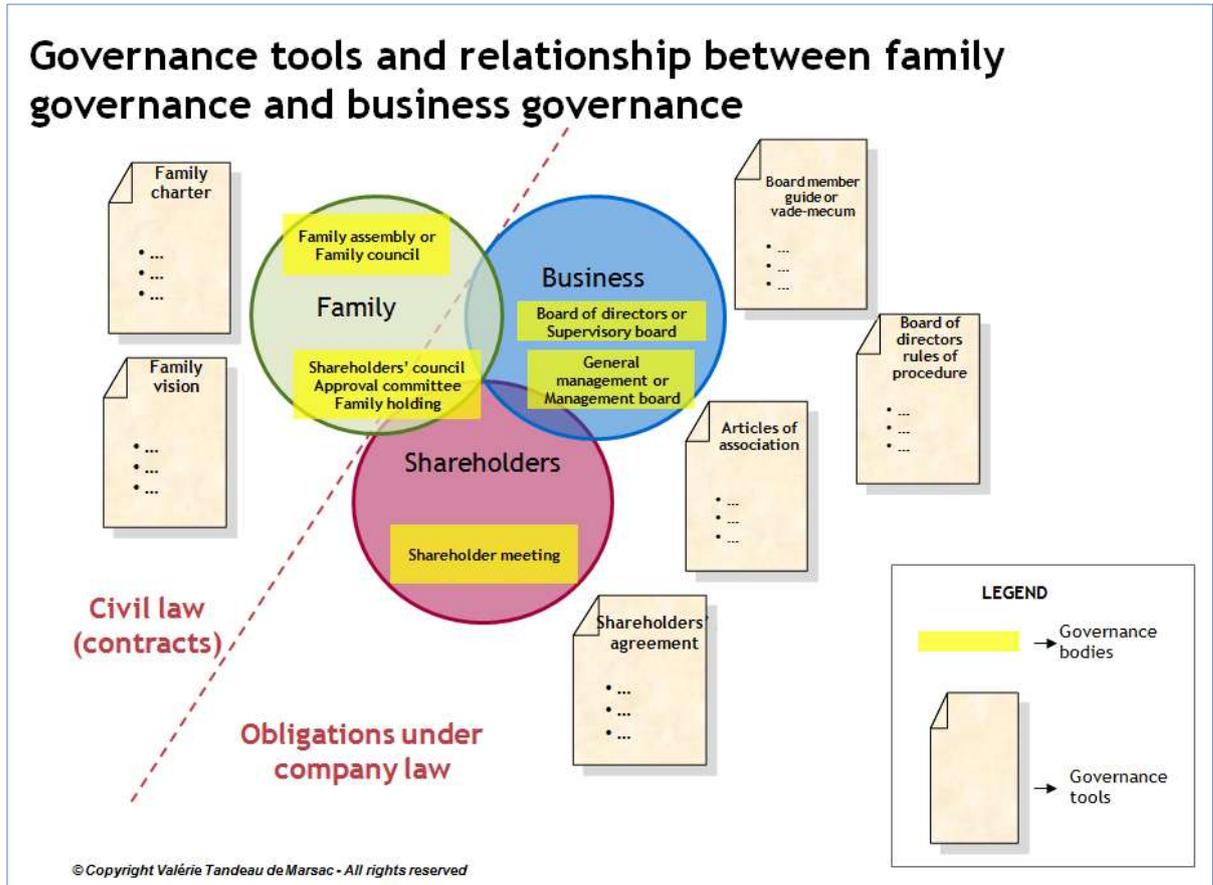
Because the charter is often drafted for the purpose of encouraging people to adhere to it, it is indeed quite rare that sanctions are provided for in the event of breach. In the family context of a charter, it is not uncommon to find that the drafting is a bit lax. Doubtless, it is difficult for those involved to imagine the circumstances which would prevent its application, and they prefer to remain on the optimistic side as they look towards the future.

However, it is possible to imagine an action before the courts if the faulty application of a charter leads to a direct loss or harm for one of the family members. For example, a "bad apple" could claim for compensation if he is refused a position with the family business but feels that he meets the criteria set out in the charter...

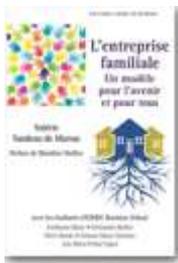
But this is a recent practice and thus it is too early for legal actions to have been taken on these grounds.

*Nevertheless, it is indisputable that undertakings made by persons who are of legal age and legally capable are deemed to be contractual commitments.<sup>18</sup>*

The following diagram shows how family governance interacts with corporate governance and also shows that the corporate governance tools fall within the legally binding scope of company law whereas the family governance tools are within the scope of civil law, which means that the commitments made by members of the family are contractually binding.



<sup>18</sup> See article V. Tandeau de Marsac, *Lettre de l'IFA* no. 24, July 2012, p.15 : "Une charte pour mobiliser les jeunes générations autour des valeurs familiales"



**Diagram 2 – Interaction and legal value of family governance with corporate governance**

▪ **How do values contribute to "familiness"?**

According to a study involving 95 companies selected from a sample of 1000 businesses,<sup>19</sup> carried out by the director of human resources for the Partouche group in the framework of his Master at HEC<sup>20</sup>, the same types of values are found companies with public shareholding and in family businesses. The difference lies in the fact that family businesses are better able to practice management on the basis of these values and this has a positive impact on their performance.

***The values of family businesses are not different from those with public shareholding***

Values are generally considered to be at the root of the distinctive character and better performance of family businesses. 78% of the respondents to the PwC 2012 survey<sup>21</sup> consider that their family business differentiates itself by the strength of its culture and values, and this belief grows stronger with time, rising to 85% for third generation firms.

Researchers traditionally focus on the quality of family businesses' values, which are more centred on human, social, or even spiritual values, than on economic or financial values.<sup>22</sup>

Christine Blondel differentiates between the values expressed in family charters depending upon the country of origin<sup>23</sup>:

- In the USA, family charters refer to faith, philanthropy, respect for the individual, sense of community, productiveness, and the importance of education,
- In Spain, charters focus on work, simplicity, or austerity.

The "ELISA" list of values could guarantee the success of family businesses: Excellence, Labour Ethics, Initiative or Innovation, Simplicity of lifestyle, Austerity.

Miguel A.Gallo, Kristin Cappuyns: "Characteristics of successful family businesses".

Various studies have been carried out to determine the characteristic values of family businesses or those that would ensure success. However, it must be noted that the values family businesses rely on are heterogeneous. The scientific committee of FBN France studied the question of values within companies and their role and impact on management dynamics. The results of this study were published in 2013 under the title "Les valeurs cachées de l'entreprise familiale"<sup>24</sup>.

The study finds that there is a lack of originality in the values displayed by family businesses, and that these values are ineffective when used only as an element of communication.

Pascal Viénot, author of an article published in this study,<sup>25</sup> points out the importance, in order to avoid this pitfall of superficiality, of intra-familial behavior, internalization by the new generations of the values originally defined by the founders, and their implementation via workshops and seminars, to create unity between individuals and ensure the future of the business.

<sup>19</sup> Mémoire HEC by Benjamin Castaldo, in 2014: "Le management par les valeurs dans les entreprises familiales"

<sup>20</sup> French leading business school

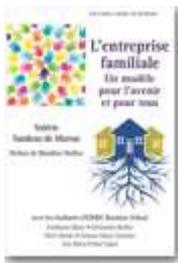
<sup>21</sup> PwC (2012): "Family business: A resilient model for the 21st century"

<sup>22</sup> Aronoff and Ward, (2001): "Family Business Values: how to ensure a legacy of continuity and success"

<sup>23</sup> Christine Blondel: "Chartes familiales, constitutions de famille."

<sup>24</sup> Hidden values of family businesses

<sup>25</sup> Pascal Viénot, Les valeurs dans les entreprises familiales : en avoir ou en parler ?



### ***It is management by values which explains better performance***

Management by values focuses on objectives rather than structures and systems. It makes it possible to go from a corporate culture based on the 3S's (Strategy, Structure, Systems) to a model based on the 3P's (Purpose, Process, People).

The above-mentioned study<sup>19</sup> finds that management by values is more present in family businesses and that the added value it brings is better perceived. This finding would be even stronger in companies where eponymy is found.

This conclusion matches the position developed by Christine Blondel, which compares capitalism and the excesses of the financial markets to the rigor of family businesses who manage their own money and avoid taking undue risks.<sup>26</sup> The family shareholder sees himself more as one link in a chain rather than as a financial investor.

*Christine Blondel highlights the importance of financial capital but also that of human or social capital (personal commitment, links with employees), emotional capital (attachment to the business), and symbolic capital (family name, reputation).*

### ***The values are permeated and influenced by family ties***

As Eric Delavallée<sup>27</sup> said: "Culture is more in the walls than on the walls... and the walls have a story". And in family businesses this story is marked by the history of the family, which gives rise to particular consequences and issues.

Under the theory of the syndrome of the man with three heads proposed by Marie-José Heimendinger, at the moment of succession, the head of the company is torn between three contradictory aspirations<sup>28</sup>:

- "*homo-economicus*" who puts the interests of the business first;
- "*pater familias*" who thinks above all of the interests of his child; and
- the man of power, who does not want to relinquish this power after having held it for so many years.

In order to ensure the success of the succession, the heir must make his own contribution, create his own expertise: it is not a question of eliminating the father but of bringing in a project, an added value.

Marie-José Heimendinger: "Au nom du père"

Miguel A. Gallo, Kristin Cappuyns: "Characteristics of successful family businesses".

She then notes the importance of rites of passage and sending strong messages to the various audiences of the company and the heir himself: for example the son moving into the father's office as a symbol of taking possession of the headquarters.

However, these values and strong family ties which are so important in family businesses can also have a counter-productive effect.

Marianne Bertrand and Antoinette Schoar<sup>29</sup> point out that family values can sometimes hamper the efficiency of family businesses:

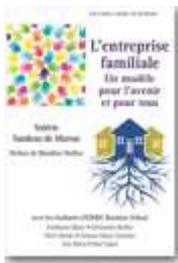
- By the risk of nepotism and its negative impact on the motivation of employees who discover that they cannot move up the ladder or be promoted,

<sup>26</sup> Christine Blondel: "Les valeurs, antidotes aux dérives financières ?"

<sup>27</sup> La Culture d'entreprise pour manager autrement "Surmonter les résistances culturelles" (2002)

<sup>28</sup> Marie-José Heimendinger: "Au nom du père"

<sup>29</sup> Marianne Bertrand and Antoinette Schoar: "The role of family in the family businesses"



- By the aversion to risk that they can create, manifesting itself in a desire to preserve the legacy and ensure that family control is maintained at all costs (complete refusal of mergers or acquisitions even where necessary), which can lead to the loss of the business.
- The rules concerning succession which may govern family businesses (e.g. inheritance through the male line or inheritance of all by the oldest son) are likely generate conflict and have a negative financial impact.

▪ **Local roots, international development**

***Profile of a typical family business: hidden champions, international leaders in niche markets***

The economic reality in France shows that the typical family business is a European or international leader in a niche market (e.g. Thuasne, Babolat, Socomec, to mention only a few...).

Already in 2011, 62% of the family businesses surveyed in the framework of the PwC study stated that they were engaged in short-term international development strategy.<sup>30</sup>

*It was a German expert and researcher<sup>31</sup> who, in 1989, "invented" the concept of hidden champion, popularized in a successful book published in 1996, and adapted to France in 2012.<sup>32</sup> A hidden champion is a company (usually an SMB or middle-market company) which is a world or European leader in its sector, little known to the general public, and most often a family business.*

It is no surprise that the key factors of success employed by these hidden champions are outstanding product quality, specialization in a niche, innovation, internationalization, and long term investments.

Although fears have been expressed concerning the negative impact of overseas expansion on local jobs, it must be noted that the creation of foreign subsidiaries does not lead to a loss of jobs at the national level.<sup>33</sup> on the contrary, national teams are expanded to meet these new challenges and coordinate them from the head office.

77% of family businesses expect to increase their international sales by 2017.  
PwC (2012): Family business: A resilient model for the 21st

In addition, if they are to remain competitive, family businesses cannot forego cooperation and the logic of a network allowing them to take advantage of the best resources found in different parts of the world, as was clearly shown in the interview with Guillaume Bataille.

*According to Thomas Loilier, geographical proximity does allow for better transfer of knowledge.<sup>34</sup> as the knowledge to be transferred is often tacit, this requires face to face communication. Proximity also acts to build trust: in order to cooperate, individuals must have amicable relationships, create a relational network, and get into the habit of working together.*

However, the author relativizes geographical proximity as concerns three points:

- The condition of face to face communication for the transmission of knowledge only concerns tacit knowledge which can also be shared through the use of information and communication technologies,

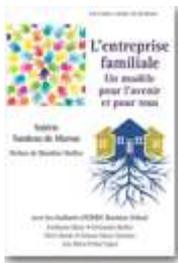
<sup>30</sup> PwC - Family Business Network (2012): "L'entreprise familiale, un modèle durable - Family Business Survey France"

<sup>31</sup> Professor Hermann Simon

<sup>32</sup> Stéphan Guinchard

<sup>33</sup> Study by the Institut Montaigne and the ASMEP-ETI (2013): "Vive le long terme ! Les entreprises familiales au service de la croissance et de l'emploi"

<sup>34</sup> Thomas Loilier: "Innovation et territoire : le rôle de la proximité géographique ne doit pas être surestimé"



- Geographical proximity presents a risk of locking the network up and can be counter-productive,
- There exist high-performance multi-territory networks, in particular in the automotive and computer industries, for example.

*The concept of proximity can thus be separated from that of location: cognitive, organizational, social, institutional, cultural, linguistic, and electronic proximity.*

*As such, internationalization does not generate a loss of identity for family businesses: this is preserved by its corporate culture and its deeply rooted values which transcend borders.*

**Local roots naturally lead to philanthropy and support for social entrepreneurship**

According to the results of the survey by PwC in 2012,<sup>35</sup> 77% of the family businesses participating in the study feel they have a greater sense of responsibility to create jobs and make more efforts than non-family businesses to maintain their workforces even during periods of crisis.

*This shows the particular attention that family businesses pay to the issues of social, economic, and environmental accountability, through positive social initiatives and their ability to avoid activities which would be negative or social consequences<sup>36</sup>.*

However, there are a number of arguments in favour of the idea that firms might not be socially responsible:

- lack of trust in persons outside the family,
- they could be more concerned by their own personal interests and might not hesitate to bribe public officials in order to achieve their goals.

Others, in contrast, argue in favour of the social responsibility of family businesses:

- they need to maintain a positive image, like any company, and avoid losses linked to socially compromising operations,
- a family manager identifies with his business and views it as an extension of himself: he would seek to transmit a positive image to his children and honour his family name, in particular where the company bears this name,
- all individuals identify with the group to which they belong and feel the need to receive positive feedback on the image they present to others; if the group develops a negative image, the individual will change groups; the family manager cannot change groups, at best he can sell his shares in the family business but cannot escape the fact that it is indeed his family name that has a bad reputation, as was illustrated by the Spanghero case in 2013.

The awareness by both family and non-family businesses of their social and environmental responsibility is the result of the development of the concept of public interest in France.

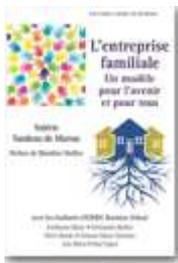
The concept of public interest, interactions of the State with civil society are based around three figures:<sup>37</sup>

- the sovereign State: monopoly on the public interest based on the defence of a greater good, intervention in the civil sphere;
- the protector State: intervention in the social sphere; and

<sup>35</sup> PwC (2012): "Family business: A resilient model for the 21st century"

<sup>36</sup> W.Gibb Dyer, Jr. Davis A. Whetten: "Family businesses and social responsibility: preliminary evidence from the S&P 500"

<sup>37</sup> JuniorConsulting SciencesPo.: "Etude sur la rénovation de l'intérêt général en France : pour une définition évolutive et co-construite de l'intérêt général"



- the regulator/regulating State/State as regulator.

*The State is no longer the only one who must act in the public interest but increasingly seeks to establish a framework for the philanthropy practiced by players from civil society.*

This modification of the State's role is the result of many changes: decentralization and the emergence of local anchoring, globalization and the calling into question of the nation state, the increasing responsibility of corporations and the professionalization of associations/foundations (increase in workforce, bureaucratization, institutionalization), interaction between these two players, and measure of social impact.

France appears to lag behind the United States where philanthropy is firmly rooted in the culture and represents 10% of the economy and 10% of jobs.

Fondation IFRAP: "Regards sur la philanthropie américaine"

Due to the issues which arise concerning the definition of the concept of public interest, or the economic issues inherent to this concept (issues of financing, inadequacy of tax measures with respect to the current workings of civil society) there are numerous legal challenges (e.g., co-construction, public-private partnerships, service of general economic interests at a European level, growth of soft law to guide CSEs).

*Family businesses' awareness of the role they play in terms of social responsibility also manifests itself in the intensification and professionalization of family foundations.*

They have been making increasing use of the various tools made available to them to work in the public interest: endowment funds, foundations recognized as beneficial to the public at large, corporate foundations, foundations which are "under the aegis" or "sheltered" are thus adapted to family businesses and the associations who provide support to and/or represent family businesses are becoming more and more numerous.<sup>38</sup>

One proof of this is the creation by the Centre français des Fondations, of a club of family foundations.

Mention should also be made of "Un esprit de famille",<sup>39</sup> an association bringing together persons who run family started funds or foundations, share the same values, and wish to work together to optimize their own practices through an exchange of ideas on strategy, governance, and organization. Acquiring new methods and skills is necessary, in particular in order to enable them to support projects and charitable associations, and encourage private philanthropy through the sharing of their experiences and support.

<sup>38</sup> V. Tandeau de Marsac: «"Fondations, l'essor d'une philanthropie familiale et professionnalisée" Lettre de l'Entreprise Familiale » January 2014

<sup>39</sup> <http://unespritdefamille.org>



# The Garbellotto Case Study

Author : Salvatore Tomaselli

(Palermo Univesity)

# LES HENOKIENS CASE COLLECTION



## *“Garbellotto S.p.A”.*

### *Introduction*

"Garbellotto S.p.A.", an Italian centenarian family business, has its roots in the ancient tradition of wood artisans. Specialized in the manufacture of casks, vats and barrels, it has become a leading company in the sector at international level.

In its long history, Garbellotto has distinguished itself for its professionalism, reliability and ability to respond dynamically to customer needs, as shown by the prestigious awards received.

Through eight generational transitions, overcoming the obstacles of the two world wars, and the social and economic crisis imposed by historical circumstances, Garbellotto has now become a well-known witness for Made in Italy worldwide, drawing its success from the ability to combine tradition and innovation, while, on the one hand, preserving its identity and, on the other accepting the impulses of modernity.

Thanks to the entrepreneurial spirit, tenacity and integrity of the Garbellotto family, the Art of Cooper in Italy is a vivid and profitable reality, bringing scents of wood and wood aromas in the era of technological consumerism.

## ***1. The history of the family***

### ***1.1. The roots***

The Garbellotto family has been carrying on business in the wood industry since 1775, when the founder, Giuseppe, opened the first artisan workshop for the manufacture and repair of barrels and vats.

The story begins in San Fior, a small town on the outskirts of Conegliano, province of Treviso (Veneto), where the founder undertook the craftsman business: he "modeled and worked wood in all its forms"<sup>1</sup>, also making fine furniture in addition to vessels.

It was his passion for the fascinating art of Cooper that began a long family path of specialization in the manufacture of wooden vessels, which nowadays are known in enology from the five continents. At that time the activity was run in a laboratory in the courtyard adjacent to the family home. It made use of the talents of Giuseppe's successors, his son Pietro, and grandson Augusto Emilio; a dozen of people worked for the business at that time.

In the second half of the 19th century Augusto Emilio was succeeded by his son Giovanni Battista.

He led the company for half a century, with the help of his many sons, among which emerged as his successor Narciso. The eldest son, Emilio, in fact, decided to take his personal journey, emigrating to Brazil where he settled the Brazilian branch of the family; this is still active in the furniture industry with three companies between Passo Fundo and Porto Alegre.

Narciso, with the help of the two remaining brothers, developed his father's business, specializing in the manufacture of barrels supplying especially the area of Lombardia and Veneto.

In those years, the reputation of Garbellotto grew so much to count among its customers even Charles of Habsburg, the future emperor of the Austro-Hungarian Empire. He commissioned Garbellotto to repair the barrels in the estate of his wife, the Princess Zita of Bourbon, triggering a series of orders to provide the House of Austria. What made the company prosper until the early twentieth century.

### ***1.2 The Twentieth Century***

During the twentieth century the company underwent major changes, alternating periods of growth and difficult times of recession.

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<sup>1</sup> Garbellotto, *Arte del Bottaio*, [http://www.unioneimpresestoriche.com/associati\\_dett.asp?lingua=\\_ita&idlink=3&idass=45](http://www.unioneimpresestoriche.com/associati_dett.asp?lingua=_ita&idlink=3&idass=45)

The business prospered, in fact, until the beginning of the century, when the advent of the First World War blocked all production activities, and the family home was occupied by Austro-Hungarian troops who settled there a military emergency.

Garbellotto's workshop of barrels, including precious family archive, was completely destroyed. Nothing survived that first dark moment of the twentieth century, if not love for their art that pushed Giobatta Garbellotto, son of Narciso, to reorganize the business adopting an industrial model.

He concentrated on the production of casks, vats and barrels and restarted the business, while transferring the head office in Conegliano, an area better equipped in terms of infrastructure, thanks to its proximity to the railway network that facilitated transport.

Giobatta and two minority shareholders created the "*Società Bottai di Garbellotto e Soci*" that would take, after a few years, the current name "*Garbellotto S.p.A.*".

The business expanded rapidly and soon became the leading Italian company in the industry and one of the best in the world.

World War II imposed a new stop in production, but fortunately the activity resumed after the end of the conflict.

After graduating from the wine school of Conegliano in 1946, Pietro's son Giobatta, soon began to learn the secrets of trade from his father, and helped in the reconstruction of the company following the bombings during World War II.

Just after the war, with a special pass to cross the border area occupied by the Allies, he was the first to get in Yugoslavia to search for the precious wood, the raw material needed to build quality barrels.

With many sacrifices and some risk, he opened the channel that allowed the company to procure in the forests of the Balkans a quality wood, with very few knots, a characteristic required to build perfect barrels.

During his many travels, he learned to know deep forests, plants and woods, adding to his entrepreneurial skills strong technical expertise, so to be chosen as a consultant by the Ministry of Agriculture of Yugoslavia in the 70s.

In the early '60s he was the proponent of the business turnaround: he decided to move the plant to a new bigger and modern premises (the current one) located along what became the Pontebbana Highway. This choice proved to be a winning move, which allowed a new qualitative leap: the increase of production capacity for cooperage, and the creation of the largest wood park in Europe.

Sales grew very rapidly, asserting Garbellotto as the leading company in the industry on both domestic and foreign market.

A few years later, Pietro had another brilliant intuition: alongside the historic production of barrels also trade in timber, creating important synergies between the two activities.

In this way it was possible to reduce the seasonality of barrels (at that time dependent on the harvest) and buy large quantities of timber, at particularly favorable conditions. Furthermore the choice, selection, and curing of the raw material could be made in house, what ensured the best use according with the characteristics of the wood.

The 60s were, for Garbellotto years of large supplies to distilleries with a quantity of daily orders that came even to 30 vats of 350 hectoliters each, counting among its customers such well-known brands as Vecchia Romagna, Fernet Branca, Stock Strega, Amaro Montenegro, and Amaro Braulio.

### ***1.3. Rebirth***

In the 70s coopers began to see the first signs of a crisis that would weigh heavily on the characteristics of the sector. The international economic situation that led to the oil crisis, caused a shutdown of long-term investments, including purchases of vats and barrels. Changing consumer tastes from aged to young wines, what rendered almost useless aging wine in barrels. The increasing use of containers made of other materials, starting in the '50s with cement, to get to fiberglass and steel, in more recent times spread at the expense of wooden barrels.

In particular, 1978 was the year with no orders for the company, nevertheless the Commander Pietro Garbellotto took over again a great entrepreneurial intuition: he decided not to close, causing a huge financial deficit, to support all those families who depended economically by the company, (often employed for generations to Garbellotto S.p.A.) by assigning them the maintenance of the factory.

He recalled in an interview: "I could close the factory. What prevented me to do that was thinking of the families who depended on our business. I decided not to resort to layoffs but to pay salaries to the workers, who then took care only of the maintenance of the factory for months because there were no barrels to build. Financially it was a disaster from which we saved by a miracle thanks to a providential order. In 1980 Gallo: an enterprising Italian-American winemaker, set off from California in search of a European company able to build giant vats for his winery in Modesto, California. He chose us to build 712 tuns-barrel, with capacity of 6600 liters, high more than 3 meters and a half "<sup>2</sup>.

The Commander's tenacity was well rewarded by the request of the largest supply of all time in the industry of wooden vessels, from the Gallo Winery of Modesto (California).

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<sup>2</sup> *Addio a Pietro Garbellotto, L'Imprenditore delle Botti*, La tribuna di Treviso, 28 Novembre 2011

It was not easy, especially if one considers that the job entailed a tremendous amount of high quality raw material, transport and final assembly (which took place on the spot, in the cellar of the client), but that provision, which lasted for five long years, was the salvation of the company.

Pietro led the company for over sixty years, but this was not his unique interest, he also devoted to the training of young people through the creation of a course for "Wood Expert" at the college Dante Alighieri in Vittorio Veneto. At that time, in fact, despite being one of the most flourishing markets in Italy, there was no schools or training activities for young people who wanted to prepare to work in timber industry.

Pietro's experience in timber industry was such that soon he became a leading expert of Oak in Italy and was appointed president of Federcomlegno (today Federlegno Arredo), then the trade organization for the logging industry, which treated the agreements framework for imports of sawn timber with the other states.

He was a man of great culture and strong sense of civic duty, strongly committed to the promotion of initiatives for the development of the area and young people, what made the Mayor of Conegliano appoint him "Ambassador of the Culture and the Area of Conegliano".

His death in November 27th 2011 has not destabilized the fate of the family business: his three sons Piero, Piergregorio, and Pieremilio picked up the baton with determination and sense of responsibility, determined to continue the long family tradition, demonstrating as much entrepreneurial capacity as their ancestors and bringing the company to continuous expansion into world markets.

## ***2. From Father to Son***

### ***2.1 Mission and Values***

Way back in 1775, Giuseppe Garbellotto began this adventure, and since then the art of Cooper handed down from generation to generation.

Are eight generations that followed one another at the helm of the company, with a mission: to ensure ongoing customer satisfaction by offering quality.

The search for quality is indeed a value that accompanies the company incessantly, and that is not only about products but also the services that are offered.

Their passion, alive today as it was then, the craftsmanship combined to innovation and their many patents, continue to make the story of this Italian company, became a world leader in the field.

The key element that has ensured the continuation of the business and a good generational succession is due to the ability to go beyond the simple handover, transmitting a passion for work that creates something unique and unrepeatable that customers perceive and appreciate.

Giobatta led the company in the first half of the twentieth century, and led it successfully overcoming the obstacles of the two world wars, while many of its competitors were forced to close.

What set him apart from any other main contractor of that time was the vision, the ability to see in internal and external collaboration the key to success: on the one hand the teamwork of coopers, essential to carry on the business, and on the other hand a relationship with suppliers based on trust and long-term partnership, which would bring significant benefits in financial terms and quality.

Thus he was able to face the present with an eye always on the future.

In the first post-war the business was transformed from a simple workshop employing a small number of highly skilled workers into a more complex joint-stock company, what called for a significant increase of the workforce and the adoption of an industrial organization model. A transformation that made it necessary not only a reconfiguration of activities and processes, from the point of view of operations, organizational and administration, but also and especially the implementation of adequate and sophisticated control systems and the adoption of a corporate philosophy dedicated to rigor and order.

And just to remember the primary importance of business planning and the philosophy of order, Pietro Garbellotto did write in Latin at the entrance of the company, "*serve orderliness and it will be your servant*"<sup>3</sup>.

The brand Garbellotto is also identified by the values of respect, trust and honesty in relationships with its stakeholders; such values are fundamental to cultivate long-term relationships within the company and thereby strengthen the soundness and corporate identity.

While competitors pointed to profit, Pietro put in the first place the satisfaction of customers, suppliers and employees. He argued that the key to building relationships of trust and continuity was in fact the "win with" (win together) and not the payout, which presupposes a defeat of the other party; he had to "do business in two", drawing benefits for both parties.

Setting relationships based on fairness, mutual respect and trust allowed Garbellotto to build over time a very clear and solid reputation among its partners: engendering reliable suppliers, in respect of payments and long-term partnership, ensuring to customers the safety and quality of products.

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<sup>3</sup> Luca Cais (2013) *Longevità d'impresa e ruolo dell'imprenditore*, Tesi di Laurea, Università Ca'Foscari Venezia

Research and quality assurance in products, such as in customer services, are in fact a value that has always accompanied the company: this produces only on order creating highly customized products and observing carefully the needs and requests of its customers.

The policy of transparency and fairness involves employees too. This characteristic is strongly linked to the recognition of the added value created by its team of people, which has enabled the company to develop over two centuries.

In fact, since the days of Giobatta, Garbellotto always considered itself a great family where the owners and employees have grown up together and where humility respect and trust have always been core values.

By cultivating these values, employees have always developed a sense of belonging, recognizing the principles of the company, also fully respecting and sharing the formal rules, and defending the corporate vision.

Giobatta combined a great orientation to orderliness, rigor and precision machining with an equally huge human sensitivity thus forming a close-knit and quality conscious team of coopers. Peter, like his father paid attention and care in the relationship between owner and worker.

In the business still echoes the proverb "*Sa più el Papa e un contadin che el Papa solo*"<sup>4</sup> (The Pope and a peasant know more than the Pope alone) with which he loved to remember his entire organization and especially his children, that listening the advice of the person apparently less qualified provides a plurality of views, which translates into valuable human capital.

Peter tributed great importance to harmony and good ways of living and behaving, regardless of the position held in the company; these were indeed important ingredients for the cohesion of the corporate long-term success.

This characteristic is widely recognized by workers and employees, as witnessed in a collection of interviews to workers at Garbellotto, reported in the book "*La Storia della Botte. Garbellotto dal 1775*"<sup>5</sup>, of which we give a short sample.

Piero Tarzaioi, a worker who started his relationship with Garbellotto at the age of 24 as a temporal worker for three months, and then spent all his career at Garbellotto, affirms: Mr. Giobatta has been non only an employer for me, he acted like a father. When I told him I was going to get married he gave me very useful advices about building a worth marital relationship. ... Also the relationship with Mr. Pietro have been very good. ... He had total confidence in me and I had in him."

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<sup>4</sup> M. Bolzan, L. Cais, C. De Marchi, D. Maso, B. Soldan, *Project Work: controllo di gestione delle vendite in ottica di sostenibilità, Garbellotto*, Università Ca'Foscari Venezia

<sup>5</sup> Mario Anton Orefice, 2010. *La storia della botte. Garbellotto dal 1775*. Unione Italiana Vini Editrice. Milano (Italy). 83-95.

Giovanni Bottega, has been a cooper and also the personal driver of the Garbellotto family. He started to work at Garbellotto at the age of 14 and recalls the time when at evening, after working all the day in the plant, he drove the Commander Garbellotto around Italy in Piedmont, Tuscany, since at that time there was not a sales network as it is nowadays. ... To me mr Pietro has been much more than an employer. He has helped me in many circumstances. I was a very shy person and I was ashamed because of my hare-lip. ... Mr. Pietro always told me: you do not have to be ashamed, only ignorant persons give attention to certain things, good people do not even notice them. ... When I was about 40, he convinced me to solve the problem of my hare-lip. He introduced me to a specialist from Bologna and then he paid for the surgical intervention. ... Later on he also helped me when I bought my house. ... I also had the pleasure to teach the secrets of the art of cooper to mr. Pietro's children, who made summer work during vacations from school. ... Nowadays, my son works here at Garbellotto, he has taken my place.

Mario Salvador, who has been Pietro Garbellotto's alter ego and personal counselor during the sixties of the last century, recalls: mr. Pietro has been a master to me, he has taught me everything I know in any field. ... He was very demanding with himself and his collaborators. He cared personally the selection process of workers. In his idea, a good worker had to be a passionate for this job, he had to love it, otherwise, better he looked for a different job. He always said that workers are the best investment. Salaries and work conditions at Garbellotto have always been on the top of the industry.

The sense of belonging, the climate of "openness" and almost informality within the organization, have created an array of interests between employees and owners (their good is the good of the company and vice versa) which does not require the presence of trade unions: working conditions have always anticipated national contracts, and wages have always been higher than the minimum trade union, and the problems are resolved talking and listening as in a big family.

In the more than two centuries of history there has never been a single minute of the strike, as proof of the relationship between the employees and the employer.

The heart of the company is still represented by the human resources, that with their experience, professionalism and dedication are an invaluable and irreplaceable value.

The recognition of the value of its coopers, keepers of valuable know-how of the past, is in fact a feature that accompanies even the present management<sup>6</sup>.

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<sup>6</sup> Pieremilio Garbellotto sottolinea in una intervista: *"Il primo capitale di un'azienda non sono i suoi prodotti ma la sua squadra il gruppo di persone che poi attraverso la loro collaborazione e la loro esperienza generano prodotti d'eccellenza"*. (Luca Cais, 2013, *Longevità d'impresa e ruolo dell'imprenditore. Il caso Garbellotto* Tesi di Laurea, Università Ca'Foscari Venezia)

Through the teachings of their predecessors, the Garbellotto brothers, have been able to maintain a climate of harmony and cooperation that generates excellent products, leading the company to the top of the industry.

It is no coincidence that the employed coopers followed for generations such as the owners (it even happened that in a certain period in the company worked grandfather, son and grandson).

The enhancement of human resources and their heritage of experience and professionalism are a strength on which the company roots its identity and direction.

The manufacture of barrels is an art, which, due to its nature, can not be learned from a text; rather the master cooper tries to convey to apprentices from generation to generation all the secrets of the trade with intuition, sensitivity and experience.

The employees with long-standing still today have the most important task, that is to teach new apprentices (often their children, and even grandchildren) how to do the job of a cooper: this requires first of all a great deal of precision and attention to the characteristics of wood (for example, wrong selection of a series of slats from stock could in fact jeopardize the quality of the finished product and the image of the firm at the customers.)

Mario Anton Orefice, in his book "History of the barrel"<sup>7</sup>, reports many examples of employees who recount their experience in the company, wonderful stories like those we already reported before, that exemplify the beauty of work when it becomes art, when the human being is put in the center and can express him or herself in fullness, relating in a calm manner and feeling valued and appreciated.

About the role of technology, while recognizing its importance for the benefits of facilitation of manual labor and lower physical efforts, Pietro placed it on a secondary level to human work. He considered necessary to pay attention to technological innovation, in order to maintain leadership in the market, and complement the work of the cooper in more strenuous manufacturing, but he was convinced that it should never dominate and activity (Art) that is handmade in its nature.<sup>8</sup>

Pieremilio Garbellotto summarizes the company's style, valid in the past and renewed for the future, as follows: "Our company will never be "modern hundred percent "; the human being still makes the difference in our company. Both for the visual recognition of the quality of wood, and for the ability to work it."<sup>9</sup>

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<sup>7</sup> Mario Anton Orefice. 2011. *La storia della botte. Garbellotto dal 1875*. Edizioni: Unione Italiana Vini.

<sup>8</sup> Pieremilio Garbellotto ricorda "il prodotto dell'azienda era per metà frutto della tecnologia e per metà frutto dell'esperienza dei propri bottai: i macchinari sono sempre stati progettati non per sostituire ma per affiancare il lavoro dell'uomo e facilitare i compiti più duri." (Ibidem)

<sup>9</sup> M. Bolzan, L. Cais, C. De Marchi, D. Maso, B. Soldan, *Project Work: controllo di gestione delle vendite in ottica di sostenibilità, Garbellotto*, Università Ca'Foscari Venezia

## 2.2. The “Regolieri”

Despite the structural changes occurred in the last century, Garbellotto has succeeded in maintaining its own identity thanks to effective formalities and strategies to pass on to subsequent generations its core shared values, which are at the roots of the strong cohesion among different stakeholders.

With the transformation from a simple handicraft shop to an industrial firm, Giobatta began to establish a number of rules concerning different ambits of life in the business, such as methods of workmanship, control of quality, behavior at work. Such rules were transmitted only in oral form. They had ethical and moral value, and Giobatta personally monitored that people around the organization respected them.

It was his child Pietro's idea to put those rules in writing. He established the "Regolieri": an extremely minute set of rules, classified for business area, and for typology of rule, with the purpose to instruct workers to face effectively every circumstance, and to minimize possible mistakes in the workmanships. They contain over one century of experience of life concerning organization, job, behavior, safety and prevention; they also give suggestions for life and for the future, for the preparation to the generational passage.

Anything that Pietro held remarkable for himself, for the organization, for his own children or for his personnel was written in the *regolieri*<sup>10</sup> and made available for consultation.

Even nowadays they are continually updated by the children of the Commander, suiting their contents for the evolution of the social and business environment, and every newcomer in the business is required to read them.

An analysis of the *regolieri* clearly highlights the foresight of Pietro: how clear vision he had of the future scenarios for their business and how he meant to educate his children to be able to run the family business in the context of those scenarios.

The transition to the subsequent generation has been prepared wisely.

Since their childhood, Piero, Pieremilio, and Piergregorio spent their summer vacations in the business alongside the Master Coopers<sup>11</sup> to learn the trade. An experience that allowed them to assimilate the knowledge and passion to follow in the footsteps of their ancestors.

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<sup>10</sup> Piergregorio Garbellotto: “Pietro scrisse regolieri su tutto e li aggiornava continuamente quando impostava un ordine o implementava una strategia un modus operandi un nuovo modo per gli acquisti, un metodo per catalizzare o dare valore ad un processo interno: lui lo scriveva. (Luca Cais, 2013, *Longevità d’impresa e ruolo dell’imprenditore. Il caso Garbellotto* Tesi di Laurea, Università Ca’Foscari Venezia)

<sup>11</sup> Giovanni Bottega: “Ho avuto anche il piacere di insegnare insieme ad altri bottai i segreti del mestiere ai figli del Signor Pietro che venivano in azienda durante le ferie della scuola. Piergregorio era con me ai lavori di finitura, Piero in ufficio e Pieremilio con altri colleghi imparava a scegliere il legno. Mio figlio oggi lavora qui, ha preso il mio posto.” (Mario Anton Orefice, 2011, *La storia della botte. Garbellotto dal 1775*, Unione Italiana Vini Editrice, Milano)

Nowdays, they can count on the support of several Master Coopers, who hav been working in the company for decades (some even almost half a century) and gained their great experience under Pietro's guidance.

The Commander was strongly convinced that, while learning the art of cooperage, his children should receive good comprehensive education, because "only a good education and respect for moral values are a guarantee of an honorable behavior".<sup>12</sup>

Based on such conviction, he contrived different educational strategies for his own children and for the entire organization.

Since their tender age, Piero, Pieremilio, and Piergregorio were asked to write the "book of faults", where each one of them had to write everything that he thought could be his own fault and the relative remedy; a sort of examination of conscience.

Pietro and his wife Gregoria, examined then these notebooks taking notes, and, eventually, integrating the text with their suggestions. Sometimes, they also inserted some local proverbs, that could be effective to reassume the leading logic of their vision. In such way they tried to motivate their children to think about the correctness of the behavior to undertake, to guardianship of the leading values of the person and the firm.

Such strategy has inspired the "box of the suggestions", proposed by Pieremilio, to welcome criticisms and proposals from employees, whose suggestions are also used as indicators of the degree of satisfaction and harmony in the business.

Another instrument adopted by Pietro to educate his children to become the future managers of the family business was "the scholastic method". Pietro used to propose in playful way to his children, practical cases or articles of newspaper to analyze, to learn lessons at cultural, ethical and moral level, that were then transcribed in the "regolieri".

Among the other values, meritocracy assumes a crucial role, since every employee aware of to work in a meritocratic system, will make his/her best for the comfort of the firm: "none needs to have the pride to be forced to do something that he/she cannot afford".<sup>13</sup>

Furthermore, Pietro was used to assign to his employees simple charges, apparently foolish. In this way he tried to sharpen the technical and organizational abilities of his collaborators: to complete "banal" chergas prepared them to cope with more difficult ones, while feeding rigor and attention for details.

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<sup>12</sup> Ibidem.

<sup>13</sup> Luca Cais, 2013, *Longevità d'impresa e ruolo dell'imprenditore. Il caso Garbellotto* Tesi di Laurea, Università Ca'Foscari Venezia

### **3. *The Business***

*Garbellotto S.p.A.*, specialized in the production of strokes, tubs and barriques, of every format, dimension and wood, has been for over two centuries, the Italian oldest and most famous manufacturer of strokes.

The excellent quality of the barrels is born from the mastery, wisdom and the great experience of the masters coopers, Joseph Garbellotto in primis, that with their conscientious handicraft job give prestige to an art that is handed down for generations from father to son.

Since the 50s, Pietro Garbellotto added to the core business a complementary activity, the “Lumber Deal Industry”, practicing his long experience in the field of the temperate latifoglies. The important synergies among the two areas of business, allowed the firm to overcome moments of uncertainty of the market, and to become a leader on the national and foreign market.

Today in fact, the firm produces 45.000 hl of casks and barrels a year, it extends on an area of 60.340 mqs of which 14.137 covered, employing around 70 employees.

#### **3.1 *The Art of Coopers***

Since the dawning of the history of mankind, wine is the most known and appreciated drink worldwide. In origin the must was poured in tubs of stone, great terracotta vases, clay containers or leather bags, containers of animal skin, in which it fermented.

The birth of the barrel is due to the Mediterranean civilizations: a painting from 2700 B.C., recovered in an Egyptian grave, represents the work of the cooper<sup>14</sup>. But it is to the Cisalpine Gaul that it is attributed the credit of the diffusion of its use.

The barrel was a wood container, that thanks to its shape was more resistant than clay containers, and also easy to move in comparison to boxes, since it can roll. Furthermore, once filled and put in horizontal position, they were able to concentrate possible sediments in a single place.

In times when the transport of commodities depended on the strength of men and animals, the invention of the barrel was a great footstep before, and for many centuries it favored the commerce of every kind of products. In the first phase of its history it was therefore considered simply a container, sufficiently healthy and reliable.

It was only in the nineteenth century that wood was recognized a particular importance, due to the transfer of numerous constituents to wine, and to the slow micro-oxygenation of the must thanks to the natural porosity of staves.

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<sup>14</sup> Enrico Tiziana, *Tra storia e scienza: botti di legno, moderni impieghi enologici*, <http://www.sottocoperta.net/cucina/enologia/art11.htm>

Through an exclusively natural process, between container and content are established various physical-chemical interactions that determine substantial changes on both, that are rather intense and occasionally also negative.

Over centuries the wood assumes therefore a primary role, and it indissolubly becomes a symbol of wine. During the XX century this predominance staggers because of the employment of new materials in the wine cellar: first of all cement, economic and easy to put in place, followed by enameled iron, resins and, finally, the antiseptic, rational and clean stainless steel.

So while all the competitors, unprepared to face the new challenges, were forced to close, the entrepreneurial tenacity and the business choices of Pietro Garbellotto, allowed the firm to overcome the strong crisis that involved the sector of barrels. That thanks to the revaluation of the properties of wood in wine making, soon there was a return to the traditions, to the art of the cooper that still survives and flourishes. The ancient work of the cooper begins in the woods, where his experienced eyes search the material and the essence most suitable for production, keeping in mind the demands of customers and having care to choose the most proper stocks of lumber, devoid of physical defects and illnesses.

Long time ago, for motives of economy and easy availability, barrels were built using the lumber that was available on the spot. Nowadays they are made almost exclusively of oak: *Quercus Petrea* and *Quercus Pedunculata*. Mixed together in accurately studied proportions (Mixed Garbellotto<sup>15</sup>) in more than two centuries of activity, they guarantee to the Garbellotto products a marvelous bouquet, assuring to wines and liqueurs an unique taste.

The firm also makes use of other lumber as: Cherry (*Prunus Avium* and *P. Cerasus*), Acacia (Locust tree *Pseudoacacia*), Ash (*Fraxinum Exelsior*), Chestnut tree (*Castanea Vesca*) and other varieties upon request. Experience together with continuous scientific research<sup>16</sup> improves the qualitative standards of lumber, and it constitutes the base of the success as well as the quality of Garbellotto's products.

### ***3.1.1. The Choice of the Wood***

Lumber is directly purchased in the best European forests in Slavonia-Bosnia, in thick central French and in Central Europe, where the Garbellotto's experts choose only the best stocks.

In Conegliano, lumber is drawn with the method called "cut of cleft" according to a technique that opposes the natural vein of the wood to the pressure practiced by the contained wine in the barrel, and carefully selected by the experienced Masters Coopers. Only those stocks that passes the

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<sup>15</sup> Pietro Garbellotto, *Il Rovere "Misto Garbellotto"*, L'Arte del Bottaiolo, Garbellotto S.p.A, 2006

<sup>16</sup> Le analisi chimiche effettuate periodicamente nelle partite del legname, per verificare la concentrazione dei composti aromatici (Estratto totale, Elagitannini, Fenoli, Aldeidi, Lattoni, Furani, Vanilline solo per citarne alcuni), confermano la strada giusta da seguire.

numerous and severe controls, are sent to the natural seasoning, while discarded lumber passes to the sector “Lumber Deal Industry”.

It is critical that only the best staves are drawn; they must be upright and devoid of defects (alburnum, fissures etc.) that could cause losses and deformations. Moreover, knots could be the starting point for infections and once in use, the casks would rot and give off an unpleasant smell and cause leakage.

The many factors interacting among them<sup>17</sup> makes difficult to foresee the effect that a certain type of wood can produce on a certain typology of wine.

For this motive it is critical the experience, search and experimentation of competent technicians that analyse every single wine in every single year in the search for the most appropriate combination of the different parameters (surface/volume, times of refinement, and so on) . The estrattive substances are, in fact, of various nature. Part of them are proper of the wood (polyphenolic components, defined tannins), others originate from transformations during the process of seasoning, others derive from the toasting process. These substances brought in different quantity and proportions<sup>18</sup> confer to wine different aromas and taste. While wine ages, the barrel acts as a lung. Through the wood, the oxygen slowly penetrates in the barrel, oxidizing the wine. This process stabilizes the color of wine and sharpens its taste. At the same time the barrel transudes alcohol and water, that evaporate in the atmosphere. The dregs is deposited on the fund of the barrel while sugars and tannins coming from the wood slowly filter in the wine conferring it the particular organoleptic characteristics.

For these reasons, Garbellotto S.p.A. considers correct seasoning of wood a critical issue.

Seasoning must follow a natural process to reach the perfect physical-chemical stabilization of wood; particularly Oak, given its colloidal sap, cannot be dehydrated artificially, since the must at contact with wood would deform and burst it, and in turn would be reabsorbed by the fiber producing a disastrous result.

Natural seasoning, instead, benefits from some effects of rain, sun and wind that contribute to carry away the most bitter tannins, dry the wood from natural damp and sharpen taste and aroma of the raw material thanks to peculiar biochemical transformations.

Naturally seasoned wood cannot be bought commercially as it is necessary only for cask manufacture and not for other industries. It is therefore the job of the cask maker to carry out this seasoning on its own premises considering that 8 months per cm. of thickness are necessary to guarantee a continuous supply of naturally seasoned wood.

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<sup>17</sup> La composizione del suolo, le condizioni atmosferiche e l'età della foresta sono alcuni tra i molti fattori. Anche la maniera in cui il legno viene stagionato, in essiccatoi o all'aria aperta, inciderà sul sapore del vino.

<sup>18</sup> Maggiore sarà la dimensione della botte e minore sarà il rapporto superficie di contatto/volume del vino, pertanto minore sarà l'influsso degli elementi ceduti dal legno al vino.

Garbellotto's premises, covering 14.000 mc (700 lorry loads), assure direct control over the process of natural seasoning of the wood, and guarantees that all the wood used in the building of casks is the best quality and that it is naturally seasoned for at least 8 months per cm. of thickness.

A new technology based on infrared rays, exclusive of Garbellotto S.p.A., will then measure the aromatic concentration.

Subsequently, the wise hands that everyday, for centuries, handed down the art and passion for this work, will bent the staves are bent over direct heat on full thickness, to result more solid and longeve. The time of exposure to the fire determines the bending and the degree of toasting of the wood, what influences the aromas of wine.

The leaves of rush, as for millennia, will serve as a natural gasket, between one stave and another guaranteeing respiraton and tight. Master Coopers' constant control, along with fire and the various technologies developed by Garbellotto S.p.A., guarantee to the barrel the best bouquets that will contribute to make the guarded wines unique.

Finally, the circles must be made out of homogeneous iron, they must close and lock the barrel bandaging it and uniformly touching all the staves. It is to avoid to put an excessive number of circles, since they would decrease the respiraton of the wood and prevent the imperceptible movements that the staves, being alive subjects, can have.

### ***3.1.2 Products***

#### ***Casks***

Undoubtedly, the company's core business is the production of casks with capacity from 10 to 300 hl<sup>19</sup> and more. Their shape can be either round or oval, measuring standard or special according to specific customer requirements.

The products are manufactured according to a precise and careful production process.

The slats are bent over direct heat (except for special requests) and full thickness "head and belly" without being weakened in the middle for easy bending. Therefore the thickness of the stave once the cask is finished is the same in the central zone as in the head. This particular curvature gives casks higher static strenght, enological longevity (because there is more wood that gives aromatic substance), and renewable, because over the years it is possible to remove 5-8 mm thick inside to revive the transfer.

Both the bending over direct heat and the toasting are performed in controlled temperature and humidity so to obtain the maximum aromatic result, traceable and constant.

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<sup>19</sup> [http://www.garbellotto.com/it/botti/prodotti\\_botti.php](http://www.garbellotto.com/it/botti/prodotti_botti.php)

The funds are bent in double arch, what guarantees a perfect seal of the bottom of the cask, (principle of the dam). The construction of the vessels is then completed with the hoop abundant and rational, with top quality iron, galvanized and phosphate.

The master coopers, then, practice a slight planing in the interior of each cask to facilitate cleaning in the cellar, while outside the planing is followed by a finishing sanding. All casks are subjected to a rigorous double test with water, to check for leaks and the exact capacity.

Given the long stay of casks in cellars, septic and humid places, it is therefore essential to protect the wood with a natural product that does not limit transpiration, while protecting it. Therefore the manufacturing process is finished with the application of natural, breathable, paint to wood, and of red bands at the top of the slats, what protects the broken fibers of the heads.

### ***Conical trunk vats***

The vats are wooden containers, truncated cone shape, with a capacity of 10 to 200 hl and (even up to 600 hl and more upon request), used for wine production, storage, and aging, as much as for spirits, vinegars and other uses.

The curvature direct fire technically defined "Bombè", follows the toasting, which is always performed at controlled room temperature and humidity. As for the casks, the preparation of the product to its use is completed with planing and testing.

In order to provide a complete service for the wine-food sector, and thanks to a 6 hectares premises for natural aging, that allows the company to have any kind and quantity of wood, Garbellotto S.p.A. started a new production division devoted to the manufacture of vats of capacity ranging from 250 to 1.000 hl and over with different types of wood in relation to their final use.

### ***Casks***

Casks are the fruit of Garbellotto S.p.A.'s workers in order to rationalise the use of normal "tonneaux" in wine cellars. They combine the convenience of the large casks with the refining speed of 5-700 litre barrels. They join the simple and effective building technique of the common tonneaux (pronounced toasting and simple straight ends) together with the more convenient accessories of the large casks like the small door, the valves etc. this facilitates use and cleaning because they do not need to be moved.

They are built with two types of staves: split or sawn in quarters of 40-45 mm with bottoms sawn in quarters of 55 mm. The staves are curved with direct fire using pieces of seasoned oak to avoid aromatic interference.

They are then toasted in conditions of controlled humidity levels, slowly and delicately to ensure the maximum aromatic efflux from the wood. Toasting can be light, medium, medium-strong and strong.

The narrowly-spaced hooping with top quality galvanised phosphorated iron complete the building of the barrels. Internal and external planing and sand-papering give the finishing touches and make them easy to clean and splendid to see.

A special natural transpirable varnish may be applied on request, which protects the barrel from excessive humidity.

### ***Barriques***

In order to provide more complete service, Garbellotto S.p.A. has realized a renewing of the barrel line, not only aesthetical: the hoops have been rationalized with circles narrower and thicker in order to have the same static seal, but increasing the surface area of free wood, and so the micro-oxygenation; the available range of wood and thickness has been expanded, having wood throughout all France, not only in the Central Massif, but also near Paris in Fontainebleau, where two centuries ago Napoleon loved to hunt deer.

Have been introduced barrels of 300 liters and 500 liters with split oak of 32 mm, more international product than the typical Italian barrels of 350 liters and 550 liters (this with a thickness of 42 mm).

The curving of the staves is made with direct fire fed exclusively with pieces of seasoned oak, not to have aromatic interference. Then we proceed with a slow and gentle toasting with temperature and humidity controlled to unleash the best aromatic complexity.

There are multiple versions of Toast: light, medium, medium - plus and strong.

The bottoms of the barrels are toasted separately and then assembled. The toasting of the funds is important to have an uniform aromatic effect from all over the barrel.

The finishing includes internal and external planing with subsequent sanding in order to make barrel easy to clean in the cellar and aesthetically beautiful.

For special needs the barrels can be provided also with other special accessories, on request the natural breathable paint that protects from excessive humidity can be applied.

### ***Experience*** ®

Experience ® is the latest creation by Garbellotto S.p.A., and the result of combining their experience and the observations from the expert winemaker Roberto Cipresso, during his research in the experimental Winecircus cellars.

The name is given by the dual meaning of the term “experience”, as a recollection of past actions and also the exploration of new ideas. The aim pursued by the project is to offer the company an instrument able to interpret the changes that occur in time in the vine, using adequate winemaking strategies, and therefore able to provide the market with an expert answer. For that to happen, it is essential that the careful observation and understanding of the properties of the raw materials goes hand in hand with agile and practical experimentation, without stealing time and space from the primary winemaking processes.

It has a capacity of 1,000 litres, so that winemakers who traditionally use wooden barrels for fermenting can get used to it gradually, and, at the same time, those who normally use barriques have a more practical instrument that guarantees the same oenological result.

The truncated cone shape, designed so that the height is no higher than 100 cm and is less than the width, has an effect on the floating force contemplated by Archimedes’s principle, blocking the thrust upwards of the cap. The cap remains immersed aided by the welded grid to a threaded bar at the centre of the base, so that the majority of the fulling process is eliminated.

The top is made from mirror polished AISI 18/10 stainless steel, with handles to open it and a central hole for filling up.

During fermentation, this top can be completely removed to enable more practical processing with an opening of 120 cm.

Experience ® also has steel supports so that forklift trucks and transpallets can be used, for easy handling and lifting. These supports are firmly fixed to the wooden structure, so that the automatic tipping system can be used to empty the container directly into the press. There is an additional accessory formed of a cushion made from food-use plastic which is filled with water, meaning that Experience ® can also be used as a press.

It is constructed using slats and quarter chaff of 55 mm, available in the best quality oak from the most valuable European forests in Slavonia and France, which is naturally seasoned outside for at least eight months per each centimetre of thickness. On request other types of precious wood are available.

### ***Customization***

Completa l’offerta dell’azienda, la possibilità di personalizzare l’opera attraverso l’aggiunta di particolari accessori o di speciali lavorazioni. Gli accessori sono fra i più vari (valvola *inox* applicata sulle portella, tappo colmatore in vetro, supporti in legno tannico) e possono essere in *acciaio inox* oppure in legno a seconda delle esigenze e delle preferenze del cliente.

Per quanto riguarda invece le lavorazioni speciali sono realizzate da artigiani specializzati per personalizzare al massimo le botti, e comprendono particolari timbri a fuoco, serigrafie a vernice ed infine intagli a mano ad opera di artisti scultori.

The company's offer is completed with the opportunity to customize products by adding special accessories or special processing. The accessories are among the most varied (valve steel applied to the door, glass cap, tannic timber) and can be made either of stainless steel or wood depending on the needs and preferences of the customer.

Special processes they are made by artisans skilled to personalize the casks, and include special on fire stamps, serigraphy painting ,and hand made carvings.

### ***3.2. The “Lumber Deal Industry” sector***

The Lumber Deal Industry Sector is devoted to import and distribution of timber and semi-finished temperate hardwood products coming from the most valuable forest of all Danubian, Balkan and other Eastern Europe countries, as well as the best productions of Western Europe, and North and South America.

The goods arrive in the premises in Conegliano where they are sorted in stock, dividing raw material for the construction of barrels from materials for timber trade.

The decision to enter this new sector has enabled the company to significantly improve its financial results.

The strength of the company compared to its competitors is definitely the natural seasoning of wood, the only one that allows you to create any kind of product, thanks to the large squares reaching about 14,000 cubic meters.

The company also has conventional driers used according to techniques refined over the years, and a vacuum drier of the ability to 50mc that allows to reach even the lowest moisture content of the timber and semifinished products.

This business is of great importance for the company, even though in terms of profitability it is the sector of casks and barrels that contributes the company a greater added value.

Garbellotto S.p.A. also aims to provide a unique service for the overall quality of its products, obtained by processing and selecting valuable timber, thanks to techniques internally developed over years, while minimizing the time required, and with a total service, guaranteed to each client at all stages of the relationship.

### *3.3 Certificates of quality*

Thanks to the strong ethical sense of Commander Pietro, who was one of the proponents in Yugoslavia of the law for forest management, Garbellotto S.p.A. has developed over the years a strong awareness of the importance of environmental sustainability. A sensitivity that results in the choice of turning the scraps into fuel to heat the factory, and to use / buy wood certified under PEFC system that guarantees the provenance from forests managed in a responsible manner.

While there is not a large formal request to use certified wood, the company policy is driven by a strong sense of ethics, for the protection of the territory.<sup>20</sup>

This is why timber is purchased from forests certified by the most prestigious world bodies that certify sustainable forest management such as PEFC and FSC.

In particular, PEFC Italy is a non-profit organization that is the governing body of the national system of certification PEFC (*Programme for the Endorsement of Forest Certification schemes*<sup>21</sup>), that is the Evaluation Program of forest certification schemes.

The *Forest Stewardship Council*<sup>22</sup> (or, in short, FSC) is an international non-governmental organization nonprofit. It is a forest certification system recognized internationally, with the aim of proper forest management and products traceability.

The FSC logo allows consumers to identify the manufacturer as environmentally sustainable, because it guarantees that the product has been made with raw materials from well-managed forests in terms of environmental, social and economic.

The FSC logo allows consumers to identify the manufacturer as environmentally sustainable, since it guarantees that the product has been made with raw materials from well-managed forests in terms of environmental, social and economic.

Thereby Garbellotto S.p.A. adheres to a program of eco-exploitation of forests, offering customers wood from certified forests.

The Italian style of the brand contributes to the immediate recognition of the product as an example of quality with a very good image.

Furthermore, Garbellotto S.p.A. is certified by other agencies. Bureau Veritas, one of the largest international groups, leading the world in verification of compliance within the Quality, Health & Safety, Environment and Social Responsibility; teh Institute for the Protection of Italian Manufacturers (100% Made in Italy), the certifying body of products entirely made in Italy.

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<sup>20</sup> Pieremilio: *“Ma per noi è stata una scelta naturale che ci permetterà di essere posizionati in un mercato che potrà solo crescere in futuro”*. *Una strategia lungimirante, nutrita anche dalla consapevolezza di quanto sia cruciale scegliere legno di alta qualità per far stagionare il vino nel migliore dei modi: “nel nostro mestiere la materia prima conta per più del 50%. Solo i maestri bottai e gli ingegneri forestali ne conoscono davvero le caratteristiche. Avere la possibilità di dimostrare da dove proviene il nostro legno e confermare le nostre affermazioni con certificazioni indipendenti e serie, è un grande valore aggiunto”*.

<sup>21</sup> <http://www.pefc.it/>

<sup>22</sup> <https://it.fsc.org/>

The Italian spirit of the released brand contributes to the immediate recognition of the product that boasts and soars in terms of quality as well as overall image.

Such a policy will contribute significantly to ensure the reliability, professionalism and efficiency that have always characterized the company's business since its foundation in 1775.

### ***3.4 Development of processing technologies and investments***

Over the last century, the art of cooperage has faced several challenges: the changing tastes of consumers, the advent of new materials to build containers at low cost, and the risk of extinction linked to the absence of a school where to learn and mature the skills required, that can be transmitted only on the field, directly from master coopers.

Garbellotto S.p.A. has succeeded in combining the excellence of Italian craftsmanship with research, facilitating manual processing techniques, and restraining costs while maintaining high quality standards.

In recent years in particular, the Garbellotto brothers have invested in the business area of barrels with the installation of a press for strapping of casks and barrels, and the purchase of a filtration plant in sleeves, to reduce to a minimum the environmental impact and emission into the atmosphere of the combustion smoke.

In the wood department instead a new methodology was implemented employing dynamic computer drying without affecting at all the quality of the timber.

Committed to continuous improvement in technology, aiming to ensure quality products, Garbellotto S.p.A. recently introduced an innovation that allows to assemble, evaluate and use the woods that most fit any particular need, with amazing results.

The need to build barrels "tailor-made" for its customers, not only by type of timber or roasting, but also with respect to the different concentrations of aromas in oak, pushed Garbellotto S.p.A. to start the "Precision Barrels" project: a collaboration between Garbellotto S.p.A. and the University of Udine, through which professors Zironi and Battistuta carried out an innovative study that goes beyond the empirical and perfectible knowledge of master coopers.

There have been many studies and analytical research on the wood in order to understand the aroma, and define the forest zoning and the aromatic characteristics of oak and English oak; anyhow, these reasons of time and cost made these studies were difficult to apply.

It was found that variability from sample to sample does not ensure reliable results: timber from the same area had completely different characteristics, due to the influence of such many factors as the location of the tree on the soil, proximity to streams or limestone, and so on.

Thanks to the results of the “*Botti e Barriques di Precisione®*” (Precision Casks and Barriques) project it is possible to combine the experience of master coopers with NIR infrared technology. Such technology is able to determine in a very short time, and with great effectiveness the chemical composition of the wood; this, in turns, allows to reduce the cost of the analysis the staves to be used, in order to build barrels "tailor-made".

Furthermore, it will also make possible to create a “database of wood”, with informations about the process of natural aging, the different concentrations of aromas (from the most delicate and sweet, to the more robust and intense), to build barrels able to fit exactly what is required from any cellar.

Thanks to the overall results of the project, manufacturers of barrels and casks are nowadays able to choose the wood they desire with very little margin for error.

In 2013 Garbellotto S.p.A. presented its patent “*Botti e Barriques di Precisione®*” in its world premiere during the international fair SIMEI dedicated to machinery for winemaking and bottling. The Scientific and Technical Committee of the *Lucio Mastroberardino Innovation Challenge* assigned to Garbellotto S.p.A. the Technological Innovation Award.

In 2014 Garbellotto S.p.A. purchased at a special price the area for the new headquarters and plants, and, after careful evaluation of strategic and financial viability, established an Austrian company (GmbH) which intervened indirectly on the sale of the assets resulting from the bankruptcy of an Austrian competitor.

### ***3.5 The Industry***

Cooper has become a very rare job, that survives mainly in France, the mother country of Barrique, where the precious wood needed to produce them is grown.

In Italy, the small workshops of master coopers have become extinct, traces of this ancient job remain in the Museum of Disappeared Jobs, which houses, among others, the old tools used for bending wood. Furthermore, very few businesses in the industry are still alive and renowned: competition is high, the main competitors maintain a "tough" position to face the contraction of the markets.

Despite all this, Garbellotto S.p.A. retains supremacy in the field; it is the oldest industrial company in the province of Treviso, the oldest company of production of barrels in the world and a global leader in the industry. Among its customers there are historic wineries, such as Gallo in California, which is the largest aging winemaker in the world, and the residence of Prince Archbishop of Wurzburg in Bavaria (Unesco site).

The main target market is Italy, the world's leading exporter of wine, which has benefited from a lively demand for aged wines, despite the crisis. The Italian market accounts for 70% of turnover (with the predominance of barrels, accounting for 85%); the foreign market absorbs 30%, with greater orientation to the timber industry.

#### ***4. The present situation of the company***

"Garbellotto S.p.A." is a medium-sized company employing 63 workers, with a turnover of around € 15 millions. The shares are owned entirely by the Garbellotto family, in particular by the three brothers from the eighth generation Piero, Piergregorio and Pieremilio, and their mother Gregoria Bertini.

Despite the high level of uncertainty in the markets, and the global crisis, which caused a drop in demand in the last three years, Garbellotto has constantly improved its sales and portfolio of orders and customers both in the domestic market and abroad.

In 2013, the domestic market absorbed 71% of total sales, and 85% of barrels, casks and vats. Exports, on the other hand, absorbed 29% of total sales, 47% of timber, and 15% of barrels, casks and vats).

In this year, to further improve the company's image and the presence of products in the markets of interest, the company undertook commercial and marketing actions, also through the usual and demanding presence at trade shows and fairs.

The company is still positioned at the top among competitors, being highly specialized and known in the market, thanks to its great and well known history and reliability.

##### ***4.1. The Organization***

Piero, Piergregorio and Pieremilio Garbellotto, the eighth generation of a family of coopers, whose tradition has its origins in 1775, are guiding today the company which has become an international leader. Each one of them has a different style and character but they share a common goal: lead the family business in the changing scenarios of modernity, combining craftsmanship and innovation.

Given the small size of the company, the organization has a rather simple, hierarchical, functional structure, integrated by a horizontal bottom-up approach.

Major decisions are evaluated by the three brothers, after listening to the opinion of the financial director (Giuseppe Dalla Cia) and the director of operations (Graziano Cavalet), who are increasingly involved in decision-making.

The small number of employees (about 70) and the type of work performed, almost artisanal, allow a relationship of close collaboration and confrontation between the owners and the employees.

An organization consistent with the "win with" (stakeholders) philosophy of Pietro Garbellotto; a philosophy based on a policy of fairness and transparency that nurtures esteem, mutual trust and harmony in the workplace.

The shares are all in the hands of the family, and the three brothers turns every two years as chairman of the Board of Directors. In 2013 the number of board members was increased from 4 to 5 (according to the provisions of article 19 of the bylaws); Mr. Graziano Cavalet has been appointed as board member until the natural expiration of the mandate (approval of 2014 financial report).

In particular, for the last two years 2012-2014, responsibilities have been conferred as follows:

- the Board as a whole has exclusive competence on any decision relating to the strategies and general guidelines to be pursued, as well as the extraordinary administration of the company;
- Piergregorio Garbellotto - Chairman of the Board - oversees the management of the purchasing and sales department of the lumber division.
- Piero Garbellotto, is responsible for the implementation of the guidelines approved by the Board in order to ensure maximum efficiency, and profitability; he is also responsible for the promotion of corporate development, the coordination among Managing Directors, and the company's overall organization.
- Pieremilio Garbellotto, oversees operations for the company and any other future subsidiaries of the group.
- Graziano Cavalet is general manager of operations, management and logistics. Moreover, with joint signature of at least two of the Managing Directors, he can also handle the ordinary administration of the company, namely: buy and sell goods, raw materials, and movable property, sign contracts with both private and public companies for the execution of works, hire and fire employees.

The Managing Directors Piero, Piergregorio, and Pieremilio Garbellotto are granted all the powers to carry out all routine with free and separate signature up to the amount of EUR 20,000 for each transaction, with joint signatures of at least two of them until EUR 50,000, with joint signatures of all three of them, or between two of them and Mr. Graziano Cavalet over € 50,000 per transaction.

#### 4.2. *The Henokiens*

The universe of centenarian companies actually includes businesses with very different characteristics, each of them with unique challenges and processes, corporate history and family.

Over time different network formats and multiple initiatives have spread, both at national and at international level, to emphasize the phenomenon of business longevity and to create adequate contexts and meeting opportunities for those businesses that have made a major route history: three hundred or two hundred years of history of the company without interruption.

Garbellotto S.p.A. operating for 237 years, and a great example of entrepreneurial quality, and tradition rooted in the territory of origin, yet nourished by a continued spirit of innovation, is a member of the leading business associations *Les Hénokiens*. This is a prestigious international club reserved for industrial dynasties that have at least two hundred years of history. Born in 1981 to intuition of Mr. Glotin Gerard, president of the French company "Marie Brizard", this is a bulwark in defense of fundamental values that unite businesses, founding families and territory.<sup>23</sup>

To join the association a business must have at least two centuries of activity behind. Not surprisingly, the association is named after Enoch, the sixth descendant of Abraham and father of Methuselah, who according to Genesis (5:23), lived for 365 years.

Longevity, however, is only one of the requirements for accessing *Les Hénokiens*: companies must demonstrate that they have always enjoyed good industrial and financial status and, above all, that control has been in the hands of the same family, in descending in descending order. The conditions of club membership are so stringent that even the founder of the club, Gérard Glotin, owner of Marie Brizard, the maison dell'Anisetta, founded in 1755 in Bordeaux, was forced to withdraw after having sold 51% of the company.

At present, the association counts more than 120 centuries of entrepreneurial experience through its 44 industrial dynasties who were able to resist the passing crises and disturbances leveraging on tradition, dynamism and innovation: 12 French partners, five Japanese, four Germans, three Swiss, 2 Belgians and Dutch 2, Austria 1 and one British and 14 Italian companies, including Garbellotto S.p.A..

These companies are characterized not only by indissoluble bond with the family of the founder, but also by continuing business activities, which following a natural evolution, remain faithful to the original industry. Such prerogative is considered a sign of high professionalism, attention to their business activity and considerable ability to adapt to changes in the context.

The primary objective of the association is to promote the growth of its members in the world around a common philosophy, the value of the family business as a real and viable alternative to

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<sup>23</sup> <http://www.henokiens.com/>

multinationals; create a good relationship and sincere friendship among its bicentennial members, living demonstration of how tradition and innovation can be strategic allies for the progress of a company.

The association also works to enhance the value of centuries-old companies and demonstrate their strategic role in the European economy, thanks to the collaboration with the European Family Business Association. It also offers to its members, the opportunity to consult and discuss the issues of their business, market changes, and the generational transition.

Since 2011, moreover, *Les Hénokiens* established the Prix Leonard Da Vinci, an award given to young family businesses, with at least three generations behind, that stood out for their ability to transmit cultural, knowledge and techniques.

#### ***4.3. Awards and prizes***

The quality of production, the sense of belonging to the territory, and the continuity of a centuries-old tradition have earned Garbellotto S.p.A. formal recognition of great importance, such as to nourish fame and prestige.

On May 1 2005, Labor Day, the Master Cooper Graziano Cavalet - currently director of production – a company employee for over 38 years and foreman for 20 years was awarded by the regional authorities in Venice with the precious Star of Labor Merit .

Cooper for Garbellotto, since the age of 15, Mr. Cavalet has always stood out for his dedication, diligence and superlative expertise in all the tasks he carried out, with an operating worthy of particular merit. Recognizing the importance of its role, key reference point for both the employees and the directors of the company, the Board of Directors in 2013 appointed him in the Board.

In October 2005, the Mayor of Conegliano Dr. Floriano Zambon, rewarded the commander Pietro Garbellotto with the shield of the city for the valuable work that has tenaciously pursued in the previous 50 years. The company, being the oldest existing industry, both in the town of Conegliano and in the province of Treviso, was recognized even by the LIFE Veneto, which promoted and kindly hosted the informal ceremony.

In 2008 Garbellotto S.p.A., valued company that has carried the flag of the city in the five continents, has been appointed by the mayor of Conegliano, Alberto Maniero, Ambassador of The Culture and Territory of Conegliano.

This award was established to consolidate, with an official document, the link between the companies operating and investing in the site, and the area, contributing to the welfare of the community. Thanks to Garbellotto S.p.A., in fact, Conegliano has enhanced its reputation in the

world as a land of ancient tradition and wine culture, where you can taste the best wines and the best tools to preserve them are produced.

In 2010, at Vinitaly, the international wine and spirits, Garbellotto S.p.A. obtained the certification of the Guinness Book of Records for "*Magnifica*" (commissioned by Tommasi Winemakers) the largest aging barrel in the world; this was officially established by the judge of the Guinness World Record. Tommasi Winemakers, historical cellar from the area of Verona, has long collaborated with the equally historic company of barrels to select the best types of wood, that are best suited for aging the wines of Valpolicella, and in particular for its Amarone.

*Magnifica* has a capacity of 33,300 liters equivalent to 44,400 bottles of wine and is made up of planks over 3 meters and a half long in wood from ancient forests (60% Slavonian oak, 20% from the Massif Central in France and 20% from the Black Forest ). A barrel of this size allows Amarone to mature evenly over three years, to ensure a unique wine elegant and excellent.

Larger wooden containers exist, used for beer or spirits, and there is an old barrel 221,726 liters (dated 1751, with a dance floor on the top) inside the fortress of Heidelberg, German city famous for the school of philosophy where Hegel taught.

However, these casks are either used for other products or ornamental, therefore Tommasi and Garbellotto S.p.A. are recognized for the primacy of the biggest refinement barrel of wine, actually utilized. A nice record that, beyond the container that has rightly talked about, will bring material benefits to its content.

In 2011 on the occasion of the 150th anniversary of Italian Unity, the Chamber of Commerce with the support of the (at that time) Ministers Romani and Brunetta conferred to Garbellotto S.p.A. the plaque 'Italy 150. The event organized by Unioncamere, stressed the important role of the selected historic companies aging more than 150 years, had for the development of the country, as well as a stimulus and solid basis on which lay the roots of the future of Italy.

After three years from the first Guinness World Record, on the occasion of Vinitaly 2013, Garbellotto S.p.A. won the second one (surpassing his own record achieved in 2010), with the Barrel "Romeo and Juliet".

Commissioned by Verona Menegolli Winemakers, for aging Amarone della Valpolicella Valpantena, "La Superba" renamed "Romeo and Juliet" in honor of Verona, was built with 5,000 kilograms of oak bicentennial, a special blend of woods coming from three different parts of Europe, the "Mixed Garbellotto", and can hold 42,500 liters of wine, amounting to 56,666 bottles.

Botte well as "large" is also beautiful, an example of mastery of Italian craftsmanship; it reports on the two heads engravings representing two lovers who are drawn from a panel of the Veronese

sculptor Sergio Pasetto, giving a new form of the famous Verona couple immortalized by William Shakespeare in his tale.

Romeo and Juliet suggests that the largest barrel in the world is more than the fine wood used in its construction and the fine wine that will refine the interior. This is the tangible result of two traditions that are interwoven for centuries, that of wood processing and the production of wine. The result of two passions that encountered for centuries, the succession of two lovers like Romeo and Juliet.

#### ***4.4. Risks and uncertainties***

In the 90's market growth has slowed, but did not prevent Garbellotto S.p.A. to establish itself as a world leader in the production of barrels.

Today, the permanence, worldwide, of financial stress and social and economic insecurity, blurs the vision in the medium to long term because the estate markets is still weak. However the food industry is one of the few sectors that stood out positively, showing to be more resilient in times of economic downturn.

In this climate of uncertainty, the biggest obstacle seems to be the tax burden, which prevents the business to reinvest, innovate and program, slowing or even preventing economic growth.

The main ambition of the three brothers, is to bring the art of cooper into the next century. It is therefore considered essential an adequate "turnover" of coopers, needed to train in house this highly specialized figure, for which there are no adequate training facilities.

The industry has undergone changes over the past decade, not so much in production techniques as the needs of customers; thanks to the globalization of information they are increasingly prepared and aware of their interests and needs. However, the wealth of experience, product quality, and high capitalization of Garbellotto S.p.A., allow the company to adequately address this time of uncertainty.

#### ***4.5. Looking Ahead***

The peculiar and most delicate characteristic of family businesses is given by the succession process; this, on one hand is an opportunity to initiate processes of change, according to a logic geared to the future, and to spread the spirit of innovation within the company, but on the other hand it looks like a destabilizing event.

The inability to combine continuity and renewal, tradition and innovation, and the need for successors that are adequate to cover the role they are called, are only some of the problems that this process brings with it likely to jeopardize the survival of business system.

For this reason, the process of succession should not be overlooked or otherwise demonized; it should rather be planned to allow the company to compete and grow successfully.

Garbellotto S.p.A., who led eight generational transitions, from father to son, is an example of growth in the sign of family continuity: a smooth succession, thanks to the teachings handed down from generation to generation, and involvement in the company was going from adolescence . The reins of the company have always been entrusted to the heirs according to your will and capacity, in a natural way, without force.

Today at the helm of the historic company are Piero, Piergregorio and Pieremilio, sons of Pietro Garbellotto, to whom the Commander has gradually transferred his authority, and, even more, managed to convey the value of tradition and passion for wood.

The new generation has proudly followed in the footsteps of their father and ancestors, preserving the art of Cooper, one of the oldest trades in the world, and continuing to invest in research achieving important successes.

Garbellotto S.p.A. has maintained over time its identity thanks to the harmony that characterizes the organizational climate of the company, and generational transitions between master coopers.

Piero, Piergregorio, and Pieremilio, prepare to face the third millennium, interpreting the teachings inherited in the light of market developments, the new opportunities of the modern world, without distorting and perpetuating the family history.



# The Gekkeikan Case Study

Author : Tetusya Ohara

(University of St Andrews School of Management)

# LES HENOKIENS CASE COLLECTION

March 14, 2016

TETSUYA O'HARA



GEKKEIKAN SAKE

## GEKKEIKAN

*Quality, Creativity, Humanity*

*Gekkeikan Corporate Philosophy*

Haruhiko Okura, the representative director and president of Gekkeikan and the fourteenth successor behind world's largest sake manufacturer and distributor, visited Gekkeikan's U.S. subsidiary in Folsom, California, during his overseas business trip and kept himself busy working. Once his work was done for the day, he had dinner at his hotel and took some time to relax. Haruhiko is an avid fan of soccer, and coincidentally the TV in the lobby was showing a major-league match. Watching the quick defensive and offensive moves made by the players, Haruhiko thought of the tumultuous sake industry and toyed with a new management vision for the future of Gekkeikan.

Japan has a unique gift-giving culture where people give gifts during certain seasons and at certain events, and as it is deeply involved in this culture, the sake industry has been able to avoid fatal blows of the macro-economic effects. Also, Japan's sake industry is shielded from direct impacts of foreign exchange fluctuations as all raw materials are sourced in Japan. Furthermore, the rice rationing program sponsored by the Japanese government from 1939 to 1969 kept the sake demand outstrip the supply and thereby protected the sake industry until the 70s when the diversification of alcoholic beverage market accelerated. As this market subsequently opened to a diverse range of alcoholic beverages, however, beer, wine, whiskey and *shochu* entered the market which had been dominated by sake, and the share of sake declined.

Haruhiko became president of the company in 1997 at the time Japan's sake shipments began falling rapidly. The country's sake market was reduced by half over the following decade, so Haruhiko downsized his company and improved its efficiency in order to remain profitable despite slumping sales.<sup>1</sup> In his role as president, Haruhiko shed the number of employees from 900 to slightly under 500. During the same period, the company's sales fell from 53 billion yen to 28 billion yen, but current profit remained between 500 million yen and 1 billion yen on a yearly basis.

As he considered the future of the company, Haruhiko came up with four business-strategy themes. The first was to deeply cultivate the market for and expand the company's sake business. Although the sake market as a whole will unlikely grow in Japan, Gekkeikan can quickly anticipate the needs of consumers and establish a high-quality, multi-variety small-lot production system so as to develop the business faster with flexibility and resilience. The second was to strengthen and expand the business of alcohol beverages other than sake. Gekkeikan imports foreign beer and wine to the Japanese market, but these imported beverages account for less than 5% of the company's total sales. Consumers' tastes in alcoholic beverages are becoming more diverse, which makes it an absolute necessity for Gekkeikan to expand its lineup just sake. Gekkeikan also has an advantage here, in that it can utilize its existing sake-distribution networks. The third was to drive the overseas business. The Japanese food boom in the U.S. and other countries is expected to continue for some time, and there is still room to expand the global sake market. Gekkeikan wants to profit from its pioneer status in the U.S. market and apply the know-how gained from U.S. business to other countries. The fourth was to develop and roll out new businesses not necessarily related to sake. Gekkeikan had already tried an unknown territory by manufacturing and selling skincare creams made from sake-making materials, but the company couldn't produce result and withdrew from that business. Gekkeikan is not a stranger to M&A, so although this is one promising area, Gekkeikan is still in the trial-and-error stage.

Haruhiko, the fourteenth head of the family, must exert his skills and expertise to grapple with these four business-strategy themes and successfully pass his family business to the next generation.

## **History of Gekkeikan**

In 1637, the Founder Jiemon Okura left his home in Kasagi in the southern part of Kyoto Prefecture and moved to the Fushimi district of Kyoto that was prospering as a castle town, post station town and port town, and started a brewery called "Kasagiya," making a brand of sake which he named "Tama-no-Izumi." He transported his sake to Edo (current Tokyo) on small barrel cargo vessels and sold in large quantities. Unlike other sake brewers in Nada facing the ocean, his was a small local business operating in the inland area of Fushimi, Kyoto.

In the eighteenth century, the sake brewers in Fushimi were producing more than 2.8 million liters of sake and made Fushimi a renowned sake producing region. Fushimi fought against Omi, another sake region that emerged and became popular in the eighteenth and nineteenth centuries, and at the end of the Shogunate era, brewers in Fushimi saw their facilities destroyed during the Battle of Toba Fushimi, and many were forced to close. However, Gekkeikan survived and welcomed the Meiji restoration of imperial rule.

Gekkeikan began to modernize under the reign of Emperor Meiji. In 1891, the company introduced "Western bookkeeping" while keeping the old-fashioned account books. With the new bookkeeping system, Gekkeikan was able to clearly understand the cost of materials, cost of manufacturing, operating and other expenses as well as income, whereby it could balance and settle accounts. This helped Gekkeikan make rapid progress in the Meiji era.

The company trademarked its "Crown of Laurel" logo in 1905 as a symbol of glorious victory, and it began using *gekkeikan*, the Japanese word for "crown of laurel," as the name of its sake brand. It drew attention as a plush sake brand while most others based their sakes' names on places. In 1909, the company established a research institute and introduced science and technology into sake brewing. Despite the widespread support of the barreling method, which lasted until the dawn of the nineteenth century, where the sake brewer placed sake barrels in front of the store and poured the liquor into carafes for sale, Gekkeikan focused on bottling sake and invented a new selling method using bottled sake free from preservatives. It also succeeded in improving the quality of sake.

*Ekiben* boxed train lunches emerged in 1885 at the railway stations in Japan, becoming popular among salaried workers. Their popularity grew rapidly from 1906, when the country's private railways were nationalized. When the railway companies realized that the purchasers of *ekiben* wanted to drink sake with their meals, they began selling sake at key stations across Japan and created a new market for the drink. In 1910, Gekkeikan developed what was called the "Okura Choko-tsuki Bottle" and registered it as a utility model for rollout in this new market. The novel bottle, which consisted of a carafe and small cup, surprised travelers and earned support as a new, functional container and a unique way to drink sake. Over the following three years--from 1910 to 1913--the percentage of sake sold at railway stations grew from 4.4% to 15.2% of Gekkeikan's total production volume, and the railway-station sake market became very important to the company. The sale of sake at railway stations boosted the sake sales of the company and made Gekkeikan a common name.

Gekkeikan began airing TV commercials in 1956. The company was among the first advertisers to explore the new media called television, and soon viewers started to see Gekkeikan commercials during nighttime baseball games, which earned high ratings. Gekkeikan produced ads for various media, often featuring popular celebrities, and gradually its name recognition rose.

Gekkeikan became the sake industry's top producer by volume in 1961, producing more than 18 million liters. During the same year, Japan's first four-season brewing system, capable of making sake throughout the year, entered operation at Gekkeikan.

Gekkeikan established a U.S. subsidiary in Folsom, California, in 1989. It began to operate a sake brewery and cellar there, utilizing the four-season brewing method that was successful in Japan, along with a new brewing method and other techniques. Gekkeikan Sake (USA), Inc., having its office and manufacturing facility on 36,000 square meters of land, became a new pillar of Gekkeikan business by exporting to Brazil, Germany, France, the Netherlands and other European countries in addition to the U.S. and Canada. Gekkeikan's U.S. business expanded strongly, thanks to the Japanese food boom, and production volume rose from just 1 million liters annually in the first half of the 1990s to the current figure of nearly 6 million liters yearly. Gekkeikan Sake (USA) accounts for 10% of total Gekkeikan sales.

To tap the new market of large retailers that emerged following the deregulation of alcoholic beverage sales, Gekkeikan released "Tsuki," a paper sake pack, in 1997. Due to its affordable price, Tsuki found its way onto the shelves of supermarkets, convenience stores and other large

retailers and into the baskets of young shoppers. Today, Tsuki is a core product of Gekkeikan. Sales of Tsuki have grown so much that it currently accounts for 45% of the company's sake sales.

In 2011, Gekkeikan established Gekkeikan (Shanghai) Trading Co., Ltd., in order to establish the local foundation on which to develop the Chinese market. The company also purchased food-related companies such as Kinrei, Fujisei and Takato so as to expand its portfolio, and currently it is interested in developing new businesses unrelated to sake. Considering that the current health trend is not a transient one but a long-term movement based on a major demographic shift characterized by falling birth rates and aging society, Gekkeikan has also released major products targeting health-conscious consumers, such as "Zero Sugar" sake and the non-alcoholic "Gekkeikan Free."

## **Gekkeikan's Corporate Philosophy**

Gekkeikan has a unique culture called the "Okura Spirit," which has been handed down through generations orally without being a documented company philosophy or motto.<sup>2</sup> Compiling the items that constitute the Okura Spirit, along with other ideas that have made Gekkeikan what it is today, the "Basic Philosophy of Gekkeikan" was established as a documented maxim to match the new era. Drafted by an in-house team led by Haruhiko, the Basic Philosophy was announced in 1997.

### 1. Quality

*Supplying competitively priced products of world-class quality guaranteed to satisfy customers*

Given the establishment of "quality first" as a fundamental ideal, from early on Gekkeikan attached importance to academic techniques and hired many engineers with expert knowledge, focusing on the management of existing techniques and study of new approaches. Particularly, the company's commitment to investing unsparingly to make high-quality sake is shared by the generations of Gekkeikan's top managers from the eleventh head of the family, Tsunekichi Okura--dubbed the Father of Resurgence--until the current family head Haruhiko. To be specific, the company sold preservative-free sake, built sake breweries with cooling facilities, established the four-season brewing system, abolished the use of brewer's sugar, developed the dissolved-rice brewing method, began producing overseas, tackled and solved key challenges that emerged in each of various periods, and entrenched the "quality first" ethos. Among others, the four-season brewing system became an essential part of Gekkeikan's mass-production of high-quality sake, triggering a great change in the company and the sake brewing industry as a whole.

### 2. Creativity

*Promoting innovation in both management and technology through the constant application of creativity and a willingness to probe new possibilities*

The following are the words of Haruhiko: "Tradition means innovating. We have 380 years of tradition because we have innovated continuously."<sup>3</sup> Gekkeikan has repeatedly taken on new challenges and changed itself to meet the needs of the times. Instead of becoming overly obsessed with results, Haruhiko valued processes and implemented an environment that nurtures creativity.<sup>3</sup> For example, he established the Idea Awards as a means to encourage employees to create and contrive, recognizing those who have brought forth brilliant ideas and excellent achievements. In addition to programs designed to motivate employees, efforts are made to increase communication among the departments. There are cross-functional committees and meetings attended by people from the Manufacturing and Sales divisions, where various matters are discussed in detail by multiple departments. The Three Division Directors' Meeting (also called the Managing Directors' Meeting) is a venue in which the directors of Administration, Sales and Manufacturing share information about various matters. The Quality Meeting is where the persons responsible for product planning, research and development, technology management, brewing, bottling and other aspects gather to discuss opinions and share information. The Public Relations Department also edits and issues the company's periodic newsletter, called *Sakamizu*. Each issue starts with Haruhiko's words to convey the message from the management, and features news and articles explaining what the company is doing, so that all departments can understand each other, gain knowledge and think more creatively.

### 3. Humanity

*Working to boost the knowledge and skills of our employees and helping them to make the most of their strengths and individuality to lead fulfilling lives*

Gekkeikan has nearly 140 individuals, or about 30% of all employees, who have worked for the company 30 years or more. Thus it is long-lasting company with several hundred years of history without a structure to patiently develop people within the company and retain their contributions for many years.<sup>4</sup> Gekkeikan has also actively enhanced employee welfare, ensuring a sound work-life balance for its employees by improving their living environment in the forms of dormitories, company housing, etc., as well as by making other improvements. Additionally, it has revised many old systems such as employee savings schemes, pensions, insurance, health management, etc., and introduced systems in alignment with the new era.

Gekkeikan introduced a unique interview method in 1989. The employee and supervisor have a discussion in order to set the employee's specific target for the year. Subsequently, the employee meets with the supervisor three times during the year to present and discuss the employee's self-evaluation and the supervisor's evaluation in order to help the employee develop his or her competency. The initiative, motivation and achievement thus demonstrated and verified in this process are reflected in the employee's performance reviews. In 1990, Gekkeikan launched the "Public Qualification Assistance System" to encourage its employees to obtain public qualifications, and in 1997 the company made all employees eligible for tuition reimbursement at business schools in Japan based on an open application system. It also improved the Self-Development Support System, which was designed to empower motivated employees with a strong desire for self-development.

## **Making Further Leaps Forward**

To make his job easier, Haruhiko must develop a strategic plan that clearly states the priorities under the business-strategy themes. In April 2014, a group of 20 MBA students from the Pepperdine Business School, whose main campus is located in California, visited Gekkeikan and met with Haruhiko. The students were impressed by how Gekkeikan's basic philosophy was reflected in every part of the company's operation, but they also commented that there was room for improvement in the manner of presenting Gekkeikan's quality message. They suggested building marketing strategies, especially for youths in Japan and the overseas market, such as updating the website to make it visually appealing, intuitive, stylish and functional, effectively utilizing social media to generate word-of-mouth interest, and proposing different ways to enjoy sake in response to the increasingly diverse food culture. These ideas relate to all four of the business-strategy themes identified by Haruhiko, but they also require close collaboration throughout the organization.

Keiichi Okura, Haruhiko's father, said this in a *Nikkei Shimbun* article profiling his career: "I also regret not removing the barrier between Manufacturing and Sales. With its talented engineering team, Gekkeikan has led the industry by innovating in brewing technology and developing excellent yeast, among other things. Regrettably, however, the feedback from salespeople who were directly witnessing the changing needs of consumers and markets on the front line of sales, were not fully heard by manufacturing people who were reforming the brewing technology and seeing results. As the company's president, I was responsible for all of that. I was reluctant to talk to Manufacturing."

Learning from his father's mistake, Haruhiko has worked to improve communication since his appointment to the top job, creating various venues for cross-organizational discussions within the company.<sup>5</sup> As part of this effort, he has built an organizational structure that supports proposal-based selling to large retailers. However, the market is changing dynamically and he must introduce more ideas so that the company will continue to run flexibly and nimbly.

As he watched a major-league soccer game on the TV in his hotel lobby, Haruhiko superimposed his four strategic themes on the coaches, who paced energetically along the sidelines. Which of these themes should be given priority, with the three concepts of the Basic Philosophy being the axes of corporate management? Are the current internal organizations appropriate, or is there room for improvement in terms of a desired environment? He asked himself those questions and, while listening to the cheers resounding in the soccer venue, his mind was already on the video conference scheduled for midnight with the head office in Japan.

## **Endnotes**

<sup>1</sup> Haruhiko Okura, President, interview, October 23, 2015

<sup>2</sup> Haruhiko Okura, President, interview, April 25, 2012

<sup>3</sup> Haruhiko Okura, President, interview, October 23, 2015

<sup>4</sup> Haruhiko Okura, President, interview, October 23, 2015

<sup>5</sup> Haruhiko Okura, President, interview, October 23, 2015

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Nikkei newspaper article • My biography • Keiichi Okura

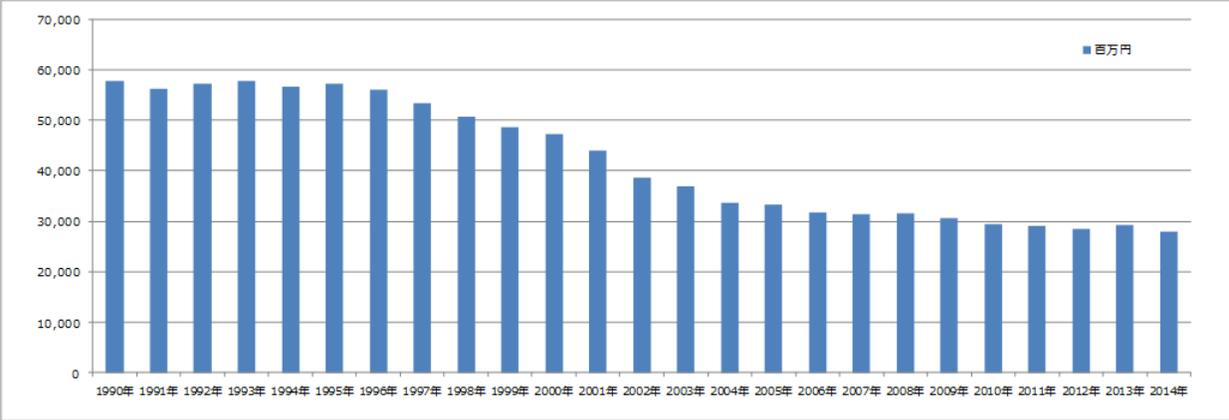
Sake culture in Fushimi, Kyoto • Shinji Tanaka

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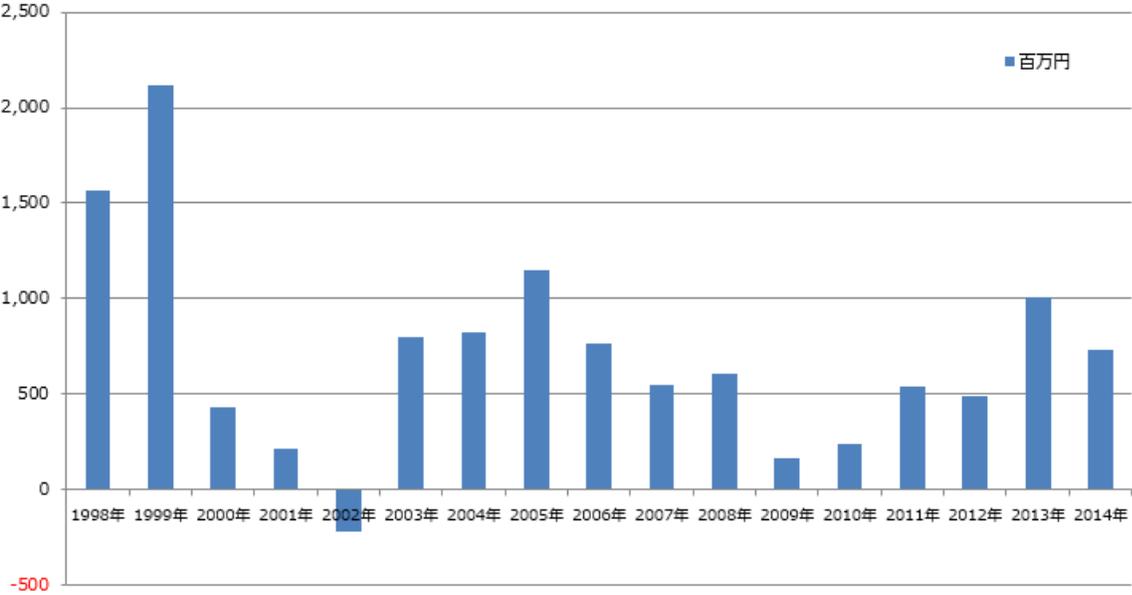
Gekkeikan web site • <http://www.gekkeikan.co.jp/>

# Exhibit 1 GEKKEIKAN group revenue and profit

Revenue: Million Yen



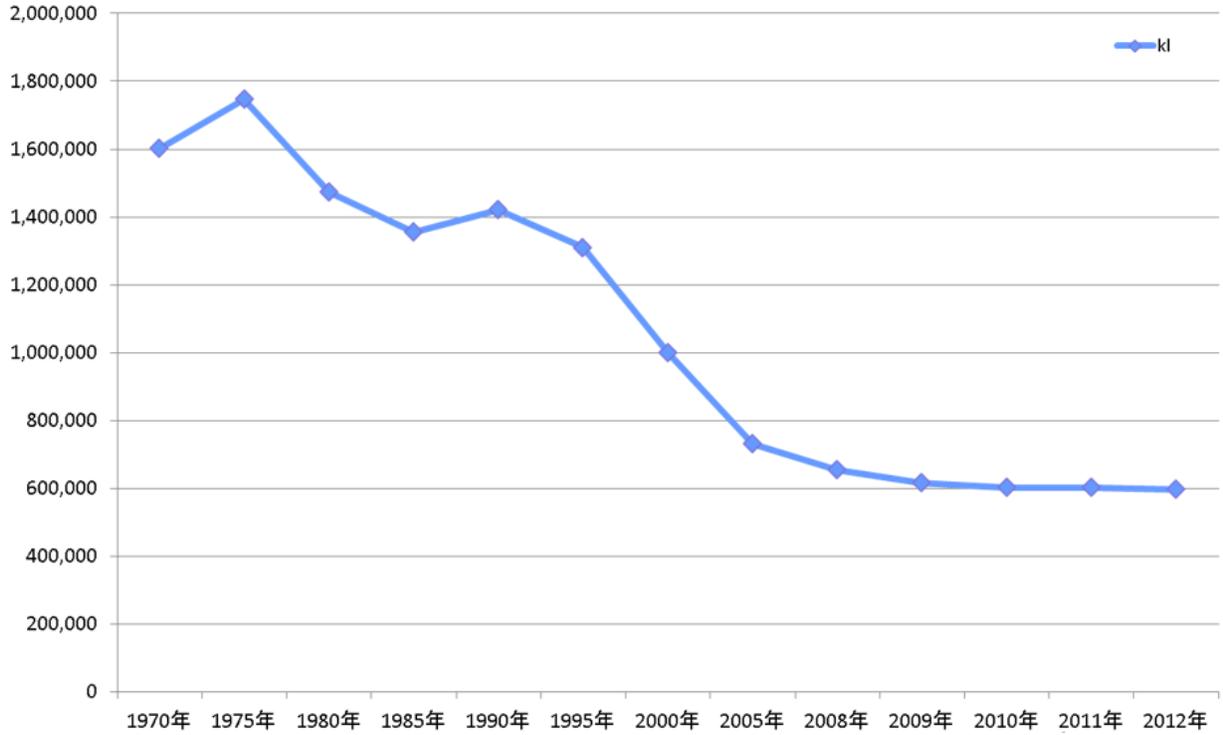
Current profit: Million Yen



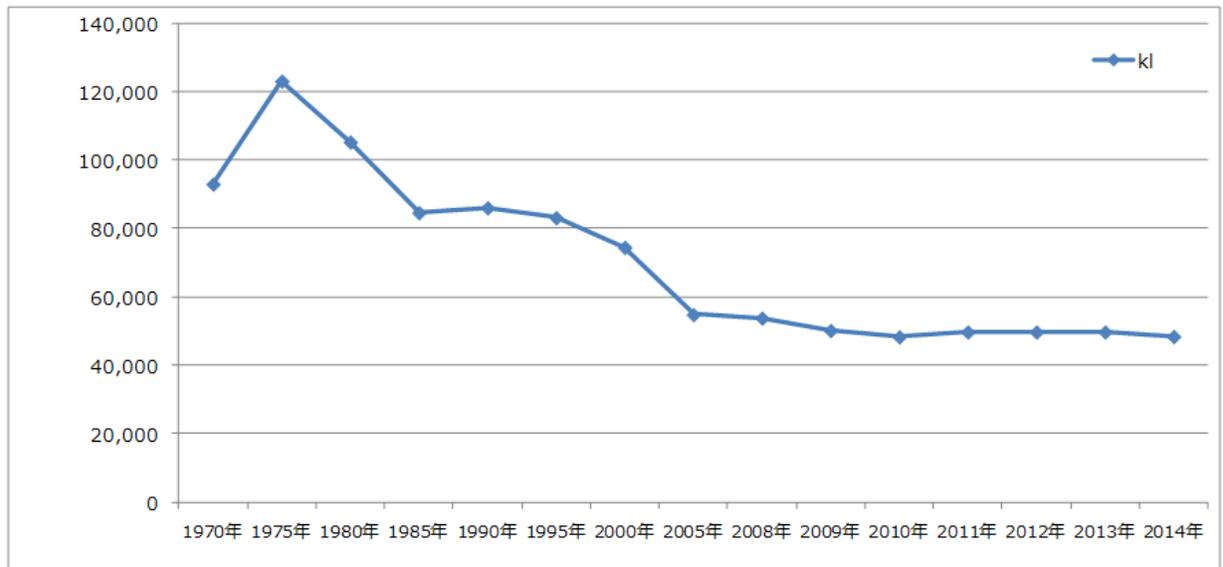
Source: GEKKEIKAN internal company documents

## Exhibit 2 Sake market and GEKKEIKAN sake production in Japan

Shipments of sake in Japan : Unit in Kilo Litter (KL)      Data source : National Tax Agency Japan



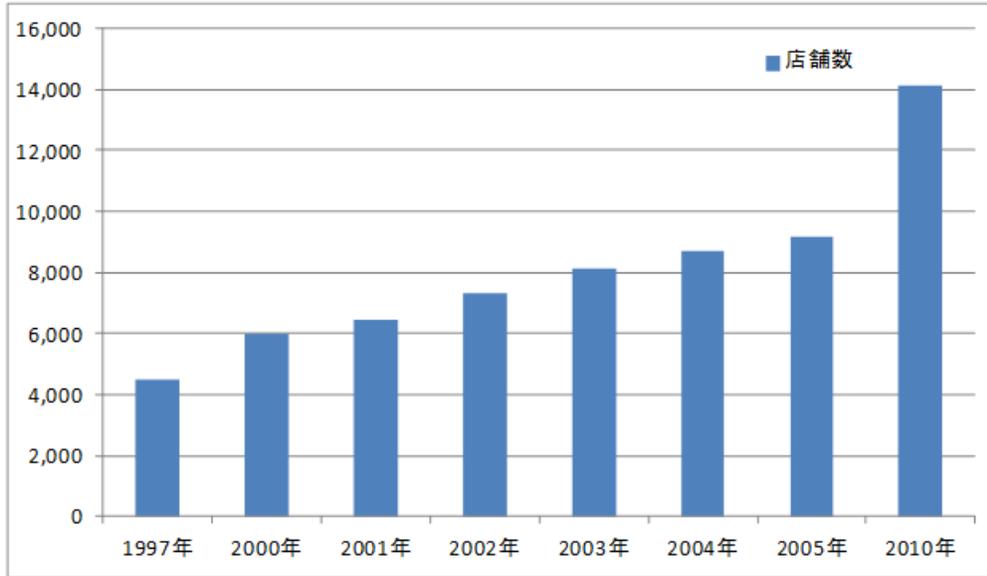
Shipments of GEKKEIKAN sake in Japan : Unit in Kilo Litter (KL)



Source: GEKKEIKAN internal company documents

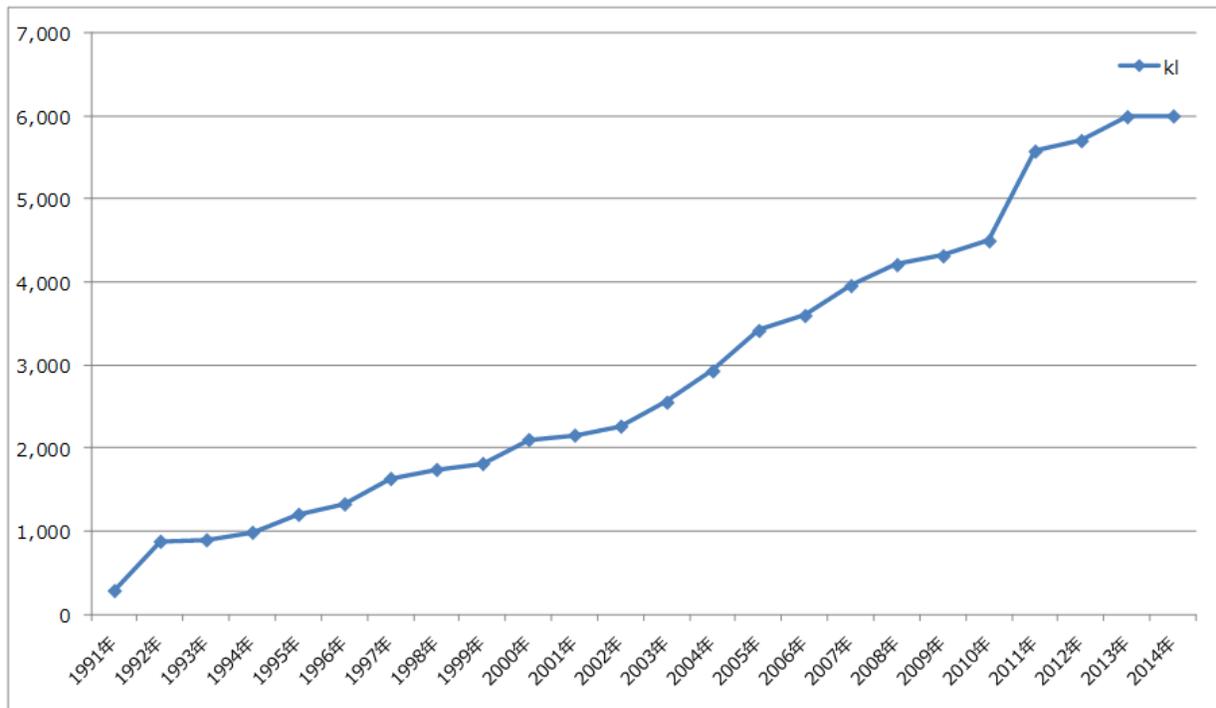
## Exhibit 4 US sake market and US GEKKEIKAN sake production

Number of Japanese restaurants in the United States



Source: 1995~2005 『Japanese Food Trade News』 (Ikezawa Food Specialists Inc.), 2010, JETRO

Shipments of US GEKKEIKAN sake : Unit in Kilo Litter (KL)



Source: GEKKEIKAN internal company documents

**Exhibit 5 GEKKEIKAN photos**



14<sup>th</sup> generation owner and President, Haruhiko Okura



GEKKEIKAN HQ in Fushimi, Kyoto



GEKKEIKAN Factory and R&D center in Fushimi, Kyoto



US GEKKEIKAN factory in Folsom, California

Source: GEKKEIKAN internal company documents

**Exhibit 6 GEKKEIKAN historic photos in late 19<sup>th</sup>c – early 20<sup>th</sup> c**



Source: GEKKEIKAN internal company documents

## Exhibit 7 GEKKEIKAN products



Okura Choko-tsuki Bottle

Product lines from late 19<sup>th</sup> century through early 20<sup>th</sup> century



Current product lines

Source: GEKKEIKAN internal company documents

Exhibit 8 GEKKEIKAN TV CM



TV CM in 1950s



TV CM in 1980s

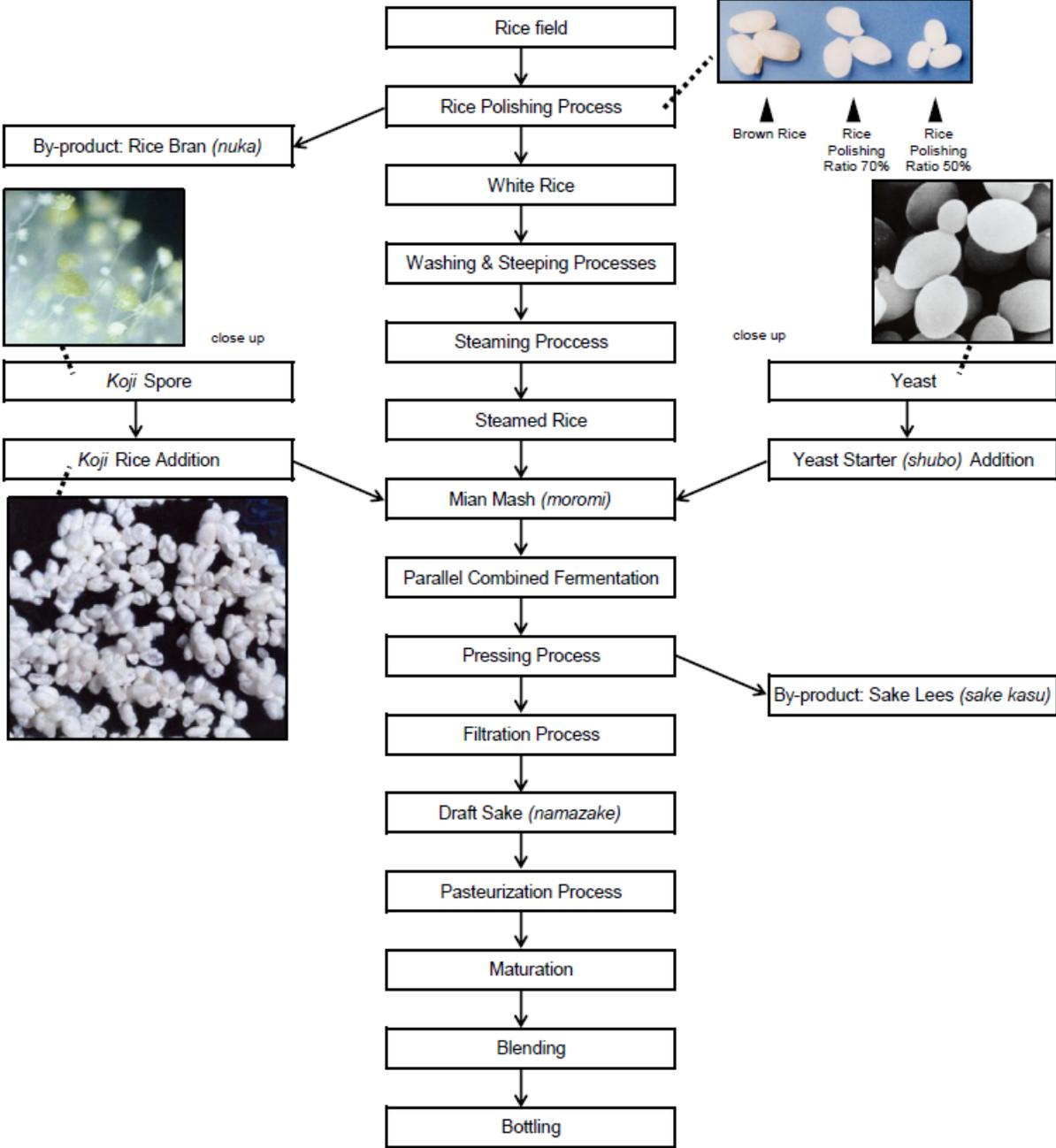


TV CM in 2000s



TV CM in 2010s

# Exhibit 9 Sake brewing process



Source: GEKKEIKAN internal company documents

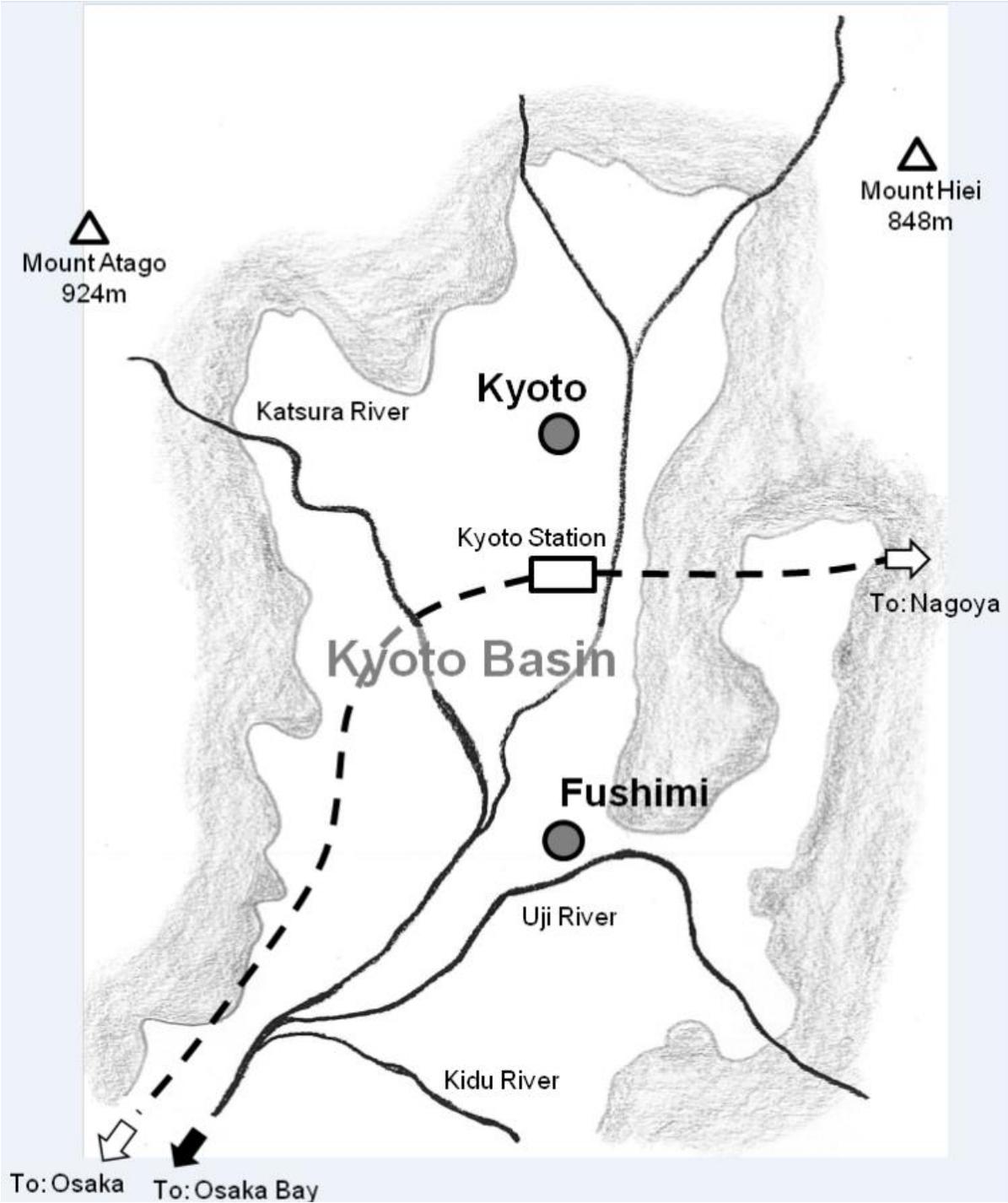
## Exhibit 10 Organizational structure

GEKKEIKAN SAKE COMPANY, LTD. ORGANIZATION CHART

<p>THE BOARD OF DIRECTORS —   (MANAGING DIRECTOR'S MEETING)</p>	CORPORATE MANAGEMENT DIVISION	—	GENERAL AFFAIRS DEPT.
			GENERAL ACCOUNTING DEPT.
			INFORMATION SYSTEMS DEPT.
	SALES DIVISION	—	SALES PROMOTION DEPT.
			INTERNATIONAL DEPT.
			LOGISTICS DEPT.
			NATIONWIDE SALES DEPT.
			NORTH JAPAN SALES DEPT.
			EAST JAPAN SALES DEPT.
			CHUBU SALES DEPT.
			KINKI SALES DEPT.
			CHUGOKU-SHIKOKU SALES DEPT.
			KYUSHU SALES DEPT.
	PRODUCTION DIVISION	—	RESEARCH INSTITUTE
			PRODUCTION MANAGEMENT DEPT.
			TECHNICAL DEVELOPMENT DEPT.
		BREWING DEPT.	
		PRODUCTION DEPT.	

Source: GEKKEIKAN internal company documents

Exhibit 11 Map of Fushimi, Kyoto



Source: GEKKEIKAN internal company documents

## Appendix

### Four-Season Brewing

Gekkeikan owes a lot to its four-season brewing system in building the foundation for the company's "quality first" culture. The primary motive behind the establishment of the four-season brewing system in those days (before 1961) was the need for a more productive brewery that could operate 24 hours a day, 365 days a year to support the constantly increasing demand for production. The second reason was the rapidly declining population in farming and fishing villages, as the Japanese economy made rapid progress after the war and its social and industrial structures were subjected to significant change. In light of this situation, a shortage of master brewers and skilled brewery workers was fully anticipated and it was evident that the master-brewer system had to change radically. Particularly, the industry had to enable sake making by regular employees. The third basis was that the traditional brewing system, in which sake was made only in winter, would inevitably cause a wide variation in the storage periods of sake at different points of sale throughout the year, resulting in varying sake flavors depending on when the sake was sold. To address this issue, there was a strong need to produce sake with stable quality throughout the year. The fourth rationale was the need to establish a year-round brewing system that would meet the desire of Japanese to drink freshly brewed sake and answer the rapid change that was happening in their food preferences. Collectively, these factors brought forth the four-season system.

The development of new technology for brewing throughout the four seasons was met with great difficulty. Japan's summer is very humid and hot, and microorganisms in the air increase during that season. To ensure the same environment as winter brewing, the air within the brewery must be cooled, dehumidified and sterilized to the same condition as in winter. This was by no means an easy achievement. The Okura Sake Brewing Research Institute was established in 1909, with Tsunekichi Okura, the eleventh head of the family, and research and development utilizing the advanced science available at the time was conducted there. Focused research was conducted on temperature- and bacteria-control technologies that were indispensable to the achievement of four-season brewing. Subsequently, in 1927 Gekkeikan built a sake cellar called *Showagura*, made of ferroconcrete and complete with a cooling system. In about 1955, the company began its development of sake-brewing machinery. Such mechanization and automation of manufacturing processes shortened the cycle time and cut labor. As a result the brewing process became controllable, which led to the company's success in building an environment for high-quality brewing throughout the year.



# The Catherineau Case Study

Author : Gérard Hirigoyen

(University Montesquieu Bordeaux 4)

-since 1750-



## Catherineau

Since 1750, Catherineau has designed and manufactured made-to-measure interiors for aircraft and yachts in composite and natural materials. This family business dates back almost three centuries—267 years exactly. From the start, the company has been controlled by its founder and heirs. It is fully entitled to its place as a member of the Hénokiens.

This case is the story of a family, as in many family businesses, the Catherineau, who knew through time to pass on my knowledge and know-how and to bring forth an emblematic leader at each time. We are far from a declining family as described by Th. Mann in his famous novel "Les Buddenbrook", but in that of a dynamic family dynasty whose future is now in the hands of Anne-Sophie.

There have been eight generations of Catherineau; beginning with the distant ancestor Pierre, who left Libourne to settle on the banks of the Garonne, and opened a first a cooperage and then a workshop manufacturing wagon wheels. All of this, almost a century before the birth of Clément Ader, the pioneer of aviation!

The company's history brings to light an overarching strategic model that replicates itself by drawing upon the past to enrich the present, thanks to the arrival of an emblematic leader. A model that has been applied on the one hand to develop a strategy focused on the long-term, the latter being an integral part of the organizational structure for the successful, sustainable survival of the family business, and on the other hand, a process that explains the creation of value in the company based on a vision of cognitive governance.

Four significant periods can be distinguished, which constitute the steps in the development of the Catherineau model.

### **1) The steps in the development of Catherineau model:**

- 1750–1929: the founders: Pierre;Pierre;Jean;Jean-Achille and Pierre-George, the statement of the Catherineaumodel.
- 1929–1979: Jean-René: the consolidation of the model.
- 1979–2010: Alain: the enrichment of the model through innovation.
- 2010 to today: Anne-Sophie: the heiress of the model that founded the dynasty.

## **First sub-period: 1750–1929: The founders: Pierre;Pierre;Jean;Jean-Achille and Pierre-Georges, the statement of a model**

1750 was a year of political crisis and popular unrest following the registration of the *vingtième* edicts by the Paris Parliament. In May 1750, Parisians marched on Versailles and were dispersed by force. The situation in the capital was so tense that Louis XV had a road built to bypass the capital so that he could travel from Versailles to Compiègne; a road that the population called the ‘road of the Revolution’.

However, Pierre Catherineau took another road to travel from Libourne to Bordeaux, where he created the *Quai des Chartrons*, a carpentry workshop that manufactured first barrels, then cartwheels.

He remained there until 1810, when his son Pierre succeeded him (the first invoice was issued in 1811).

Beginning in 1820, Jean, his son, who records show was a carpenter entrepreneur, launched a new activity—the fitting out of scows. This activity would prove to be very lucrative as it marked the beginning of the period when most passenger traffic in the Garonne estuary was provided steam-powered paddle steamers.

As the business expanded, Jean moved its premises from the rue Lormont to the Bacalan district, where the workshops would remain until 1907.

In 1886, Jean-Achille succeeded his father. His son, Pierre-Georges (1872–1926) served his apprenticeship with his uncle, Ernest Catherineau, a modeler-mechanic with offices at rue Sainte-Charles in Bordeaux. Once qualified, Jean-Achille spent four years in Paris. He returned to Bordeaux where he joined his father's workshop. As the Bordeaux shipbuilding and fisheries collapsed, Pierre-Georges changed course by developing a modelling-mechanics branch that provided services to foundries. This would give the company a significant boost.

In 1907, Jean-Achille constructed a house and a new, more spacious workshop at 30, rue Achard (rue Lormont having changed name) in the port district of Bacalan. The workshop's pitch pine frame would be built by his father's hands.

Gradually adopting modern machine tools, he expanded the company's existing activities to include ship maintenance and repair. The company's proximity to wet docks, and two dry docks supported the extension into this new branch of activity.

Pierre-Georges died in 1926 at the age of 54. His widow, Jeanne, acted as temporary director until 1929, when their son Jean-René (1907–1988) joined the company.

### **Second sub-period: 1929–1979: Jean-René: The consolidation of the model**

In 1926, Jean-René was only 18 years old. The death of his father required him to abandon his engineering studies at the National School of Arts and Crafts at Angers. He left in November 1927 to complete his military service. During his 18-month absence, his mother ensured the smooth running of the various branches of the workshop, helped by some of her husband's former workers.

In 1929, Jean-René took over the management of the company. He immediately added a new branch of activity: automatic chilling. The compressor units that the modelling workshop had worked on for several years for a Parisian company, were supplied to him in his capacity as a distributor by the company. The *Atelier Catherineau* now manufactured, installed and maintained

isothermal furniture—cold rooms—which required the creation of a major commercial department, a network of travelling salesmen, assemblers and repairmen.

Jean-René's departure for the war put an end to all this. Catherineau was once again put into the care of Jeanne's safe hands. Eventually, civilian life began to return, but the company's large stock of machines had been requisitioned by the German army and galloping inflation had caused a sharp rise in the price of materials, making the resumption of its former business impossible. The company continued to manufacture joinery for buildings and ships, and models for foundries.

It was not until the 1960s that it began, once again, to diversify its activities, while remaining faithful to its original trade, wood.

In fact, 1960 marked the beginning of the company's venture into aeronautics, in the form of a contract signed with Dassault. Jean-René prepared models of the Mystère 10 (Mystery 10) and Mystère 20 (Mystery 20) for wind tunnel testing and manufactured the first fittings for the Mystère 20, Falcon 10 and Falcon 50. This would be the beginning of Catherineau's activities in the aeronautic domain, in particular business aviation.

This diversification would be a turning point in the life and development of the company. Jean-René even went so far as to change its name: henceforth it would be known as *Etablissements G. Catherineau*. Activities included: modelling of mechanics for foundries; building and marine joinery; and in the aviation domain, the manufacture and installation of fittings for the Mystère 10 and 30, and the Falcon 20 and 50.

Alain, one of Jean-René's sons, joined the company in 1972, and took over control in 1979.

### **Third sub-period: 1979–2010: Alain: The enrichment of the model through innovation**

Several significant dates mark this period. In 1980, to respond to strong growth, the workshop at rue Achard expanded. The same year, Alain's arrival marked the change in the legal status of the company. The Catherineau Establishment became a simplified joint-stock company whose president is Alain, the chief operating officer is Anne-Sophie and the co-director is Marie. The chairmanship of the supervisory board is entrusted to Michèle, wife of Alain. Though, Alain created a new department: the sale and construction of hulls for recreational boats, in the form of a dealership with the British firm SouthHantsMarine.

In 1984, Alain introduced a major innovation: the development of a patented, honeycomb composite material that significantly reduced the weight of aircraft fittings.

The results lived up to expectations, extremely light panels, with very good mechanical resistance could be coated with an aesthetically-pleasing wood veneer. The process earned Catherineau a monopoly in the outfitting of small private planes.

In September 1988, the domestic Australian airline company Ansett used Catherineau's expertise to outfit its Airbus A320, seduced by the Orient Express-style decor.

In 1994 Catherineau continued to innovate by adapting the Catia computer-assisted design system, invented by Dassault, to draw three-dimensional structures on a computer workstation. Parts are automatically cut by a computer-controlled machine, synonymous with precision and time saving.

Just two years later, the company was running at full capacity. Driven by global growth, the Falcon market was flourishing and Catherineau won most of the orders for the European continent. However, to alleviate the problem of an over-reliance on one client, Dassault (over 60%), Alain decided to

diversify the business to all French aircraft manufacturers. Consequently, in 2003–2004, the company fitted out the first A330 and A340 VVIP. Catherineau obtained PART21GFRO164 Approval for Production from the French Civil Aviation Authority.

Anne-Sophie, one of Alain's daughters, joined the company on 6 June, 2006, with an engineering degree from the *Ecole Nationale Supérieure des Arts et Métiers*, an MBA in business management from the *Institut d'administration des entreprises* in Paris, followed by a management internship at Louis Vuitton at the age of 24. It was a turning point in the company's history. Finding himself blocked by tram works in Bordeaux, in 2007 Alain decided to build new, modern, more functional production facilities at Saint-Medard-en-Jalles at the heart of a technological centre dedicated to the aviation, defence and space industries.

In 2007, the number of employees rose from 50 to 75 to cope with a sharp increase in the fitting out of VIP aircraft and helicopters. By 2008, the company had 105 employees. It signed contracts with SOCATA for the complete fitting out of the TBM850 and with Dassault for the fitting out of the Falcon 7X.

2010 saw the fitting out of the A330 for the President of the French Republic. Anne-Sophie oversaw the construction of the new workshops in Saint-Medard-en-Jalles.

#### **Fourth sub-period: 2010 to today: Anne-Sophie: the heiress of the model that founded the dynasty**

In 2011, Anne-Sophie, 30, became Director General alongside her father Alain, who remained CEO. "I was only 14 years old when my father asked me to take over the company", remembers an amused Anne-Sophie. "I preferred to make my own way first, I wanted to be independent, but also to bring real added value to the company" she continues, adding that she intends to lead by bringing her

“touch of modernity while keeping the essentials: the values of my Catholic family: honesty, respect for employees and customers.”

In January 2012, Catherine left its historic premises at rue Achard to move into the new plant: 4,600 square meters in Saint-Médard-en-Jalles, which was officially inaugurated on 7 September of the same year. The company recruited twelve women into a very masculine environment. “Few a few years, we have worked to promote women’s access to our trades and professions. Now, they make up about 10% of our workforce”, Anne-Sophie is happy to declare; she herself contributed to a national plan for women’s entrepreneurship commissioned by the government.

The company not only doubled the surface area of its premises, it completely modernized its machinery and built an environmentally-friendly building: the total cost of the operation was 3.5 million euros, with assistance from the region and the municipality of approximately one million euros.

After overseeing the transfer of the hundred-or-so employees to the new plant, Anne-Sophie turned her attention to the diversification of the company’s activities, in particular the nautical sector.

Consequently, in 2012, Michèle worked with the City of Bordeaux, the *Grand Port* and forty other companies to create the Bordeaux Superyachts Refit cluster. The project was designed to transform the *Bassins à Flots* area into an epicentre for the maintenance of luxury yachts, given the saturation of other French and European sites. The chairwoman of the cluster is Michèle.

Her aim was to have 115 employees within 5 years, and 11 million euros in turnover. Her sister Marie was at her side. Marie joined the company as Head of Research and Development in 2013 after six years of experience as a structural calculations’ engineer for Airbus in Toulouse. She graduated from the National School of Physics at Grenoble, and holds a Master’s degree in Aircraft Structure Calculation from the University of Toulouse.

In November 2014, the young woman was voted Business Leader of the Year in aeronautics.

At the end of 2015, the entire business aviation sector was in crisis. As Catherineau was highly dependent on its success, the company was badly hit by the impacts. In early 2016, Dassault cancelled three major orders, and in October of the same year Airbus closed its subsidiary Airbus Corporate Jets Center, while the helicopter market sharply declined.

In response to this turbulent period, the young leader developed a three-point action plan: a strategy of diversification via exports to the booming international aviation and boat markets. The vacant premises at Bacalan resumed their original activities and there was a renewed focus on the company's historical customers. The company's internal reorganization was accelerated: on the one hand, day-to-day management of performance was based on the accountability of each actor of the company and, on the other hand, visual communication was improved. All of this was accompanied by a programme of partial redundancies supported by the government, and the establishment of a training plan in collaboration with regional authorities and the DIRECCTE.

The aviation sector was not, however, completely abandoned. In September 2016 the French Civil Aviation Authority gave its approval for the company to carry out maintenance on business aircraft (PART 145 Certification and ISO 9001/ EN 9100, which state manufacturing requirements). Catherineau remained optimistic, arguing that demand would never dry up. "Companies, businessmen, jet rental companies always need this type of aircraft for frequent, quick trips. I am confident that luxury outfitting will also be developed in airliners, with future VIP zones equipped with individual cabins", says Alain. The end of 2016 would see the delivery of fittings for the first Falcon 8X, and production of the new Airbus H175 VIP helicopter.

## **2) Human Expertise and the Manufacturing Process:**

In response to the complexity of its customer's specifications, Catherineau combines human expertise and manufacturing processes.

The strength of the company is the result of the subtle marriage between traditional cabinetmaking and state-of-the-art technologies, between rare wood, leather and composite materials, between craftsmanship and computer-aided manufacturing. The techniques used to equip a boat or an aircraft are the same.

This outstanding know-how comes from the 30 trades they employ. From the carpenter to the draper, via the painter, the saddler, the mechanic or the fitter, the upholsterers, and the cabinetmakers. These craftsmen design, from A to Z, the company's luxury fittings that are mostly made from rare wood. Its fame attracts the youngest talents from the prestigious Boule School of Applied Arts. As Anne-Sophie says, "the transmission of leading-edge know-how is slow, it often takes several years."

In April 1990, the company's practical and artisanal expertise was rewarded by the award of the sacred 'Best Workers in France' (*Meilleurs ouvriers de France*) prize to two of its cabinetmakers.

To ensure this tailor-made service, the company spends 10% of its annual turnover on research and development. Its design office is composed of twelve people and is managed by Marie. Research and development is focused on, among others, the search for new materials that provide better sound insulation or even more resistant varnishes.

It was precisely through the search for innovation that, in 1984, Alain himself developed a patented composite material that made Catherineau's fittings around 30% lighter than the competition. Unheard of! A honeycomb-like structure, laced with fire-resistant resins and carbon fibre to provide rigidity, "It is the lightest composite panel in the aerospace market", Anne-Sophie notes proudly. Its patent has given the company a significant competitive advantage in a sector where every additional gram counts. As Alain points out, "In a helicopter, the bulkheads, furniture, toilets and walls weigh about 230 kg. In solid wood, this would be about a ton."

In addition, the load must be well distributed to ensure stability in flight. And these are not the only constraints. The smaller appliances must resist fire and shock, while the larger ones must also meet safety standards regarding depressurization and vibration.

Since 1995, the company's processes have been computerized. Fittings are drawn on a computer based on a scanned model of the aircraft. Then the computer-driven machines cut out the composites: a honeycomb covered with a layer of wood, leather or marble.

### **3)Luxury and made-to-measure:**

Since its inception, the company's state-of-the-art expertise has been dedicated to satisfying its customers and meeting their specific requirements (Airbus, Eurocopter, Sogerma, Daher-Socota, Dassault, Sabena, etc.). Catherineau has fitted out over 2,000 business aircraft and helicopters since the early 1960s. Each client states its requirements, which the design office transforms into plans. "We sign confidentiality agreements with each of our customers. And often we work directly for aircraft manufacturers and don't know the name of the end customer", says Anne-Sophie. Fittings are then manufactured and finalised in the workshop before being integrated into the aircraft. Nothing is mass-produced, everything is made-to-measure, with luxurious embellishments for a high-end clientele.

One client asked the company to find a way to hide televisions behind works of art. An extravagant, but nevertheless unexceptional, request was to manufacture furniture finished in shagreen (from shark skin). Others include a sink made out of lapis lazuli, and a table inlaid with diamonds. In the same vein, in March 2013, a Falcon 7X was delivered to Prince Albert and Princess Charlene of Monaco; the interior fittings were particularly refined and designed to meet the expectations and requirements of the Prince.

The current focus on the luxury yacht market, the brainchild of Anne-Sophie, is familiar to the company's institutions. At the end of the 1990s, it outfitted the *Mari-Cha*, a 28-meter yacht. And if we

go further back in time, to the 1820s, the company had already turned its hand to the outfitting of scows (see above, 1, first sub-period).

As Anne-Sophie says, "Luxury is Catherineau's world. Both utmost quality and highest level of customer service are of paramount importance to succeed. Our strategy is to keep providing our customers with the utmost quality and the highest customer service they expect from us. The obvious reasons Catherineau has been around for so long are the company's deep respect for its customers, its utmost quality and a permanent will to innovate, bringing new products and new technologies such as a light yet strong composite material, or Catherineau's finishing processes which for 50 years have resisted all temperature and environmental variations. In a nutshell, our strategy is to be respectful to our values and our expertise that stem from Catherineau's long history associated with a strong desire for innovation in partnership with our customers."

## **4) The Catherineau model applied to a strategy of long-term company sustainability**

### **Aspects relevant to the discussion of the case.**

The model can be summarised as follows:

- 1) Constantly reinventing their business to survive: reinvention in innovation, with a common thread, working with wood, which has led to diversification around their core business.
- 2) Constantly adapting to a changing environment and innovating, which implies a flair for business in this family of entrepreneurs for whom the search for sustainability is in their blood.
- 3) Meeting demanding customer requirements: nothing is mass-produced, everything is tailor-made.

This model was applied to a strategy of sustainability, the latter being part of an organizational culture that has fostered the long-term success of the family business.

The company's history and the Catherineau model shed light on some of the principal explanatory variables that underlie the longevity of the company: the family, familiness, stewardship, stakeholders and networks. The academic literature offers an understanding of the role played by each of them.

- The family: to understand its role, reference may be made to Olsen's Circumplex Model that provides a framework for a 'relational diagnosis' of the family, based on three dimensions:

cohesion (emotional ties, relations between parents and children, marital relations, involvement in the family, etc.); flexibility (leadership, discipline, negotiations, distribution of roles, rules of operation, etc.); and communication, which is seen as a 'facilitator' dimension through which the family can change its level of cohesion and flexibility (see the Appendix).

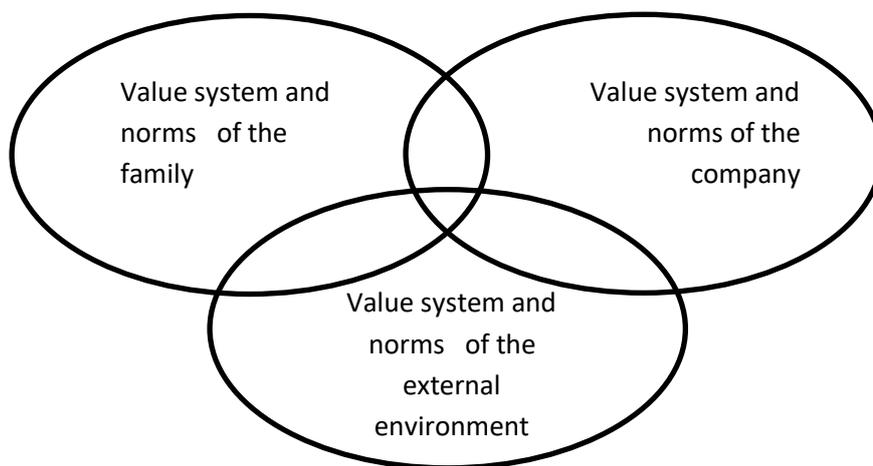
The identity and values of the family must also be taken into account—the concept of shared values that are common to individuals, families and companies. In some cases, family values and corporate values are interwoven, which can lead to the emergence of a form of governance that is specific to family businesses, and which can be very similar to paternalism.

- Familiness results from the interweaving of two types of social capital, that of the family in the form of the knowledge, know-how and practices communicated to its members, but also in the form of collective knowledge represented by the set of social values, beliefs and behaviours adopted by the family group. Plus, that of the company, through its multi-way relationships with its stakeholders, employees, suppliers, customers, and creditors.

Social capital thus has three dimensions: a structural dimension (a network of relationships: the family and its genealogical structure); a relational dimension (personal relationships create assets, through their history, or a feeling of obligation or trust); and a cognitive dimension (a common language and shared interpretations constitute a resource for the family business).

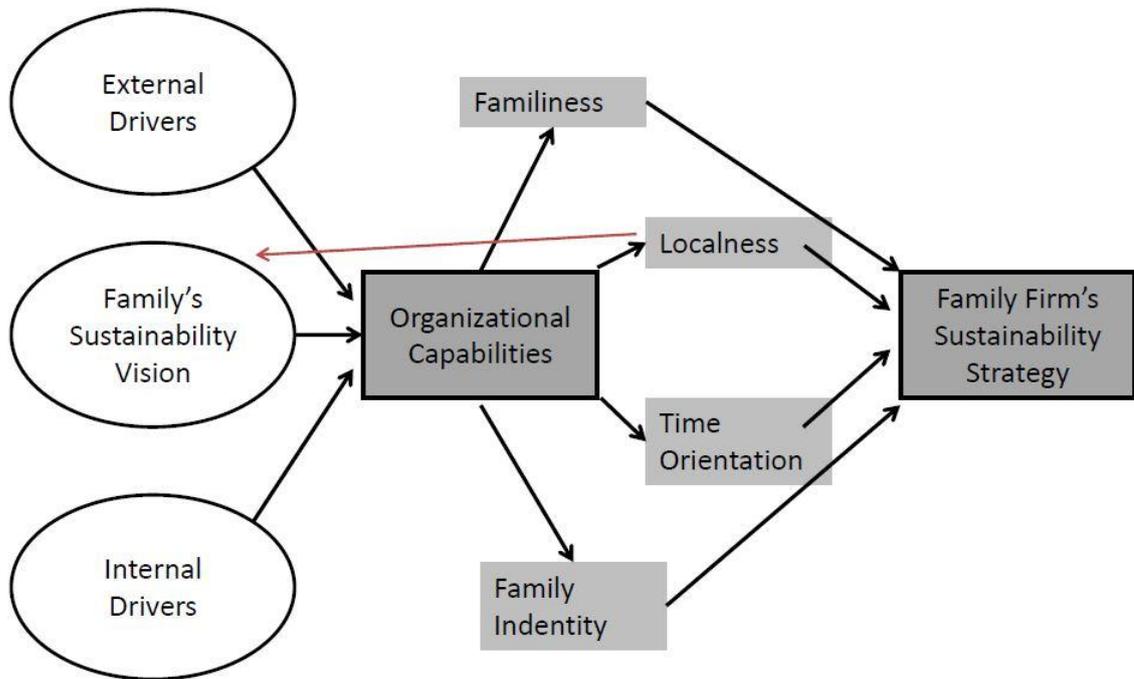
- Stewardship or 'stewardship theory' reflects the emotional unity of the family in the form of the management team. It is characterized by an identification with the organization and its goals, the personal commitment of a selfless leader to the success of his or her company (potentially at great personal sacrifice), and a motivation to act in the best, shared, long-term interests of shareholders, employees and stakeholders in the company.

- The company has always considered the expectations (rights and wishes) of both internal and external stakeholders (employees, customers, suppliers, public authorities, etc.) and has forged relationships of trust. This can sometimes appear as a substitute for explicit contracts, and may lead to some stakeholders being considered as 'family members' with a long-term approach to relationships.
- Networks: the longevity of the family business lies in its ability to develop and simultaneously activate the three networks (family, business and environment) on which its strategy is based (following Granovetter's work on embeddedness). Economic action is embedded within a personal relationship that places individuals in contact with others. It cannot be seen solely in terms of maximizing the utility of an individual, or maximizing the profit of the company. The allocation of resources is governed by other considerations, including community loyalties and values. Strategic management in a changing environment relies upon how the three networks are connected. It could be said that Catherineau has specific know-how in managing the intersections between the three network systems, embedded in a long-term perspective.



Catherineau's overall sustainability strategy can be visualised by using the diagram proposed by Sharma (2009).

## Drivers of Proactive Sustainability in Family Firms

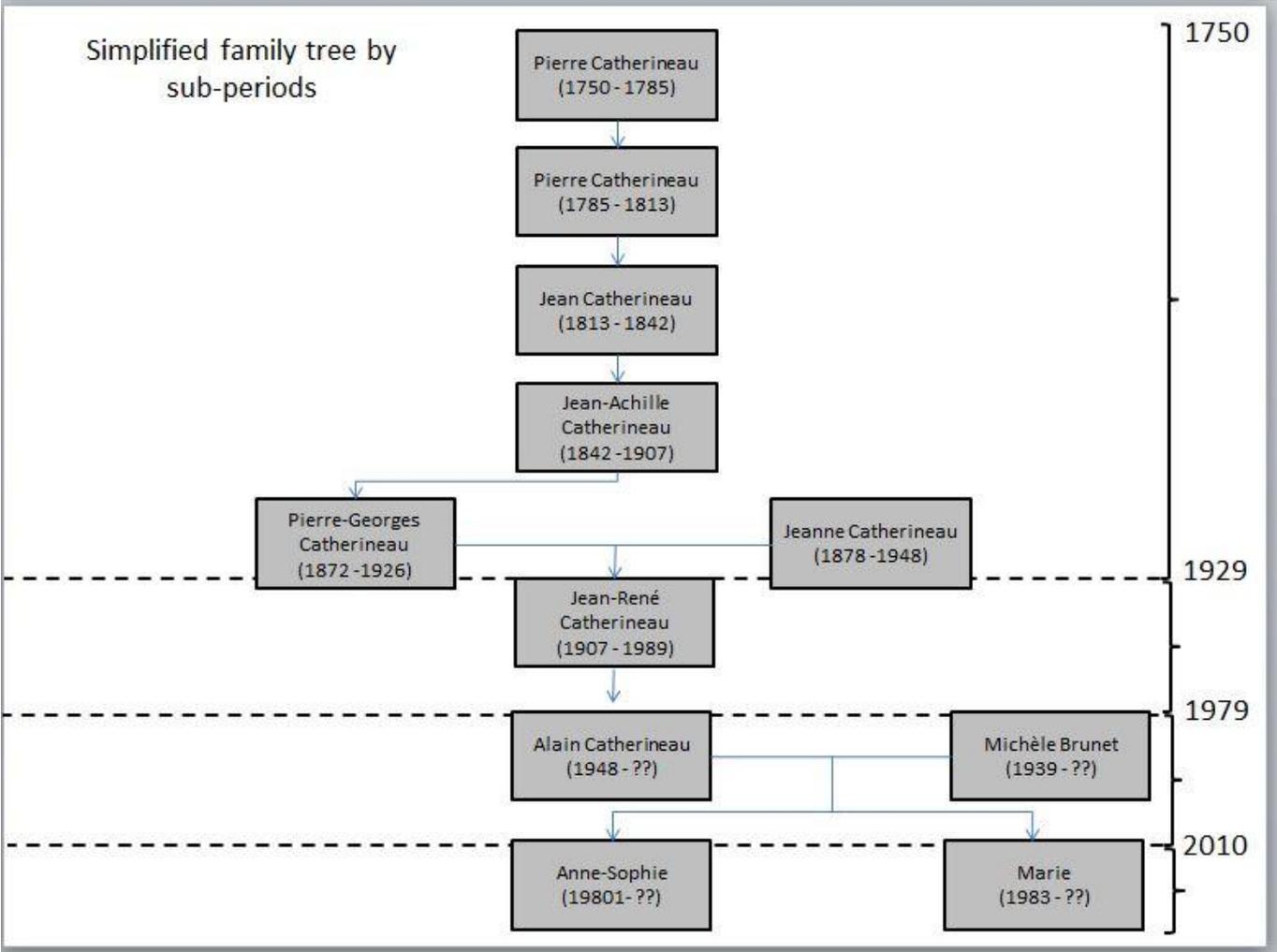


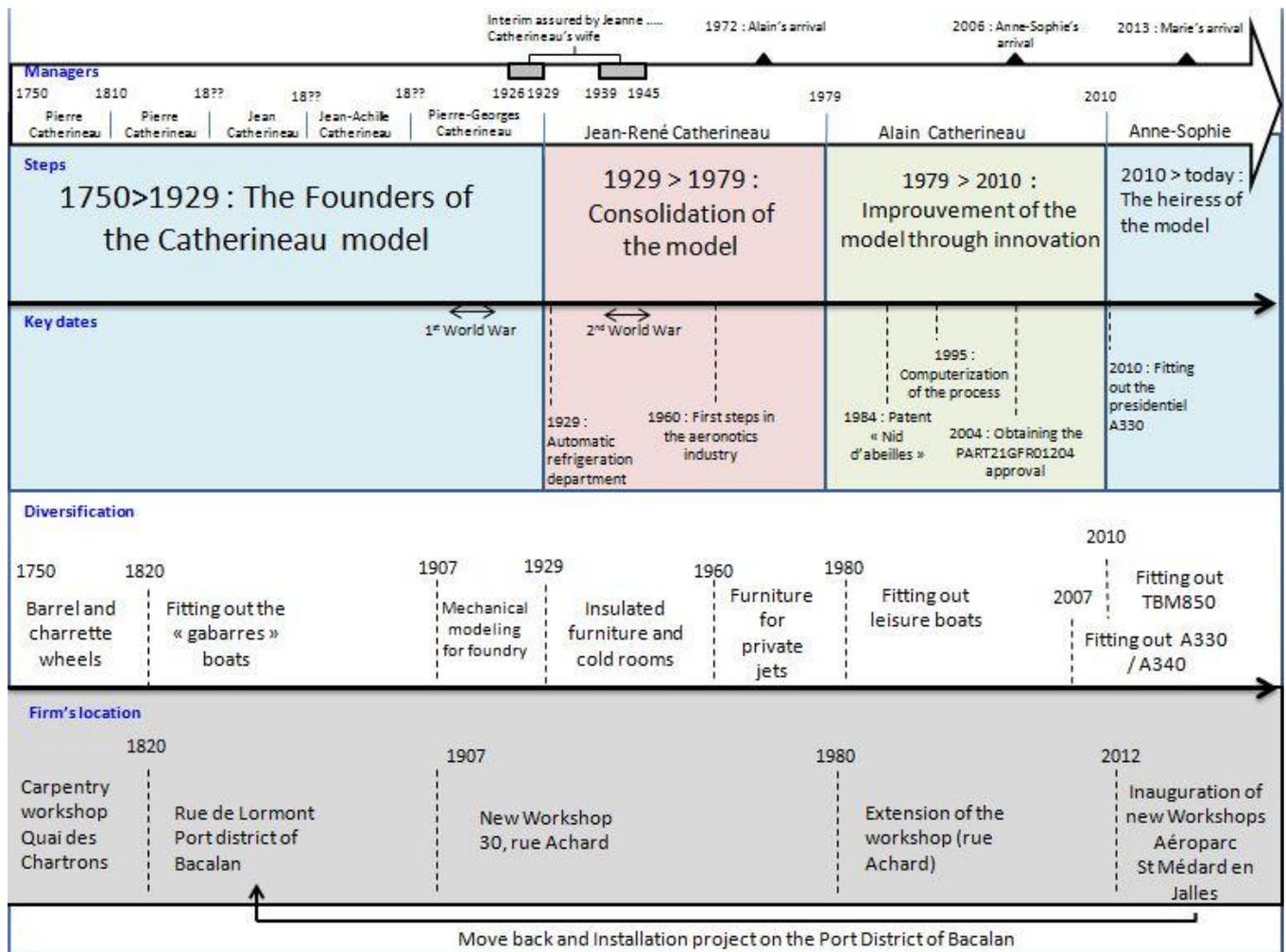
*Source Sanjay Sharma (2009)*

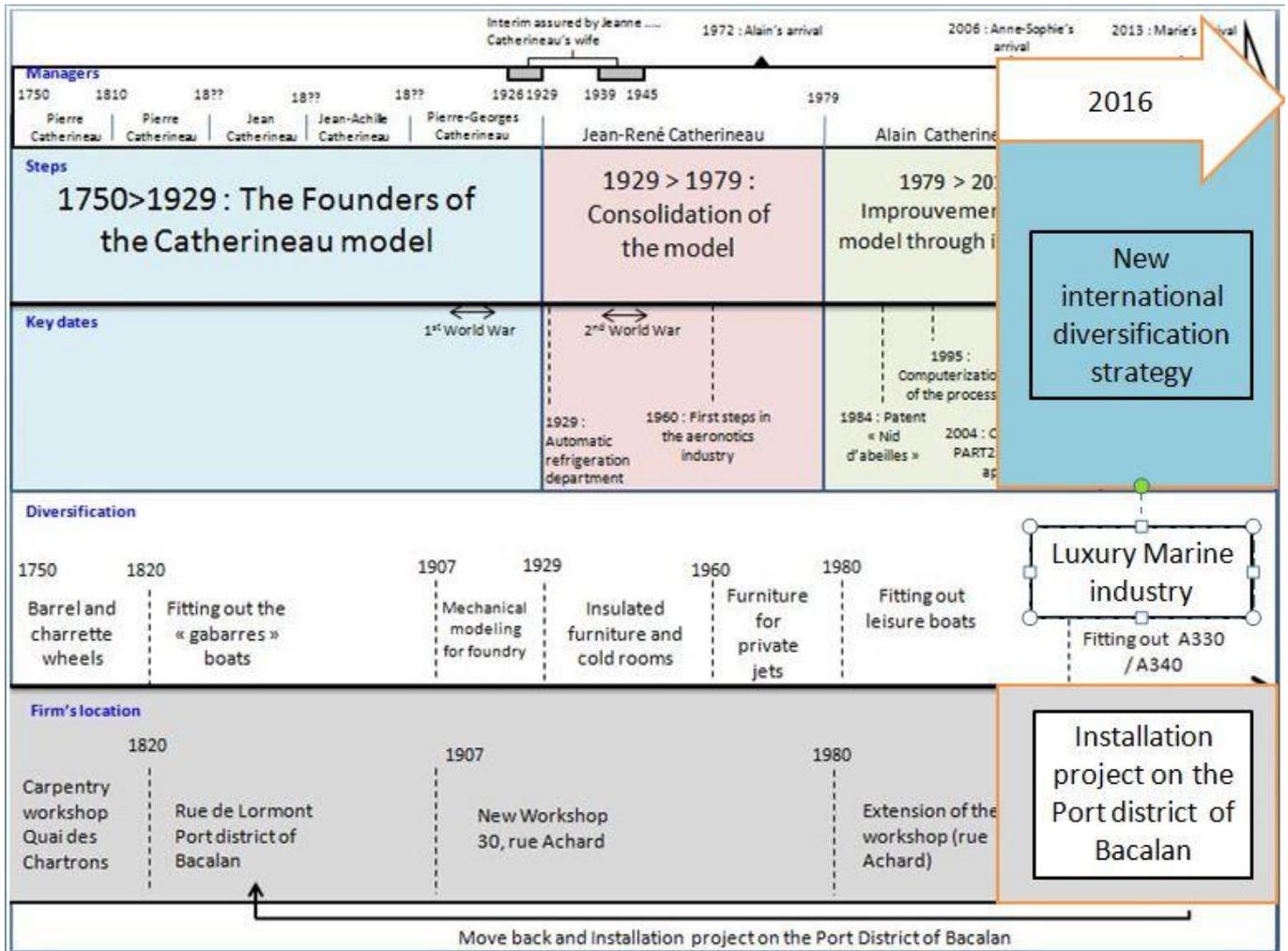
# CATHERINEAU

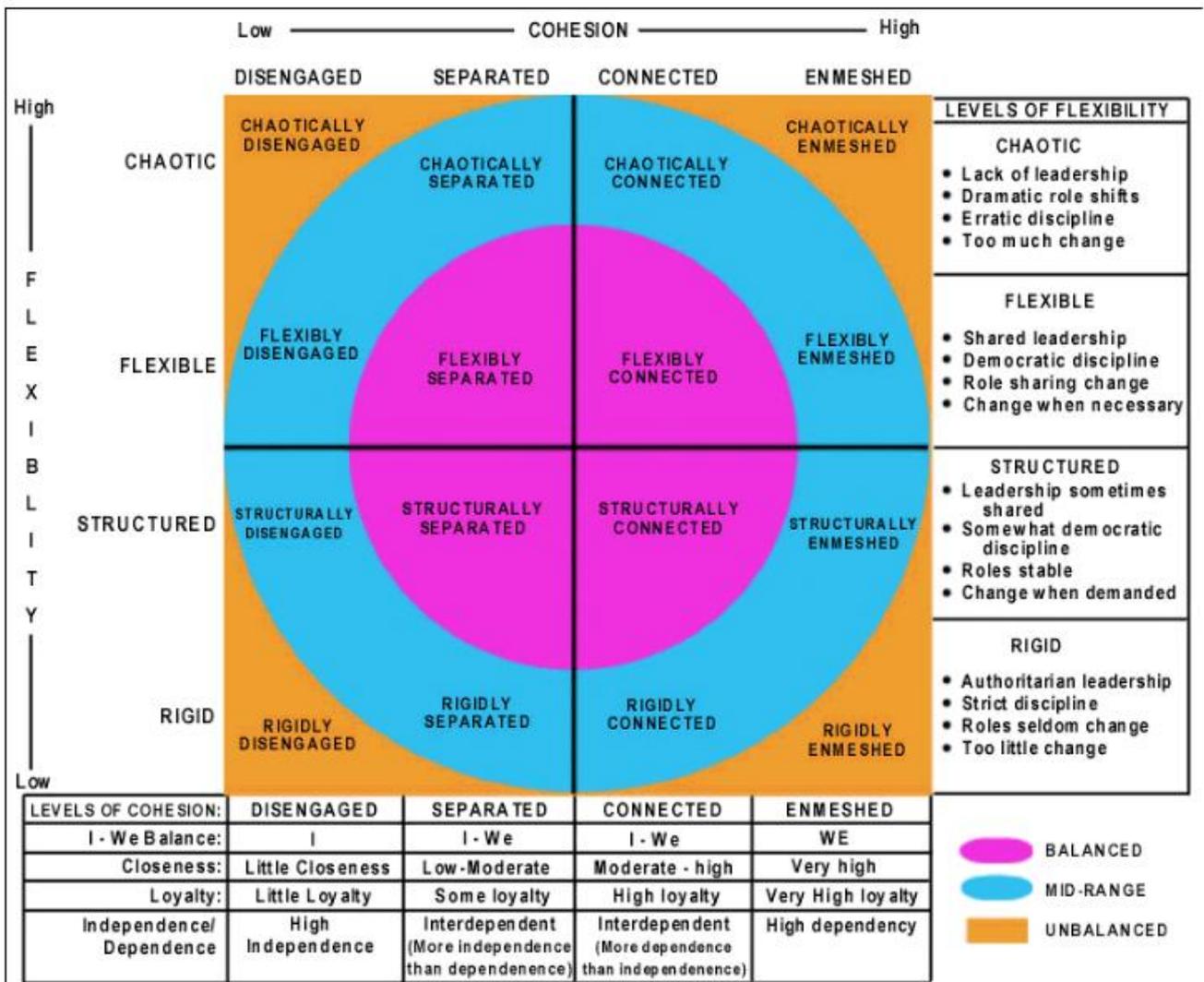
## The steps of developing the strategic model

- 1750–1929: the founders: Pierre; Pierre; Jean; Jean-Achille and Pierre-George, the statement of the Catherineau model.
- ● 1929–1979: Jean-René: the consolidation of the model.
- ● 1979–2010: Alain: the enrichment of the model through innovation.
- ● 2010 to today: Anne-Sophie: the heiress of the model that founded the dynasty.









Source : Olson, 1991

Catherineau (in numbers)  
In 2016

Sales figures	9 000 000 €
Employees	90
Factory premises	4 600 m <sup>2</sup>
Share capital	38 112 €
Number of aircraft and helicopter interior fittings since 1970	2000



De gauche à droite, René Bonnefond, Jean Catherineau, Camille Dupuch, Emile Allain, Ardouin, André Goujon, Fernand Catherineau, Abel Estrade, Conderanne, Marcel Despaux, M. Bureau, Roger Catherineau, Iparte - 1932

*Atelier Catherineau (1932)*



*Ateliers Catherineau (2016)*



*M. Perret et M. Minkendorfer sacrés meilleurs ouvriers de France en ébénisterie*



*Comlux\_Airbus\_ACJ320\_VVIP\_interior*



*Mobilier Hélicoptère H225*



*Cabine de douche Falcon*



*Made by Catherineau- Presidential Airbus A340*



# The Yamasa Case Study

Author : Tetusya Ohara

(University of St Andrews School of Management)

# LES HENOKIENS CASE COLLECTION

April 14, 2017

TETSUYA O'HARA



*YAMASA aims to make valuable contributions to society*

*YAMASA Corporate Philosophy*

Looking far out into the Pacific Ocean in the last days of the Tokugawa Shogunate, Goryou Hamaguchi, the seventh head of Yamasa, said, "I want to see the dawn of Japan," to Kaishu Katsu, the Commissioner for Battleships in the Edo Government. Kaishu is one of the greatest heroes in the history of Japan, who was indispensable in the peaceful opening of the there-to-fore closed country, to the world. Having quickly discovered the talent of Kaishu who demonstrated rare foresightedness, Goryou spent his own money to support Kaishu financially. In a way, without Goryou Hamaguchi, Kaishu might not have existed, and consequently Japan could not have opened herself to the world in a peaceful manner. Goryou, who became the Minister for Postal Services in the newly opened Japan, had a tremendous power of presence and was revered more than the prominent figures in the country's economic world. A significant contributor to the country and his community, Goryou literally built the foundation of Yamasa as "the company that aims to make valuable contributions to society," which later became its corporate philosophy, and formed the ethical views of Japanese companies.

Japan's total domestic production of soy sauce, the core product of Yamasa since its foundation, dropped from 1.2 million kiloliters in 1984 to below 0.8 million kiloliters in 2014. There were a total of 1,297 soy sauce manufacturers in 2014, with approximately 30 companies closing business annually. The top six manufacturers in the industry, including Yamasa being number two, account for 56.6% of all soy sauce produced in Japan, and many small and medium-sized manufacturers are fighting for the remaining share. As shown by the numbers, the soy sauce industry is very competitive. Various factors may explain about the decline of the soy sauce market: change of national demographic structure, diversification of consumer tastes, families cooking less at home and turning more to ready-made foods as a result of more women entering workforce, and wide availability of frozen foods and other processed food seasoned with soy sauce. These trends are not changing much and the industry is expected to continue shrinking for the time being. Positive trend is observed that housewives tend to revert to cooking at home to save money after the recent recession in Japan whereas the environment that consumers prefer to easy home-meal replacement remains adverse to the increase of soy sauce consumption. On the

other hand, as the market for noodle soup bases, dipping sauces, and other soy sauce-based seasonings has been expanding, the sales volume of these products finally exceeded that of soy sauce in 1994.

For 33 years following his appointment as the 12th head of Yamasa, President Michio Hamaguchi has actively invested in North America, Europe, and Asia where the soy sauce market is growing. In 1992, Yamasa Corporation USA was founded to expand into the U.S., Canada, and Mexico, and in 1994, the construction of its factory in Oregon was completed. In 2004, Yamasa acquired San-J International Inc. in Virginia having strong distribution networks in the U.S. and began selling Tamari brand soy sauce products. In 2008, Yamasa Thailand Co., Ltd. was established in Thailand to cover the markets in Asia and Oceania. Also, in 2015, Yamasa Europe BV was set up in Amsterdam, Netherlands, to take advantage of the city's geographic advantage and business environment for the expansion in European countries. The proactive overseas investment and flexible shifting of focus to the soy sauce-related seasoning market has been successful, as the sales rose from 35 billion yen in 1995 to 53.5 billion yen in 2015.

*“Looking at the household consumers in Japan, the soy sauce market continues to shrink, but the soy sauce based seasoning market (dipping sauces and soup bases)” is growing steadily. This is the field that Japanese companies can take advantage of technology improvement. However, the entry barriers are low and the profit of products is decreasing because of keen competitions. On the other hand, the market for food processing and food service industry is growing due to the structural change in society, so we are making strategic moves. The overseas market for soy sauce will surely continue to grow, so we will focus on three regions of Europe, U.S. and Asia. Still, it is inevitable that the competition with Japanese and foreign brands will intensify<sup>1</sup>.”*  
(Michio Hamaguchi)

How to lead Yamasa in the chaotic soy sauce markets in Japan and abroad and how to navigate it into the next generation as a company worth existing in society? This is the big challenge for the 12th head of the soy sauce giant.

## **History of Yamasa**

### The beginning

It is said that a priest called Kakushin at the Kokoku Temple in Yura, Kishu (current Hidaka County in Wakayama Prefecture) made what would later become soy sauce, in the Kamakura period. When Kakushin was teaching the villagers of Yuasa in Kishu the method for making Keizanji Miso (soybean paste) he had learned in China, Kakushin made mistakes with the ingredients, and what is similar to current “Tamari Soy Sauce” was made by accident. Gihei Hamaguchi, the founder of Yamasa, was born in Hiromura (current Hirokawa-cho), a town next to Yuasa in Kishu where soy sauce originated. The heads of the Hamaguchi family traveled back and forth between the main house in Hiromura in Kishu, and Choshi, for generations.

Gihei moved from Kishu to Choshi and founded Yamasa in 1645. It is believed that Gihei began doing business in Choshi after being inspired by Jiroemon Sakiyama, a fellow Kishu native who

made his fortune with his new fishing method and built the Choshi Togawa Port. Since then, Yamasa has continued to make quality soy sauce for over three and a half centuries, and twelve generations, despite some ups and downs along the way. Together with Yamasa, the fishing town of Choshi also developed into one of the major soy sauce towns, particularly because of Kishu-like climate suitable for soy sauce productions.

After the start of the Edo Government in 1603 and the defeat of the Toyotomi clan in the summer campaign of the siege of Osaka in 1615, the cultural and political center of Japan moved to Edo (current Tokyo) in both name and reality. Yamasa was founded in the Choshi town of Chiba Prefecture only 42 years after the birth of the Edo Government.

## Resurgence Period

The founder Gihei was succeeded to by the second-generation Kyouryou, third-generation Kyoukan, fourth-generation Anroku, fifth-generation Kanpo, sixth-generation Hohei, and in 1853, or about 200 years after the founding of the company, Goryou, who as a grandson of the fifth-generation Kanpo, assumed the name of the seventh-generation Gihei Hamaguchi. Goryou, born in 1820, succeeded to the headship of the family in 1853 and protected the family business in the stormy days at the end of the Edo Shogunate. In 1864, under Goryou's presidency, Yamasa was granted the endorsement by the government as the producer of superior quality soy sauce with the title of "Premium Soy Sauce Brand." Goryou's successor, the eight-generation Gihei (Gosou), believed that Western cuisine would become popular in Japan and developed Japan's first Worcestershire sauce, "Mikado Sauce." Gosou must have inherited the outward aspiration of his father who was always paying attention to overseas countries.

In the Meiji era, soy sauce really became a staple seasoning for nation and soy sauce consumption grew. The traditional production method that largely depended on manual labor started increasingly being automated.

In 1893 when the 10th-generation Gihei (Godou) succeeded to the family business, Yamasa was on its path to modernization. Called the "Soy Sauce King," Godou studied and adopted the innovative agricultural technology of brewing soy sauce by utilizing microorganisms, as well as the industrial technology for creating preferable environment for microorganism, for 50 years until he handed over the family business to the 11th generation in 1943. While protecting the spirit of quality focused soy sauce manufacturing, the family brand had maintained since the first generation, Godou also helped drive modernization and development of soy sauce manufacturing business. To scientifically understand the art of soy sauce brewing that traditionally relied on the brewer's sixth sense and experience, Yamasa established a soy sauce laboratory in the Meiji period. For more than a century since its establishment, this laboratory has endeavored to improve the Yamasa Aspergillus (Koji-mold)--a key to the distinctive taste of Yamasa soy sauce, produced talented researchers, and made numerous discoveries and inventions.

For its superior quality, Yamasa soy sauce was selected by the Imperial Household Ministry (current Imperial Household Agency), in 1895, as the first soy sauce purveyor to the Imperial Household from the Kanto region.

## Diversification Period

The 11th-generation Gihei Hamaguchi succeeded the 10th generation in 1943 in the middle of the Second World War. He maintained the quality of Yamasa soy sauce during the post war period with economic and social chaos, and lack of materials, while working to diversify his family business.

In 1983, the current president Michio Hamaguchi became the 12th-generation head of the Yamasa dynasty. Since then, he has grown the company into a manufacturer of general seasoning including soy sauce and also has expanded its operations overseas to establish global business networks. Under the leadership of Michio, Yamasa's corporate activities expanded from soy sauce manufacturing to also cover the pharmaceutical field, under the keyword of "Optimizing power of microorganisms." Yamasa is now a life-industry company with focus on food and biochemical.

## **Yamasa's Corporate Philosophy and Code of Conduct**

Yamasa's corporate philosophy reflects the fundamental reason why Yamasa exists in this world as a company. It talks about originality and differentiation the company should have in order to maintain its edge as business entity and also states the importance of contributing to society through its business activities as a way of public service.

Yamasa's four-point Code of Conduct also defines how Yamasa as a corporation, and every single employee of Yamasa, should act as a good corporate citizen. The specific points include ensuring of product safety and security, compliance, fairness and equality, and environmental initiatives. Yamasa's Code of Conduct strongly reflects the spirit of the seventh-generation president Goryou Hamaguchi who selflessly dedicated himself in the areas of social welfare programs and political activities and left a significant footprint in the development of modern Japan.

## **Yamasa's Management Strategy**

At the principle of Yamasa's management strategy is the spirit of "Continuous Innovation." Our strategy reflects our commitment to doing "What only Yamasa can and dare to do"<sup>2</sup>.

## Research and Development

As our lifestyle choices and preferences change, what we eat is also becoming increasingly diverse. In Japan, the growing presence of women in the workforce is increasing the need for convenient foods that can be prepared quickly, while the reality of fast-aging population is stimulating people to make healthier food choices. To understand these changes and act on them quickly, Yamasa set up the "New Product Planning Section" that analyzes marketing data and designs merchandise concepts and the "Product Development Section" that embodies these concepts so as to release each new product by thinking from the customer's viewpoint, discussing all aspects of the product from its concept to cost performance, and repeating the prototype

production process. Examples of new products Yamasa introduced through these two sections include “Shinmi Shoyu,” a new type of soy sauce that utilizes the synergistic effect of the umami ingredient discovered by Yamasa, and “Sashimi Shoyu,” a soy sauce for sashimi that combines superior umami taste equaling that of tamari soy sauce and the flavor of regular soy sauce. In 1992, Yamasa released the industry’s first soy sauce made from organic soybeans, called “Yuki Marudaizu No Ginsen Shoyu,” despite the difficulties ensuring a supply of organically grown soybeans and managing the various aspects of the manufacturing process. In 1979, against the background of consumer’s tendencies for genuineness but convenience, Yamasa released the first bottled ready-to-use noodle soup which had been considered impossible in the industry. In 1997, Yamasa’s new “Kombu Tsuyu” kelp-flavored noodle soup base became a hit product that successfully demystified the traditional concept that noodle soup bases should be made from dried bonito stock.

## Market for Food Processing and Food Service Industry in Japan

The so-called “market for food processing and food service industry” targeting restaurants, ready-made industry, and food manufacturers, is expanding. To tap this special market, Yamasa has established a more customizable business model. Yamasa’s “Original Recipe Manufacturing” system lets the company fulfill the never-ending requests from family restaurants, Izakaya chains, institutional meal manufacturers and other catering companies, lunchbox and deli food vendors, and processed food manufacturers to develop new menu items and flavors. Under this system, sales engineers with decent working experience at a Product Development Section, who are familiar with food science and capable of quickly discerning the latest food trends, attend to the customers and provide the technical service they need and propose new ideas. Also, in order to smoothly operate the “Original Recipe Manufacturing” system, Yamasa has built a factory for custom-made products, complete with state-of-the-art production management systems and equipment including a flexible production system that can manage large or small lots, various types of filling machines accommodating to different packages from small sachets to large containers, mixing equipment that can accurately mix various flavoring ingredients, sensory inspection equipment, hygiene management system, traceability system, and systems that allow materials and products to be carried in/out smoothly.

## Overseas Markets

During the Edo period, soy sauce was exported to Europe through the Netherlands, from where it traveled with the immigrants and was introduced to the United States in 1868. However, soy sauce did not spread throughout the U.S. until the 1970s. Americans learned a savory grilled chicken skewer dish called “Yakitori,” and “Teriyaki” soon become very popular in the nation. Today, soy sauce is exported by Japanese companies to several dozen countries in the world, mainly to the North American continent. Overseas production volumes of soy sauce by Japanese companies, which were 50,000 kiloliters in 1990, exceeded 200,000 kiloliters in 2013.

The new wave of protectionism that emerged in 2016 in the U.K. and U.S. is spreading throughout the world, and it is certain that the importance of producing overseas, or the principle of “Produce locally for local markets,” will increase more than ever. This should benefit Yamasa as it already has production sites overseas; however, now is a good opportunity for Yamasa to

review its overseas production strategy. Also, overseas consumers do not have a fixed notion on soy sauce as Japanese consumers do, which means that applications of soy sauce may dramatically increase in the future depending on how innovative products are developed and marketed. Yamasa now faces the challenge for developing and training sales engineers who can speak foreign languages and fulfill custom orders.

## Pharmaceutical Market

Yamasa's soy sauce production technology of generating umami components by breaking down nucleic acids, led to a series of other technologies relating to the creation of nucleic acid compounds that are useful in bio-activities. Yamasa is now in the business of using proprietary enzymes to break down essential bioactive substances such as deoxyribonucleic acids (DNAs) and ribonucleic acid (RNAs) into nucleotides and also applying chemical synthesis methods and bio-enzyme reaction methods based on biotechnology, to develop and supply to the world a diverse range of nucleic acid compounds. Yamasa's nucleic acid compounds are utilized for making pharmaceuticals, nutritional food supplements, diagnostic drugs for medical diagnosis, and in various other fields. Today, Yamasa is considered one of the world's premier providers of nucleic acid products in supply capability, production technology and quality. It is expected that the pharmaceutical business will become another key pillar of Yamasa business portfolios next to, or potentially equaling, the food business in size.

## **Long-lasting Prosperity of the Company**

Ever since he could remember, Michio Hamaguchi, the 12th-generation head of Yamasa, knew that he would succeed to the family business<sup>3</sup>. After he became president, Michio has led the company for 33 years long to date, by focusing first and foremost on the long-term prosperity of the company. This is a business model typical of any long-living corporation in Japan. It is a stark contrast to the American business model of starting a company and selling it for a lot of money after growing its business. So, what are the key elements of a company that lasts long? This is Michio's answer:

*“Any company with a history of over 300 years certainly knows that life is not always a bed of roses. We ventured out to the Goto Islands and set up stores for fishing equipment, only to fail. We also tried, in vain, to operate an iron mine in the northern part of Iwate Prefecture. In my grandfather's time, the company traded marine products from Hokkaido and suffered a big loss when the market collapsed. Yamasa was almost acquired by someone else. Some of our young employees wonder why we don't diversify. However, the fact is that we did try many different things over the course of our long history, and after all of them failed, we were left with the soy sauce business. However, this doesn't mean we only need to protect our current business, because we won't last forever by thinking like that. Over time, customers change, technologies change, and society as a whole changes. A strong commitment of the management to “make the company last forever” is a necessary condition, but not a sufficient condition, for creating a long-lasting company. What determines the fate of the company is whether the management is sensitive to changes in the environment and able to respond to these changes quickly. However, I believe, our corporate history also agrees that we need to change only with respect to the way we operate our*

*core business, and business attempts in areas that have nothing to do with our core business will fail<sup>4</sup>.”*

Michio has been an avid photographer since junior high school days, and even today, he continues to photograph people and sceneries with the eyes and skills of a true professional<sup>5</sup>. People and sceneries change over time, but once captured in photographs, the images will last almost permanently. It is only natural that Michio, who had more opportunities than ordinary people to think about such concepts as time, change and universality of things, as the heir to an old company, took up photography as his life-long hobby.

On one holiday afternoon, Michio was buried in a quiet thought in his study at home, looking at an old photograph of the seventh-generation Goryou Hamaguchi and Kaishu Katsu taken around 150 years ago and wondering how he should hand over Yamasa business to the next generation. Just then, all TV channels began reporting the news of Donald Trump winning the U.S. Presidential Election. *“The world will become a completely different place. There is no stopping.”* Acting on his intuition, Michio was quickly convinced that he must put Yamasa in the hands of a young, talented new leader who could open a new path for the company. Michio’s eldest son was still a university student and too young to take his place. His nephew Naoyuki Ishibashi, who was then Yamasa’s Managing Director, was just 39 years old but had achieved numerous successes in sales. His ability to foresee the future and act quickly has been recognized by many. Michio firmed up his plan to step down and appoint Naoyuki as new President, and support him from the back as Chairman while still representing the company.

As the new leader, Naoyuki may carry over the traditional management strategy of Yamasa, or he may come up with bold new measures. Naoyuki is a graduate of Faculty of Law of Keio University, which was founded by Yukichi Fukuzawa who was a friend of Goryou’s at the beginning of Meiji and is now one of the most prestigious universities in Japan. Lots of hopes and expectations are placed on Naoyuki, a brilliant businessman with a successful career.

## **Endnotes**

<sup>1</sup> Michio Hamaguchi, President, interview, October 20, 2016

<sup>2</sup> Michio Hamaguchi, President, interview, October 20, 2016

<sup>3</sup> Michio Hamaguchi, President, interview, October 20, 2016

<sup>4</sup> Michio Hamaguchi, President, interview, October 20, 2016

<sup>5</sup> Michio Hamaguchi, President, interview, October 20, 2016

## **Bibliography**

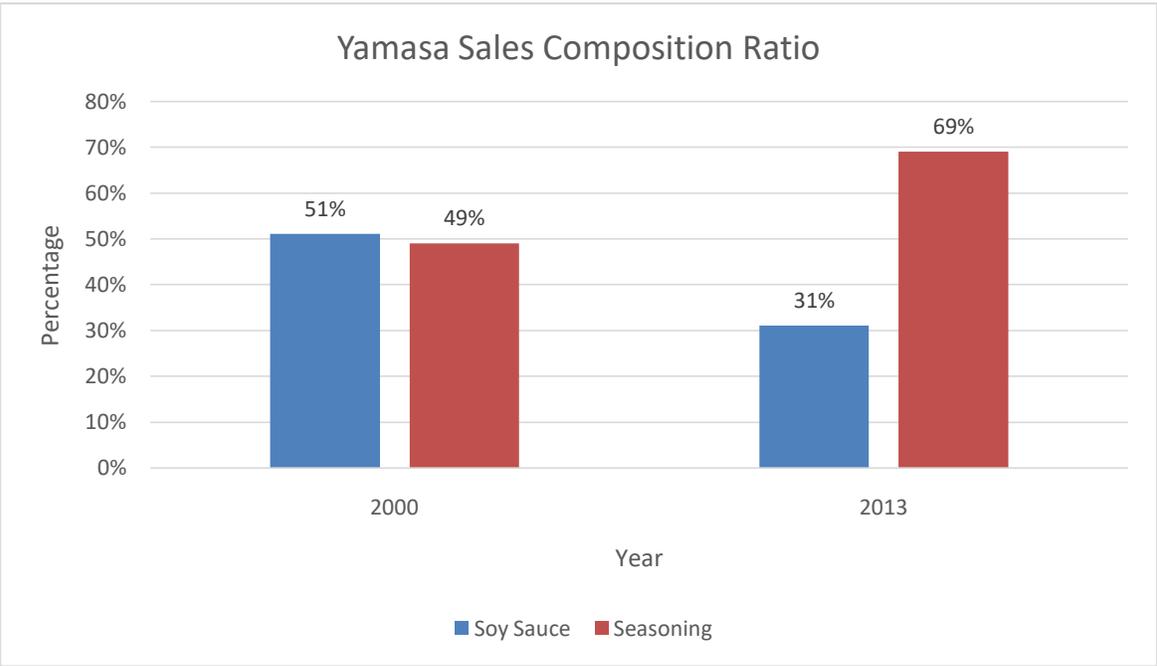
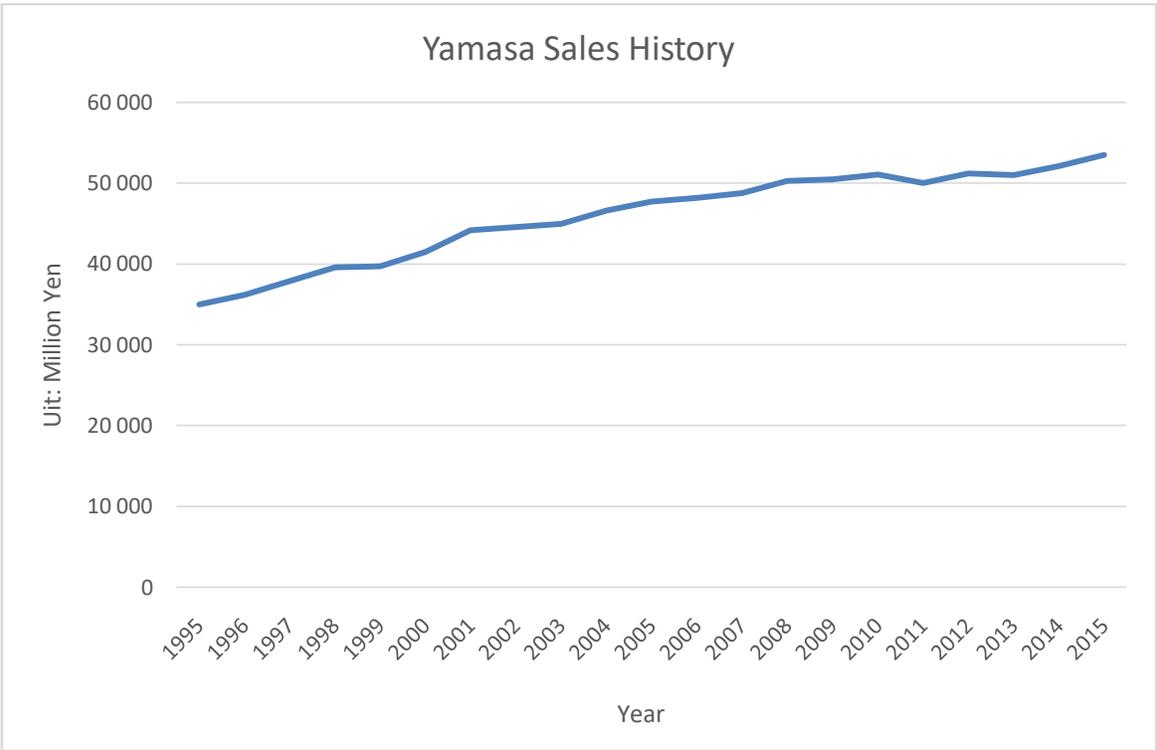
Yamasa Corporate Catalogue · Yamasa

Yamasa Corporate Profile · Yamasa

Shoyu Catalogue · Soy Information Center (SOYIC)

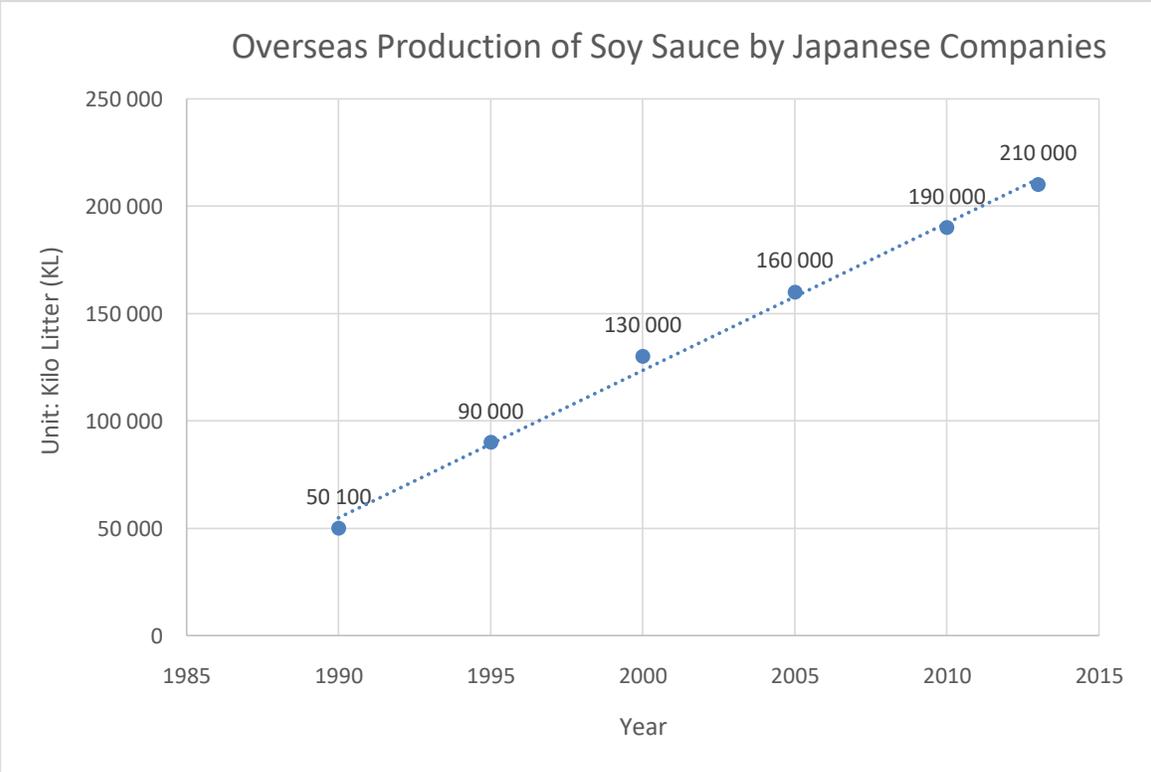
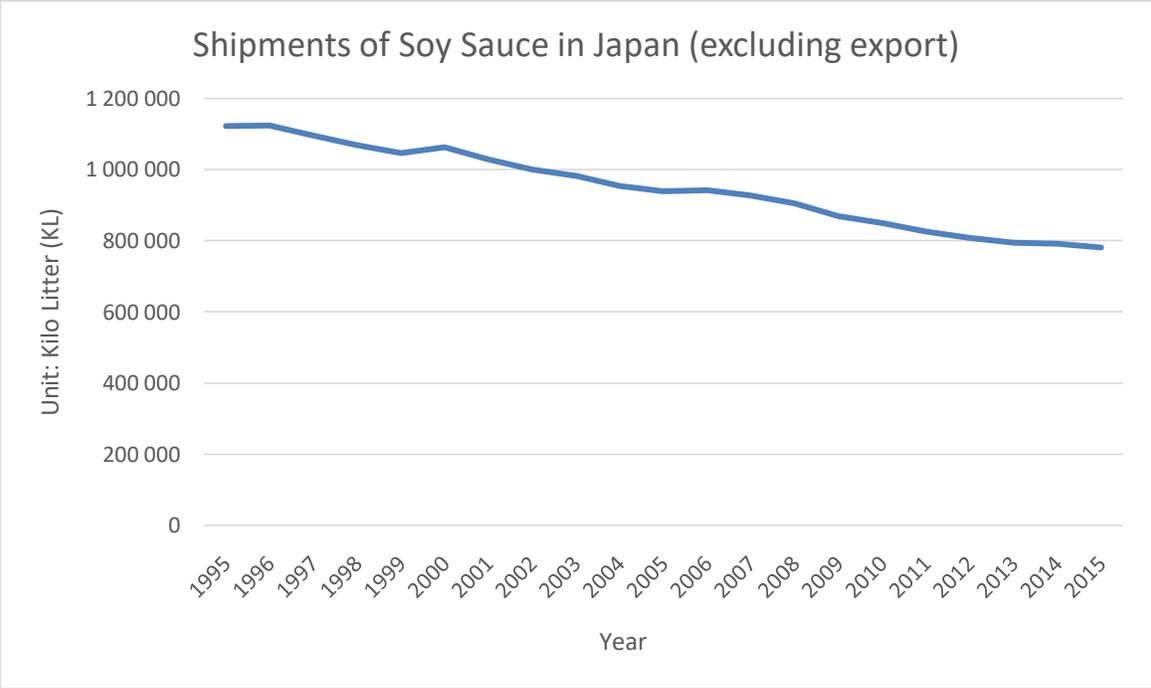
Yamasa web site · <http://www.yamasa.com>

**Exhibit 1 Yamasa Financial Data**



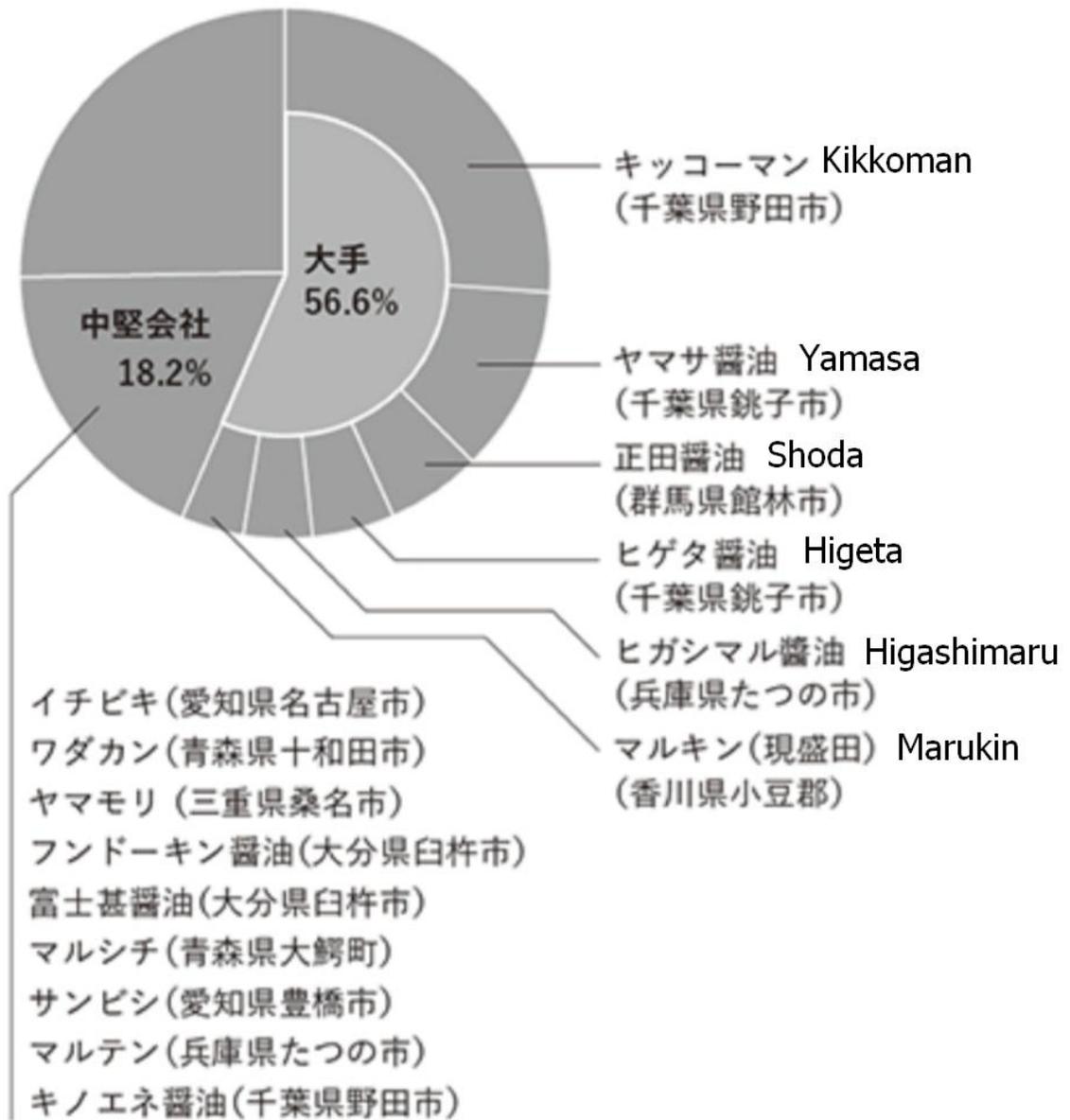
Source: Yamasa internal company documents

**Exhibit 2 Soy Sauce Market**



Source: Soy Sauce Information Center (SOYIC) · Statistical Materials

**Exhibit 3 Soy Sauce Market Share in Japan**



Source: Nikkan Keizai Tsushin-Sha · Data Collected in 2013 January - December

**Exhibit 4 Yamasa Official Photos**

12th Generation Owner and President, Michio Hamaguchi



Headquarters in Choshi, Japan



Factory in Choshi, Japan



Factory in Narita, Japan

Factory in Oregon, USA



SAN-J Factory in Virginia, USA



Source: Yamasa internal company documents

**Exhibit 5 Yamasa’s major product lines**

Soy Sauce



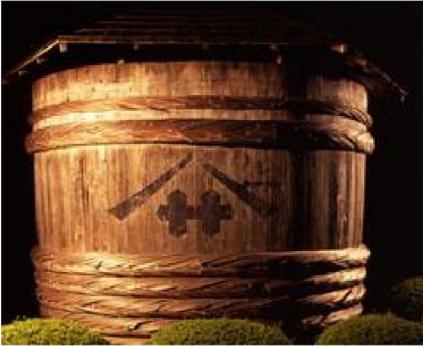
Seasoning



Source: Yamasa internal company documents

Exhibit 6 Yamasa Historical Photos

Big Tub for Preparation



Factory Photo in Early 20th Century



Lively Coat, utilized until 1940's



One Doubling Barrel, utilized until 1960's



7<sup>th</sup> Generation  
Goryo Hamaguchi

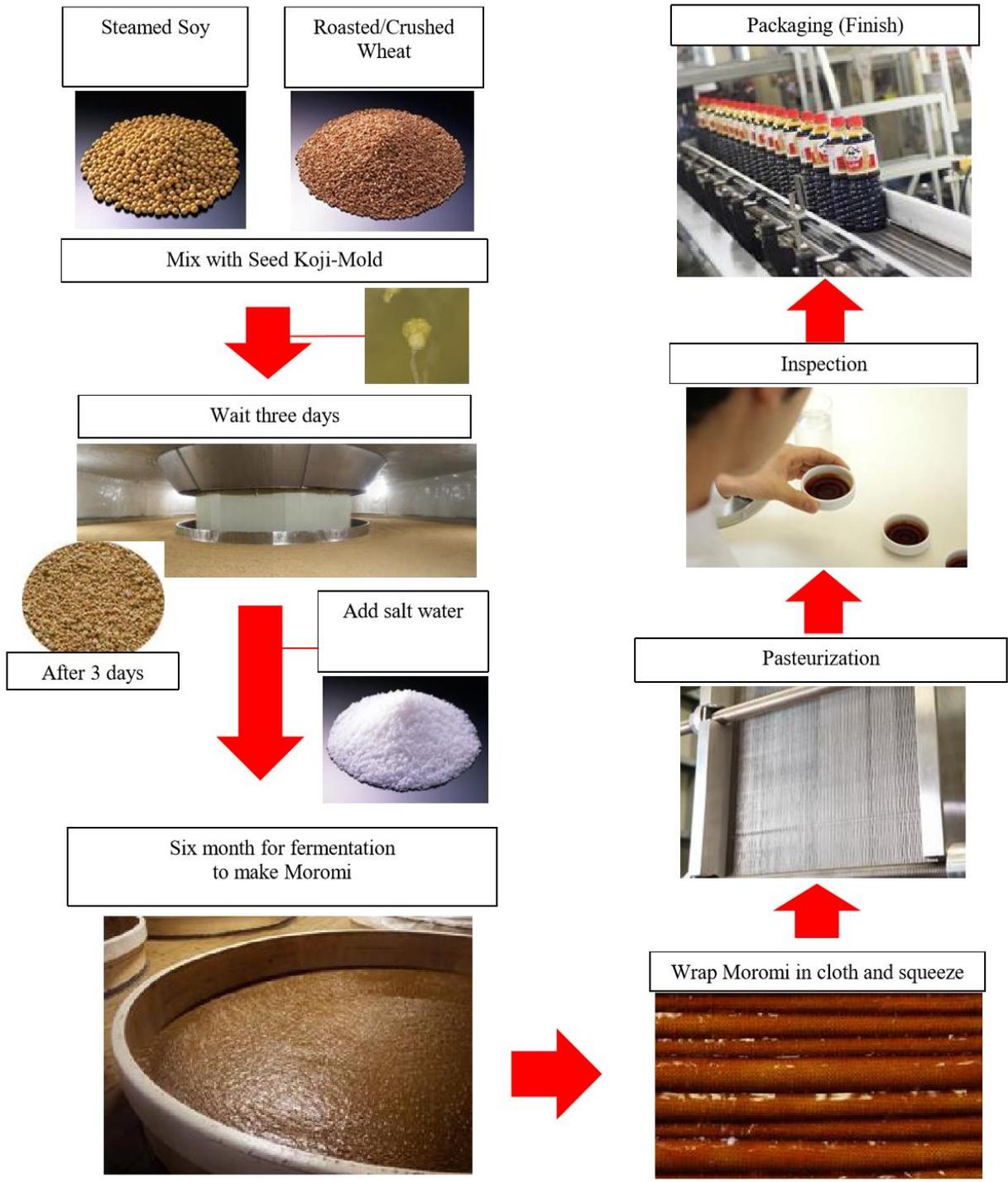


Founder of Japanese Navy  
Kaishu Katsu



Source: Yamasa internal company documents and google

**Exhibit 7      Production Process of Soy Sauce**



Source: Yamasa internal company documents

**Exhibit 8 Corporate Philosophy and Code of Conduct**

## Corporate Philosophy

### *Yamasa aims to make valuable contributions to society*

For a company to survive and prosper, it has to be acknowledged as being worth existing in society. In other words, it has to have the unique ability to differentiate itself from other companies, and provide society with valuable convenience and benefit by optimizing this ability while conducting sound and fair business operations.

## Yamasa Code of Conduct

### Preface

A company is an enterprising organization deeply rooted in society, and for any company, maintaining trust of society is a basic condition for survival. Just as each person must be a responsible citizen, a company must also be a good corporate citizen in society. In this sense, each and every employee of Yamasa must be aware and conscious of his/her role as a member of a good corporate citizen and pay due attention not to deviate from the Yamasa Code of Conduct in carrying out one's duties.

#### 1. Ensuring Safety and Security of Our Products

As a manufacturer, it is our first and foremost mission to ensure that the products we provide is safe anytime, anywhere. To achieve this mission, we must do all we can in every process from sourcing and storage of material to development, manufacture, storage, transport, and final delivery of the products to the consumers/users in order to prevent our products from presenting any health risk to the consumers.

We shall also provide accurate information to the consumers and communicate with/treat them sincerely to make them feel safe to use our products.

#### 2. Compliance

Various laws are created one after another to reflect the changing times and respond to the needs of society. We now have a complex web of intricate laws, and companies must deal with all these laws that add conditions to how they operate. However, laws are rules of society and must be respected by companies because observing laws or ensuring compliance in whatever circumstance is the responsibility and duty expected of good corporate citizens. The first measure against which to determine the right and wrong of any action or decision we take or make in carrying our day-to-day duties is compliance, and we must confirm all our actions and decisions beforehand that they are not against the law.

#### 3. Fairness and Equality

Laws only provide a minimum set of rules, and avoiding violations is simply not enough.

To be a good corporate citizen, we must conduct business fairly and sincerely and discipline ourselves so that we will not receive any criticism, on ethical grounds, from the consumers and other stakeholders about how we do business.

We must also recognize that our society consists of individuals with very different values and customs, accept this diversity by applying the good commonsense of society, and try to be always fair without succumbing to biased views or positions.

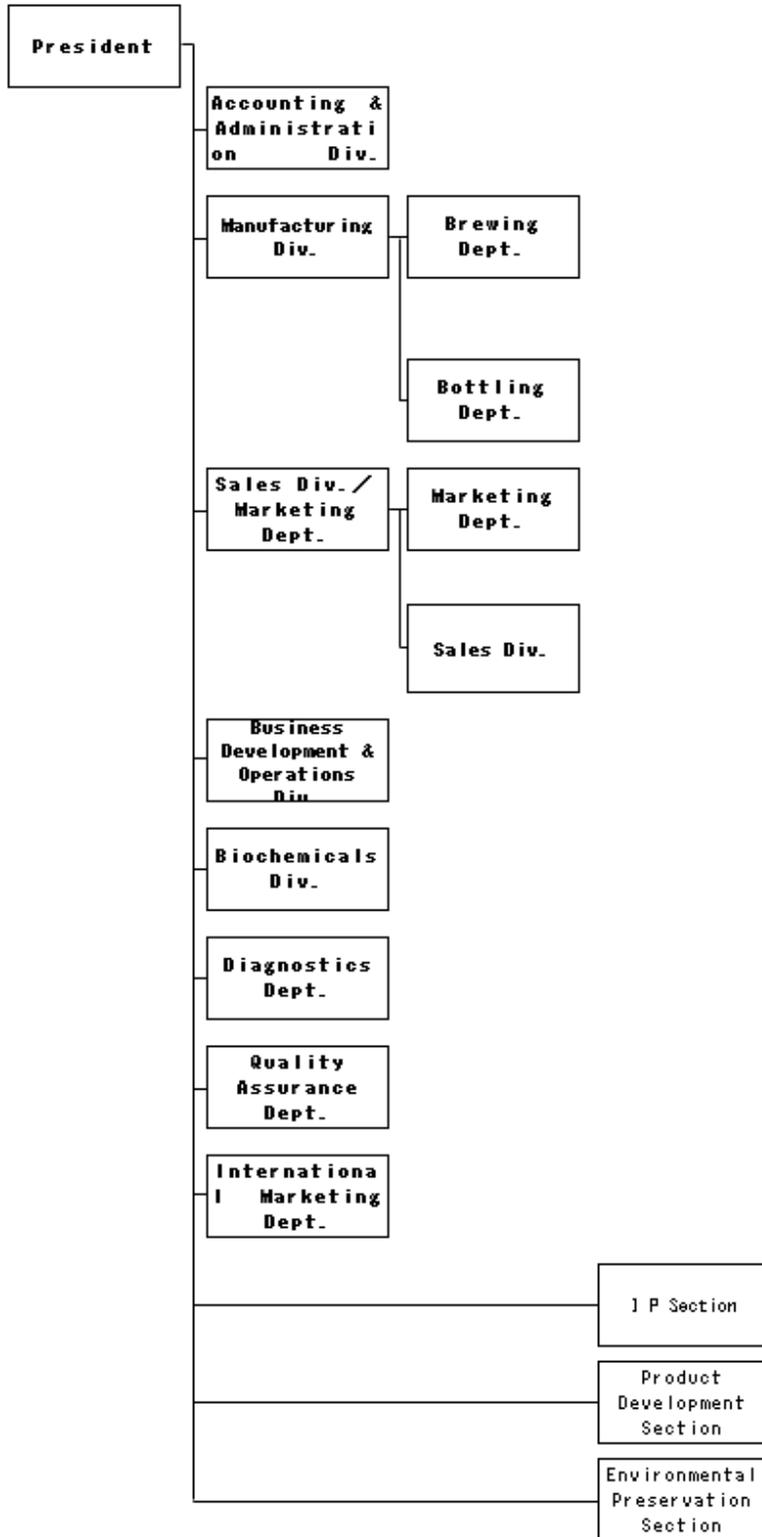
#### 4. Environmental Efforts

Corporate activities have wide-ranging impacts on the environment, and if we view them as environmental issues, addressing these impacts in earnest is essential to the survival and development of any company.

Environmental issues are very close to us in that they have potential causes in what companies do every day, and the attitudes of companies and employees toward these issues affect our society as a whole. We shall recognize that companies must operate in harmony with the environment, and take self-guided, proactive steps to reduce environmental impacts by caring for the preservation of natural environment and gathering the wisdoms and knowledge of all of us.

Source: Yamasa internal company documents

### **Exhibit 9      Organizational Chart (As of April 1<sup>st</sup>, 2017)**



Source: Yamasa internal company documents

## Appendix

## **Seventh-generation Head Goryou Hamaguchi**

Just before the Nankai Earthquake that hit Japan on the 4th, and again on the 5th, of November 1854, Goryou, who happened to be back in Hiromura (current Hirokawa-cho) of the Kishu region at the time, looked at the way sea water was ebbing and how well water was quickly receding, and predicted that a big tsunami would come. The legend goes that, to evacuate the villagers, Goryou burned the stacks of harvested rice straw in his paddy field to alert them of the imminent disaster and saved the lives of the villagers. Moved by this selfless act of Goryou who had risked his own life and sacrificed his own property to help others, Lafcadio Hearn (Yakumo Koizumi), the literary genius in the Meiji Era, described Goryou as “A Living God” in his anthology of short stories entitled, “Hotoke No Hatake No Naka No Ochibo (Fallen Ears of Rice in God’s Field).” Later on, elementary school teacher Tsunezo Nakai wrote a story called “Inamura No Hi (Fire on Stacks of Rice Straw)” based on Goryou’s character, and it was included in the Japanese language textbook for elementary school children.

Goryou did more than saving lives. To help the villagers of Hiromura destroyed by tsunami, Goryou built temporary homes and procured agricultural and finishing equipment to keep the villagers from leaving their village. Also, he spent 353 kg of silver over the course of four years from 1855 to build a large breakwater to prevent damage from future tsunami. The breakwater, totaling 600 m in length and towering 5 m high and lined with pine trees on the sea side and wax trees on the land side, has been designated as a historic site that maintains its magnificent view even now.

Goryou, who befriended Gonsai Miyake, a doctor of western medicine who had his practice in Choshi, took interest in the west and opened “Keikojo” in 1852 at the end of the Tokugawa Shogunate. Keikojo, which has long remained a place to study the excellence of western civilization and educate the youths, is now continuing its mission as Wakayama Prefectural Taikyu High School.

When a vaccination center in Edo caught fire and burned down in 1858, Goryou donated 300 ryo (a currency unit in the Edo period) of money to rebuild the center. He donated another 400 ryo to purchase books and machinery, and this vaccination center later became Seiyo Igakusho, the only research center for western medicine in Edo (which became the basis of the current Faculty of Medicine of The University of Tokyo).

Known for his exceptional insight and magnanimity of heart, Goryou was invited into the political world of the time. After serving as the Finance Commissioner for the Fiefdom of Wakayama and the first Chairman of the Wakayama Prefectural Assembly, Goryou entered the national politics and built a modern postal system as Japan’s first Minister of Posts and Telecommunications. He also maintained a large circle of friends who were intellectuals, including Shouzan Sakuma, Kaishu Katsu, and Yukichi Fukuzawa, and after Goryou’s death, Kaishu Katsu dedicated a poem which was engraved on his grave stone.

Bibliography: <http://www.yamasa.com/enjoy/history/inamura/>



# The Revol Case Study

Author : Vincent Mangematin  
(Grenoble Ecole de Management)

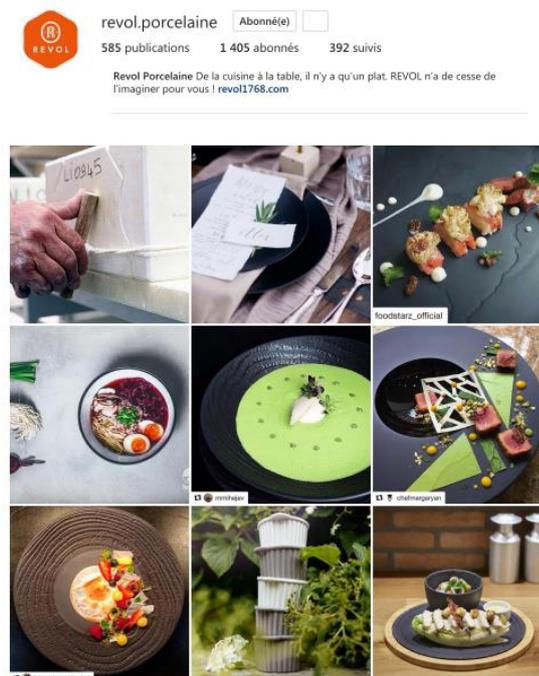
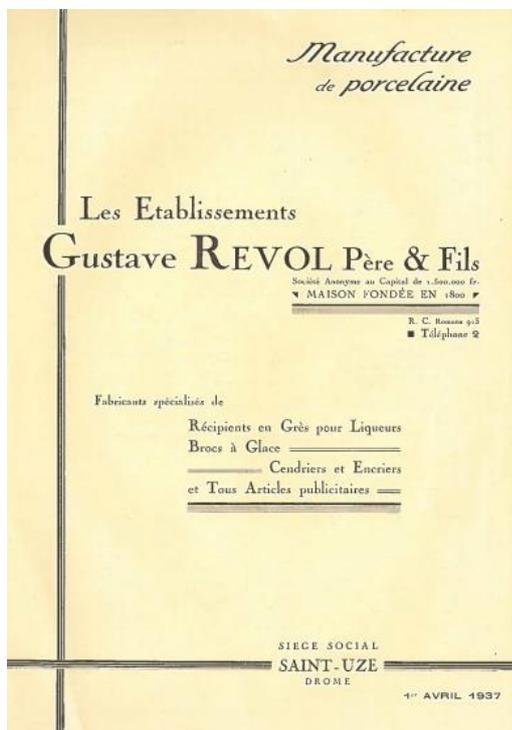
# REVOL PORCELAIN: 250 YEARS OF CONTINUOUS INNOVATION

Vincent Mangematin

Grenoble Ecole de Management

Mail: [vincent.mangematin@grenoble-em.com](mailto:vincent.mangematin@grenoble-em.com)

All information has been gathered from the historians of Revol, Claude Franco and Claude Lagrange. I have been offered several documents which are helpful to understand the history of Revol, especially the history of Revol and Revol 250 years of history. I am really grateful to Claude and Claude for the quality of the different brochures to present Revol and its history and for their help and amendment on the previous draft.



*Source: Revol archives and Revol Instagram*

Revol Porcelain has been a family-run company for nine generations, with Olivier Passot as the Managing Director. Revol Porcelain designs, produces, and markets dishes, plates, and

other tableware in porcelain. Its clients are individuals as well as professionals, such as gourmet restaurants or tailored production for perfume or luxury alcohol brands.

Revol Porcelain produces high quality culinary porcelain. It is one of the only manufacturers to produce a paste – barbotine – from pure kaolin, feldspar, and silica. The company has demonstrated a constant creativity that has allowed it to keep up with the constant competition from the nineteenth-century until today.

## ***REVOL PORCELAIN COMPANY***

### **The history of the company**

Revol Porcelain was founded in 1768 and nine generations have taken up the reins of this family company. For almost 250 years the company has innovated, based on the passion and skills of its employees.

The Revol family are manufacturers, traders, merchants, and master earthenware makers, from father to son. Genealogical records show that the family settled in the northern Drôme area in south-eastern France, but archaeology reveals regional roots as far away as the city of Lyon. The region in between the south of Lyon and Drôme has been associated gastronomic vitality and a variety of local products. Pottery has developed in the region because of the unique quality of its soil. Ceramic work has been present here throughout history, peaking during the 19<sup>th</sup> century. Revol inherited that tradition and contributed to its development. Pierre Revol's family set up their earthenware workshops in the 18<sup>th</sup> century.

At the age of only 26, Pierre settled in Ponsas in northern Drôme, and married Magdeleine Carrier, who herself came from a long line of earthenware makers.

Pierre's visionary spirit led him to explore the region and its hitherto untapped treasures. The abundant nature of the soil around Ponsas includes high-quality clays and sand, but above all deposits of kaolin, a wonderfully pure white clay with properties that were to open up new perspectives for him. He then had a daring dream of creating fire-resistant ceramic objects.

Their eldest son, Joseph-Marie, was passionate about this noble material, which he loved to shape and transform. In 1800, he took over the firm and opened the Saint Uze workshop, the real starting point of the Revol story. The company flourished and grew, and the workshop was

rapidly transformed into a real factory. Revol had the privilege of being recognized for the quality of its products at national exhibitions, the forerunners of the universal exhibitions. Joseph-Marie was a visionary and made plans for the business far into the future. To meet the flood of orders coming in, he built new, better-adapted buildings. When his son reached adulthood, Joseph-Marie's wish to perpetuate the heritage led him to set up a company under their name in order to ensure the succession. He already saw Revol as a family company with great ambition and scope.

Revol Father & Son continued its development in the 19<sup>th</sup> century under the leadership of Gustave Revol in Saint Uze, followed by that of Hector Revol.

***Box 1: High quality porcelain***

At the turn of the 19<sup>th</sup> century, Revol has been investing in high-quality wares to enhance its reputation and to be selected in different exhibitions. Revol developed stoneware and brown porcelain. Sandstone is a perfectly safe material without metallic substances. It is a hygienic materials. Brown porcelain is a very fine sandstone used for decorative pieces. In order to protect its invention, Revol trademark Hygiocerame in 1834. To signal the quality and to extend its market, Revol showcased its products in national exhibitions and won several honorable mentions in 1801, 1806, 1823, 1827, 1834, 1839 and 1844.

Fig1: 250 years of production



Source: Revol archives

### The Management of Revol: Balance between entrepreneurs and managers

Starting up and managing a 250 year-old company requires both entrepreneurial spirit and managerial capabilities to invest, open new markets, and maintain the viability of the company. It seems that all the directors of the company engage simultaneously in investing in new production capacities and managing the growth of the company. Box 2 illustrates the market development of Revol Porcelain.

**Box 2: Balance between entrepreneurs and managers devoted to Revol**

1768	Pierre Revol - The Founder	
1785	Magdeleine Revol - The Regent	Healthy products for everyone; sandstone; small beer jugs - simplification of the manufacturing process - culinary pieces in brown porcelain
1800	Joseph Marie Revol - The Architect	
1844	Gustave Revol - The Beloved	
1861	Hector Revol - The Precursor	Decorative arts; "les bleus de Saint-Uze", blue porcelains from Saint Uze; perfumers
1901	Louis Gustave Revol - The Industrial	
1911	Jean Bourgogne and Fernand Loire - The Entrepreneurs	Advertising products - funeral arts in early 30s and advertising products for Anisette Ricard, Lustucru, Danone, etc.
1955	Suzanne and André Passot - The Investors	Specialist markets (liquor makers, advertisement products, perfumers, etc.)
1980	Bertrand Passot - The Porcelain Maker	From oven to table: airline products, liquor and luxury brands bottles, chef alliances and general public
2007	Olivier Passot - The Pioneer	Culinary specialized porcelains; innovation; increasing production capacities; rationalization

*Source: Revol archives and Revol history book*

For each period, Revol combines a baseline as well as new developments for the next period. For example, their knowledge of ‘blue’ porcelain, which was mostly decorative, was applied to culinary dishes and tableware at the turn of the 20<sup>th</sup> century.

Fig 2: Blue porcelain



*Source: Revol archives*

Around the same time, Revol developed hanging light fittings for perfumes and violet flower essence. Decorative know-how was redeployed to specialist markets, especially alcohol and aperitif brands.

Fig 3: Advertising products



Fig 4: Luxury flacons for brandy



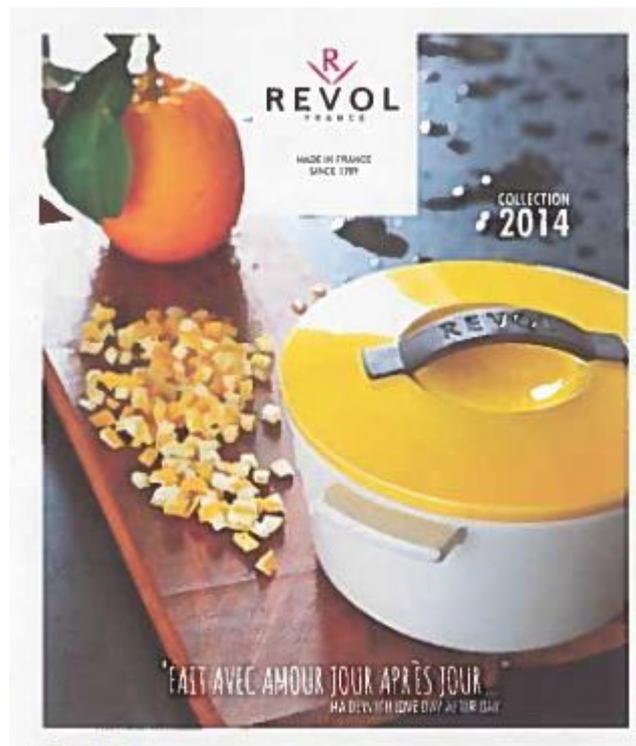
Source: Revol archives

Since the 19<sup>th</sup> century, and more importantly at the end of the 20<sup>th</sup> century, Revol has been associated with luxury and prestige. Recently, Revol invested simultaneously on new designs (e.g., crumple cups) and innovative pieces to accommodate different types of cooking (microwaves, induction, etc.).

Revol has employed not only technologists but also designers and users to promote new uses of culinary and decorative products.

### ***Box 3: Culinary art***

Beginning in early 90's, Revol manufactured a wide range for products for professional use, such as dishes for regethermic catering. At the same time, the company started collaborating with the chef Regis Macron. Revol is associated with haute cuisine, luxury restaurants and brasseries. More than culinary devices, Revol's products are becoming culinary artefacts for cooking enthusiasts and professionals.



Revol's website reveals Revol's friends, i.e., those individuals who signal Revol's up-market orientation. It is a very international group of personalities, including the likes of Elizabeth Karmel, an American chef and a cookbook author; Mariana Dulac, a French private chef; and Eric Berthes, a French designer.

Revol is also very active on different social networks, such as Facebook, Instagram, and LinkedIn.



*Source: Revol archives and Revol Instagram*

### ***AN EMBEDDED COMPANY***

“There is no wealth but man” (“Il n’est de richesses que d’hommes”), J. Bodin, XVII.

Revol has been continuously expanding: new buildings, new installations, new equipment, and increasing numbers of employees. The main achievement of Revol overtime is the emergence and expansion of its worldwide reputation as culinary porcelain. Revol gains in reputation, visibility and renown. Revol also opened new markets, predominantly in Europe and in the USA.

Revol has been meeting with clients and audience. Clients as it matches a demand. Audience as Revol is gaining visibility and renown. Revol has been leveraging on two elements: innovative and updated production facilities and deep local engagement.

### **Expansion and logics**

Revol’s factory is housed within the historic buildings where the company was established. Revol continues to evolve and adapt new technical developments.

Fig 5: factory



*Source: Revol archives*

In the early 1900's, Revol introduced the new technique of slip casting and jiggering, perfected by the manufacture "*Porcelaine de Sèvres*"<sup>1</sup>. Around 1950, two tunnel kilns are installed in the factory. They enable rapid manufacturing and forced the company to reorganize its work processes, with continuous production and 3x8 shifts. In the 1985's, the glazing and firing techniques were revisited. In addition to the tradition immersion techniques, Revol used spray techniques in carousel machines. Furthermore, to reduce production costs, a single fire process was implemented.

To produce new formats and new designs, Revol introduces the technique of pressure slip-casting, producing higher quality pieces more rapidly.

Revol is more than equipment and buildings. It also contains a long tradition of human skills in not only invention and design but also in polishing, finishing, and quality control of the different pieces.

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<sup>1</sup> The *manufacture nationale de Sèvres* is one of the principal European porcelain manufactories. It is located in Sèvres, Hauts-de-Seine, France.

Fig 6: The new tunnel kiln



*Source: Revol archives*

Table 1: Evolution of the labor at Revol

Year	Number of employees
1800	30
1844	100
1876	200
1974	200
2001	210
2007	230
2017	250

*Source: Revol archives*

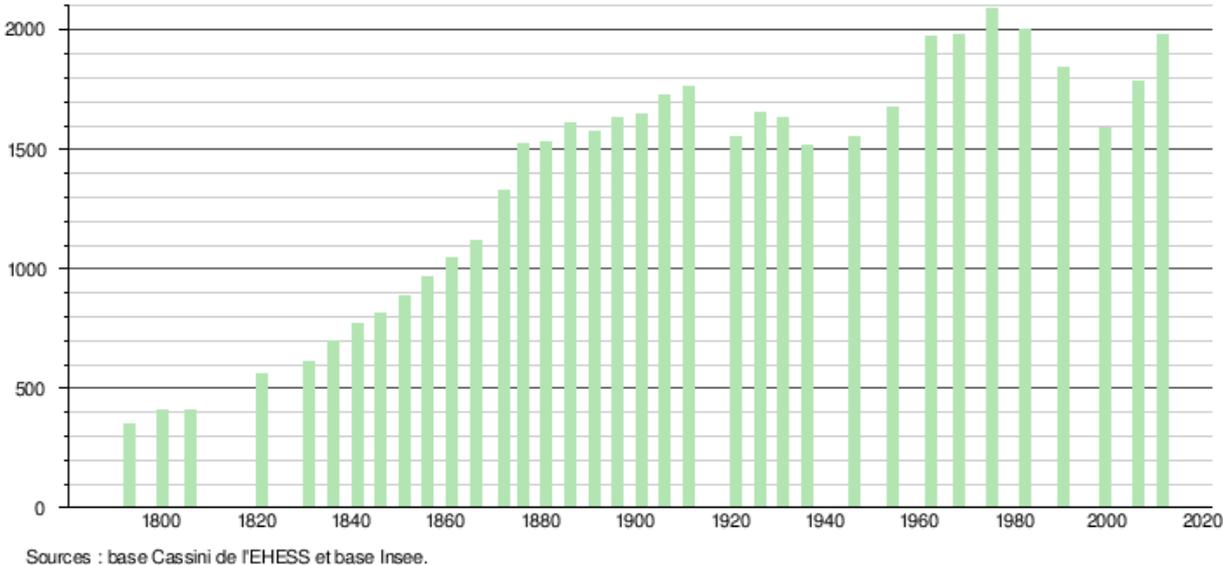
### **Embedded in the village**

Revol is the largest company in the area and the largest employer. Its activities have been developing for more than 250 years and the management style is paternalistic. The top management team is close to its employees. Revol is a family owned and managed business. It is also a paternalist company. Multiple generations of the same family work at Revol. Teenagers and students do internship at the company, even if they find a position elsewhere later on.

Revol is highly involved in Saint Uze city life. Since the 19<sup>th</sup> century, different members of the Revol family have been mayors of Saint Uze for a combined term of 63 years. Being mayor is not only an honorific title; it also allows the Revol family to nurture a Saint-Uze/Revol lifestyle. At the end of the 19<sup>th</sup> century, Hector Revol promoted work housing to accommodate properly Revol’s employees. Mayors have also built a new church, a new cemetery, a primary school, and a wastewater treatment plant.

Saint Uze city is lively and the population has been expanding over the long term.

Fig 7: demographic evolution of Saint Uze (Drôme)



***FUTURE: SHARING AMBITION AND DARING WITHIN A COMMUNITY***

Revol has been visionary in addressing new audiences and mobilizing users and opinion leaders to promote culinary porcelain. Technological innovation, as well as a profound involvement in the local environment and with the Revol workers are important to address on-going and new challenges.

Revol leverages on tradition and associated trust to foster audaciousness and daring. The main challenge is to envisage the next turn and to prepare Revol to address it. What will be the next fan communities of culinary porcelain? Who will be the next opinion leaders?

# TEACHING NOTE

Revol is a family own company which has been prospering over the last two centuries and which has been booming recently. Different dimensions of Revol's history and evolution worth to be discussed. First of all, Revol has been reinventing its clients several times. It is interesting to discuss this entrepreneurial ability. Second, Revol has been deeply involved in the city management, bridging Revol management and Saint Uze management. Finally, new challenges need to be discussed.

## **Client/customers reinvention**

The history of Revol articulates technological innovation, new equipment and clients. Can you map out the different evolutions?

Elements to be discussed:

- Enabling role of technology
- To what extent is a niche market orientation sustainable?
- How did Revol articulate B2B and B2C?
- Which is the engine of growth in the last period? How does Revol shape the audience?

We invite readers to use a business model lens<sup>2</sup> to read the Revol case. For Revol, market, market segmentations and existing clients are only on side of the coin. The second side of the coin is the reinvention of clients. The history of Revol has been marked out by client reinvention, be the luxury brandy and whisky brands after the perfume, the tobacco and alcohol brands for the goodies or the culinary porcelain for the last period.

## **Revol management: paternalism and local embeddedness**

During the 19<sup>o</sup> century, Revol CEOs have been also involved as mayor of Saint Uze or member of local assemblies. It seems that Revol CEOs expanded paternalism over the frontiers of the company to the city. By the time, Revol was in a logic of control to monitor workers' behaviors.

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<sup>2</sup> Baden-Fuller, C., & Mangematin, V. 2013. Business models: A challenging agenda. *Strategic Organization*, 11(4): 418-427.

During the 20<sup>o</sup> century, Revol management is less directly involved in Saint Uze even if Revol remains the main employer of the city. At the turn of the new century, Revol is going international. The involvement of Revol management becomes more multicultural. It is not only Saint Uze, but also the different communities (perfume, luxury alcohol brands, chefs of high end restaurants, culinary advisors, etc.).

I would like to engage a discussion with students on the different audiences, the ways to engage with different audiences and the internal capabilities to be developed.

### **New challenges to be discussed**

The dynamism of Revol is based on the identification of the bottleneck and the shape of original solution based on the redeployment of actual capabilities. During the 19<sup>o</sup> century, the main bottleneck was the ability to produce and Revol CEOs have been securing production capabilities by investing locally to better monitor workers, at the end of the 20<sup>o</sup> century, when tobacco and alcohol advertisements have been banned, Revol invested in culinary porcelain and it mobilized different audiences to make Revol a high end brand for professionals and individual cooks.

I would like to discuss with the students which are the on-going capabilities which can be redeployed. I also would like to discuss the emerging potential audiences which are forming the next markets.

Finally, I would like to discuss with the students the specificity of family run businesses as agile companies which are confident enough to redeploy their capabilities.



# The Banque Hottinguer Case Study

Author : Rania Labaki  
(EDHEC Business School)



**Lessons from a long-lived family business across generations**

**Rania Labaki**

**EDHEC Family Business Centre**

**October 2017**

**Author:**

Dr Rania Labaki

Associate Professor of Finance and Family Business

Director of the EDHEC Family Business Centre

EDHEC Business School, France

Email: [rania.labaki@edhec.edu](mailto:rania.labaki@edhec.edu)

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Labaki R., “Lessons from a long-lived family business across generations: Banque Hottinguer”, *The Henokiens Case Collection*, October 2017.

## **Case Abstract**

This case presents the distinctive success factors of the enduring and long-lived Hottinguer family dynasty in the banking industry. Methodologically, this case is inclusive of different perspectives of Banque Hottinguer family and non-family stakeholders as well as of historical and archival material and publications.

The case is structured in four parts. First, an introductory part lays the ground for the current context and reflections on the future. The second part moves to the strategic vision upon which the business family has built. The third part provides a focus on the distinctive stakeholders' approach of the Hottinguer family. The last part suggests concluding remarks.

This inside look at the past and present delivers outstanding learnings and directions for the future outlook of business families and their stakeholders.

## **Outline**

**Part 1: Introduction**

**Part 2. The Hottinguer Strategic Vision : A business family journey from generation to generation**

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## Part 1. Introduction

*Experience has two things to teach; the first is that we must correct a great deal; the second, that we must not correct too much. (Eugene Delacroix)*

The essence conveyed by the *Delacroix* quote permeated the Hottinguer dynasty of bankers for more than two centuries. Jean-Philippe Hottinguer, member of the 6<sup>th</sup> generation, ardently emphasizes the importance of perseverance and humbleness as the building blocks of Banque Hottinguer, a historical reference in the world of European banking and finance.

As Chairman of the Board, Jean-Philippe Hottinguer shares his views of the perpetuity of the family in business. For him, the successor must be able to reflect on life in constant movement and to keep the feet grounded in the floor. With humbleness, he is expected to be respectful of others while being a fine listener and observer before making any judgement. By transferring in turn these values and course of action to his own successor, he would ensure the continuous development of the family bank for another century with serenity.

His son, Jean-Conrad Hottinguer, currently member of the 7<sup>th</sup> generation, reflects on the day when he was formally asked to join the family business. Going back in time, the news came as he was working in the financial industry thousands of miles away from his family business<sup>1</sup>. To put it more precisely, he was involved in M&A and other financial operations in “the New World”, New York, at a time when the industry was booming and his career was flourishing with lots of learning opportunities combined with enjoyment. Jean-Conrad’s hesitation upon the call he received from his father was countless. As he puts it, his move to Banque Hottinguer was not only geographical; it was a cultural move, deeply rooted in the family connections and proud history. Today, he is vice president of the supervisory board and holds on to his vision of perpetuating the family business by building on the historical foundational blocks.

This dual father-son perspective represents just the tip of the iceberg of a rich family history across the centuries. Projecting oneself into the future, let’s reflect on what story would Jean-Conrad tell the next generation members about the family business to motivate them to join the adventure that his ancestors as well as himself engaged in since 7 generations.

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<sup>1</sup>In this case study, the family business as it stands in the 6<sup>th</sup> and 7<sup>th</sup> generation refers to The Hottinguer Bank, originally founded by Jean-Philippe, François and Emmanuel Hottinguer in 1989, which is a French institution approved by the Prudential and Resolution Control Authority (ACPR). This establishment and its subsidiaries: Messrs. Hottinguer and Cie Gestion Privée, a management company approved by the Autorité des Marchés Financiers (AMF), and Hottinguer Corporate Finance, a company specializing in advising companies and mergers and acquisitions, have no link whatsoever of capital, legal, commercial or other nature with the Swiss bank Hottinger et Cie SA.

## **Part 2. The Hottinguer Strategic Vision : A business family journey from generation to generation**

Since 1786, the Hottinguer bankers contributed to the establishment of a renowned dynasty, with a distinctive ability to foresee and seize **innovative opportunities** and build **resiliency** to overcome socio-economic, political and family crises. The red thread that ties seven generations, determined for success, is ultimately the **entrepreneurial spirit** (2.1) combined with a strong sense of **family identity** (2.2).

### **2.1 A sustainable entrepreneurial spirit across centuries:**

Revisiting the milestones of Banque Hottinguer since its inception allows us to capture the different dimensions of the entrepreneurial orientation the family followed persistently, including its innovativeness, risk-taking and proactiveness attitudes.

#### **2.1.1 From times of discovery and tradition...**

##### **- The emergence (18<sup>th</sup> century) :**

Originally from Zurich, Hans-Konrad Hottinger joined in 1783 his uncle Johan-Heinrich in Geneva to train at the bank Passavant, de Candolle, Bertrand & Cie. Soon after, he expressed his desire to go to Paris to follow the footsteps of Jacques Necker, a Geneva financier who became General Director of the Royal Treasury from 1776 to 1781. He left Geneva for France in 1784 with a letter of introduction from his former employers and found a job at the bank Le Couteux & Cie, an institution of very good reputation directed by Jean-Barthélemy Le Couteux de Canteleu, who later became the first governor of Banque de France.

In 1786, at the age of 26, Hans-Konrad Hottinger created the first bank after his family name. The following year, the name Hottinger appeared under the heading "Bankers" of the Royal Almanac of France. In 1799, Hans-Konrad added an "u" and changed his name into Jean-Conrad Hottinguer in an effort of adaptation to the French peculiarities. Under the First Empire, the Frenchified "Hottinguer" was attributed the title of Baron by Napoleon 1<sup>er</sup>.

Following the creation of Banque de France in 1800, Jean-Conrad was appointed as Regent of Banque de France in 1803. For 133 years - a unique fact - the Hottinguer family will occupy a seat without discontinuity on the Management Board.

The character and experience of Jean-Conrad, the founder of the Hottinguer dynasty of Bankers, made him early on a very influential member of the privileged and closed circle of the Protestant Banks, referred to as the Haute Banque. He was described as a man of rigor and vision. He was the first to imagine the central role of banks in a market economy at nascent stages, foreseeing the industrialization in Europe and the key role to be played by the financial bourgeoisie in the face of capitalism. Jean-Conrad embodied as such the founder-entrepreneur's characteristics at best.

## **2.1.2.... to times of adaptability and innovation**

### **- The expansion – a family business (19th century)**

In 1833, Jean-Conrad passes the baton on to his son Jean-Henri in a period of political turmoil. Realizing his father's vision about the upcoming economic changes, Jean-Henri managed to place the Bank at the center of the emerging industrial development era. He contributed to the creation of Caisse d'Epargne de Paris in 1818 with associates from the Delessert Family. Among other important achievements, he participated in the financing of the Railways in France and Europe and the construction of the Trans-Siberian Railway, which links Moscow with Vladivostok. Following the visionary path of his father, Jean-Henri contributed to sustain the rhythm of business expansion.

### **- The adaptability to times of change (20<sup>th</sup> century)**

In 1866, Rodolphe aged 34 will succeed into the family business with the challenge of making the transition from the 19<sup>th</sup> to the 20<sup>th</sup> century by holding key positions and taking over new ones. Described as "a man of choices", he contributed to a more discreet positioning of the bank in the national affairs while making it more flexible and accessible. He revised the role of the banker by opting for a "scientific economy" and a "rational financial policy" with a wider scope of the activity, working with industrialists and their families. While still honoring the seat of the Regent of Banque de France, he played other roles such as President of Compagnie Générale des Eaux and of the Imperial Ottoman Bank, Vice-President of Chemins de Fer Paris-Lyon and Caisse d'Epargne de Paris, and board member of the insurance company "La Nationale". His siblings will be distinguished as innovators and pioneers too. Jean will be the co-founder of the Jockey Club and one of the pioneers of aviation while Joseph a world traveler and explorer. His son Maurice participated in the creation of the Automobile Club de France. Also called Toto, Rodolphe was not only a big banker but also a combatant with a passionate and dense life.

As such, the third generation's members perpetuated the entrepreneurial spirit of their predecessors with a strong embedment in the social networks that support the development of their activities.

After their reign though, additional changes were awaiting the Hottinguer family: the first and second World Wars along with changes in the cartography of wealthy families and nationalization movements. In 1920, Henri took over the family bank in challenging times which made him "the man of big mutations". In his view, Europe became the main creditor of the world. The wealth shifted to other regions, the United States of America and Japan. He will contribute to the negotiations for the nationalization of Banque de France in 1936. During the WWII, he will continue taking risks by protecting the clients' interests through a relocation of the bank.

In 1943, during a difficult war period and shifts of coalitions, Henri dies and his son, Rodolphe, becomes the successor. Rodolphe managed to maintain the business operations in spite of very difficult economic situations. Looking into the future, he admits that "pursuing the banking profession in the end of the 20<sup>th</sup> century, in the modern world, may be a problem for the succeeding generations". With a note of optimism though, he adds "the example of the past should allow the pursuit of this ancestral activity".

In 1985, his son Henri takes over following his death, maintaining therefore the bank in the hands of the family for the 6<sup>th</sup> consecutive generation.

### **2.1.3 Towards Securing the future : beyond the 6<sup>th</sup> generation (21<sup>st</sup> century)**

The message that Rodolphe conveyed prior to his death and passing the baton on to the 6<sup>th</sup> generation could be viewed as premonitory, both a warning and a guide for action in the face of the foreseen challenges ahead. It points out the fragilities that the Hottinguer family will be dealing with and how to overcome them: "Qualifying, defining, predicting the banking profession is the secret of the future. It will, within the family cohesion, through the behavior and example of the older generation, embody an encouragement to persist, an intelligence to modify and adapt, a temperament to resist the difficulties and a hope to be entrepreneurial". With these wise words, his hope was to guide the upcoming generations in reinventing the business model towards a secure future.

A family breakdown, however, threatened the cohesion of the family. Differences in perceptions regarding the need to redefine the banking profession were among the triggers for the end of the family unit around a single eponymous banking institution.

Following the steps of Rodolphe's call to action, members of the 6<sup>th</sup> generation decided to act entrepreneurially and took upon the challenge of maintaining a Hottinguer Bank in Paris, successfully and

without discontinuity. Jean-Philippe Hottinguer together with his cousins François and Emmanuel decided to create in 1989 the French Financial Institution HR, that became HR Banque in 2006, Banque Jean-Philippe Hottinguer & Cie in 2007 and Banque Hottinguer in 2012. Jean-Philippe was described by non-family partners as not only an heir but also an entrepreneur with a sense of intuition and taste of discovery like the previous barons of the dynasty. Through a re-definition of the bank activities into private bank, investment bank, and asset management activities, Jean-Philippe, his son Jean-Conrad and his cousins François and Emmanuel adapted the business model to the market changes and needs. They are today the last members to hold the Bank named after their family in France. As such, the Hottinguer family continues to successfully serve its clients and aim at excellence.

## **2.2 An enduring attachment to the Hottinguer Family Identity:**

The Hottinguer family bank offers a strategic competitive advantage as compared to other banks: the trust stemming from the **Family Name** (2.2.1) and the **Common Values** it vehiculates over centuries (2.2.2).

### **2.2.1 The Family Name: Pride, responsibility and wealth**

The surname Hottinguer is today the oldest present in the banking sector in Paris, representing by itself a rare and valuable resource for the family business. Over generations, not only the financial wealth is transferred across generations but also the socio-emotional wealth. Accordingly, the Hottinguer Bank's ownership includes both a financial component and a socio-emotional component related to the family name, rich in meaning, which goes along with the pride the family has and the responsibility of maintaining its reputation intact.

At the time of approval of the bank establishment in 2006, Jean-Philippe adopts as a logo the original coat of arms of the founder Jean-Conrad, except the original colors, in order to emphasize the continuity of the project of his grandfather. Jean-Philippe insists today on the importance of perpetuating the "very honorable family name" through noble actions that are respectful of the achievements of the predecessors.

Primogeniture was a traditional pattern over generations allowing to carry the honorable title of "Baron", another historical heritage of the family. The first name is also traditionally transferred over generations on this basis. As such, "Jean-Conrad", the name of the founder is being given to the eldest of the 7<sup>th</sup> generation currently active at Banque Hottinguer. One of the main risks of a family business, such as

Banque Hottinguer, is the “Hottinguer risk”. The reputation risk, attached to the family name, can be seen as detrimental to the family continuity in the banking business. As Jean-Conrad explains, “having both the first and the last name of the founder of the dynasty is not simple to carry. At the same time, I am very proud to hold that name”.

### **2.2.2 Towards a unity of aspiration: Respect of the human condition and financial consciousness**

As Gerard puts it in the concluding remarks of his book (1972, p. 787), the Hottinguers were able to overcome the obstacles not through miracles but simply through the unity of aspiration: an evangelical respect of the human condition and a financial consciousness. This rigor allowed the family bloc to resist. Jean-Henri left to his children a spiritual testament with a code of conduct in the bank affairs. Still today, the 6<sup>th</sup> generation follows his footsteps. Jean-Philippe stresses the Bank “core principle” towards the clients: The services provided should be aligned with the interests of the clients without risking their wealth, especially in times of crises. The Hottinguer Bank is intended as an independent bank dedicated to its clients and aimed at excellence. It still operates with a lot of discretion, which is particularly of importance when it comes to generations of clients loyal to the same Bank. Its mission is to support the clients in the development projects of their companies and in the management and transmission of their assets. Its credo is that “everything is possible as long as we put the efforts to go to the utmost of our possibilities”, according to Jean-Philippe Hottinguer.

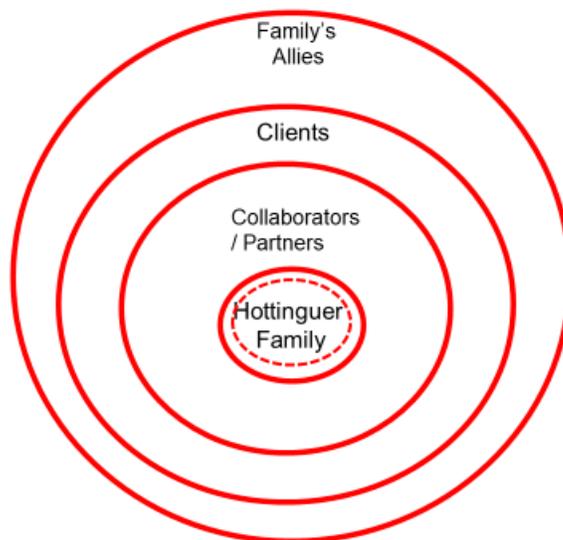
A non-family partner testifies of the extreme and rare honesty and prudence that the Hottinguer Bank is able of when it comes to counseling the customers. Unlike other banks during the global financial crisis in 2008, the customers were not oriented towards risky assets investments which were common in the industry back then. The family bank does not make speculations but rather manages the long-term. The “value of money” is another important aspect that the family handles thoughtfully. The money is not looked upon as a source of power and objective by itself but rather as a means to achieve projects in line with the customers’ interests. The long-term view is therefore another distinctive factor of the banking activities which goes along with the customer base unique characteristics, as it is significantly made of families of clients over several generations.

### Part 3. The Hottinguer Stakeholders' Approach : A 4-circle model of multigenerational loyalties

As Rodolphe Hottinguer made it explicit in his speech to German bankers in 1963, “bankers are relationship men”. Still today, Jean-Conrad, member of the 7<sup>th</sup> generation, considers that the family’s networks are the family DNA.

In a family business, the family and business systems constantly interact. The strategic vision presented in the previous section is infused with attributes stemming from the interaction between the family and the business, such as the family entrepreneurial spirit and the family identity. Focusing on the underlying processes that facilitated the preservation of the family identity and the transfer of entrepreneurial spirit leads to the identification of an agile Hottinguer business model with a long-term orientation and with the human capital as the backbone. Four categories of hidden champions are at the heart of this business model. These champions refer to stakeholders rooted in interconnected systems, bonded by reciprocal loyalties, gravitating around the Hottinguer family.

Figure 1. The Hottinguer 4-Circle Loyalty Model



The loyalty of the stakeholders around and within the Hottinguer family was key in the survival of the bank across generations. The human capital refers to all the stakeholders with whom the family is closely connected. As such, “the Hottinguer Bank evolves in a universe of reciprocal loyalties”, according to a non-family partner.

Figure 1 represents the systems of relationships that bind the Hottinguer family stakeholders over generations, explaining its survival and success despite the challenges it had to overcome. Basic loyalties are formed at the system level. Each system of stakeholders is connected with other systems through interactive behavior and flows of different types such as financials, ownership, information and emotions. The **family** is the centre of gravity (3.1) with different circles representing the stakeholders' ecosystem of loyalties around the Hottinguer family: **the partners and collaborators** (3.2), the **clients** (3.3), and **the allies and other social networks** (3.4).

The unique characteristics of the loyalties across systems is that they are predominantly multigenerational, being perpetuated from one generation to another.

### **3.1. The Hottinguer family system**

The central circle represents the Hottinguer family system around which other systems gravitate. The circle drawn continuously represents the male family members who had active roles as owners and contributors to the Hottinguer Bank. The dotted circle represents the women who participated on the invisible scene, whether at the education level by raising the next generation or at the social level by supporting the communities around, therefore contributing to the social standing of the Hottinguer family.

These loyalties stem mainly from the traditional rule of primogeniture over generations and the attachment to the family name and values transferred from the family to the business system, as explained in Part 2. Following the presentation of the founder and successors in previous sections, we will now look at three exemplary women who contributed in their own way to the Hottinguer dynasty.

The women played an important role in the creation of a healthy affective climate in the family which was complementary to the business climate where the successors and other family members were often embedded. In her writings, Caroline Hottinguer, 3<sup>rd</sup> generation and mother of Rodolphe, illustrates the prevalence of altruistic behavior in the family by revealing that her son's successes lead to her happiness while his absence leads to her suffering.

Jean-Philippe Hottinguer acknowledges the fundamental role of his spouse Brigitte, 6<sup>th</sup> generation member, as a supporter and an educator: "I do not always mention it, but I sincerely think that my spouse was essential in the Hottinguer Bank construction. While I was developing the affairs, she contributed to the rise of the next generation based on the solid values of our family". He also beautifully remembers a

scene of courage of his grandmother Blanche, which he witnessed as a little boy, when she succeeded in negotiating with German officers the salvation of Jewish men in the village of Guermantes during WWII. Today, Jean-Conrad, member of the 7<sup>th</sup> generation, still holds in his wallet a copy of a letter that Blanche left for her loved ones before she passes away. The excerpts from the letter speak for themselves.

*“(…) Give peace, avoid everything that can endanger it, raise your children in the love of what is Beautiful, Good, and Right, do not make fighters, give them the example of smile, and even the big laugh that I love so much.*

*Each thing has its own good and less good face, look always at the better side.*

*Love each other, like I loved you, and surround with an infinite tenderness the loved one that I leave to you (…)”*

By playing inspirational, educational, and affective roles, the women in the Hottinguer family contributed to the business continuity in the family’s hands. They are, as such, represented in the dotted circle at the centre of the model.

### **3.2. The Hottinguer Bank partners and collaborators**

The next circle represents the system of collaborators and partners of the family who gravitate closely around the family providing loyal support. A non-family partner refers to the relations between the Hottinguer family and the partners as being “quasi-family relations”. The partners, traditionally engaged at a young age, often end up by pursuing all their career in the bank. They always looked for efficacy without excess (Gerard, 1972, p. 425). They were “the guardians of traditions”, adapting their activities to the new requirements across the centuries (p. 411).

The ownership partners are also bound, through a shareholders’ agreement, to sell the shares upon their retirement so that the Bank is perpetuated in the family’s hands along its strategic vision. They also contribute with their own networks and know-how to the family affairs.

The employees, although not holding shares, feel psychological ownership of the Hottinguer Bank. The employees’ turnover rate is close to 2%, denoting the high level of loyalty towards the business.

Jean-Philippe describes Banque Hottinguer as a “Humane House”. He explains that the employees have a strong level of identification with the family, which makes them stay for a long period of time.

As such, both partners and employees of the Bank are animated by strong loyalties allowing to sustain the Bank over time.

### **3.3. The Hottinguer Bank clients**

The Hottinguer Bank clients are loyal over generations. As Jean-Conrad Hottinguer of the 7<sup>th</sup> generation still perceives it today, it is very important to have a loyal clients base. The clients have been loyal, succeeding from generation to generation, which is a sign of satisfaction from their part about the quality of service being offered and most importantly of trust. As a non-family partner puts it, “there is a psychological and professional alchemy that contributes to the development of strong business and friendship ties with the customers, which are passed on from one generation of clients to the next, and from one generation of the Hottinguer family to the next”.

### **3.4. The Hottinguer Bank allies and other social networks**

The fourth system is made of close allies of the family as part of the social networks whether in the economic or political spheres. These allies are partly formed by families of friends providing loyal support and contributing to developing and maintaining the customer base of Banque Hottinguer.

Since the beginnings of the bank and over generations, Gerard (1972, p. 139) outlines the importance of public relations in the career of a banker. At the same time, The Hottinguer family members brought added value to the cities and communities in which they were operating through a security factor (p. 149).

The four systems of relationships are rooted in a mutually balanced approach of loyalty. For example, as Jean-Philippe puts it, “the clients trust us and we trust them in return”. For these circles to be functional though, they require a fast adaptation to the changing environment by a regeneration of the business model and the extension of the customers, partners, and wider networks base beyond the historical ones given the evolution in the economy and the society. This is the bet that the last generation of Banque Hottinguer managed to win through the regeneration of Banque Hottinguer in the past three decades.

#### **Part 4: Concluding remarks**

##### ***Contributions to the Family, Business, and Community of Stakeholders***

As Jean-Conrad, 7<sup>th</sup> generation member puts it, “the family is the backbone of the business”. Writing the history of the future for the next generation, he will certainly have to imagine the evolving role of the family and its connections within the evolving circles of clients, allies, collaborators and partners. All this in a context where values continue to be shared, “I build on the teachings I received from my parents and replicate them with the next generation, particularly the importance of curiosity and respect”.

The family appears in the Banque Hottinguer’s case as a major strength across centuries. It is a distinctive vehicle of the development and transfer of the valuable Hottinguer name, the entrepreneurial spirit, the values, and the loyalties over seven generations. It appears also as a source of resilience which grows stronger over crises, allowing to create a strategic competitive advantage in the privileged circle of the private and investment banks nowadays. The lessons drawn through this analysis leads us to conclude with Aristotle, “*in the place where meets your inner passion, your great competencies and the world's needs, there lies your purpose*”. Combined with the Delacroix opening of this case, Aristotle’s quote adds another interlinkage to the red thread that permeated the Hottinguer dynasty over centuries.

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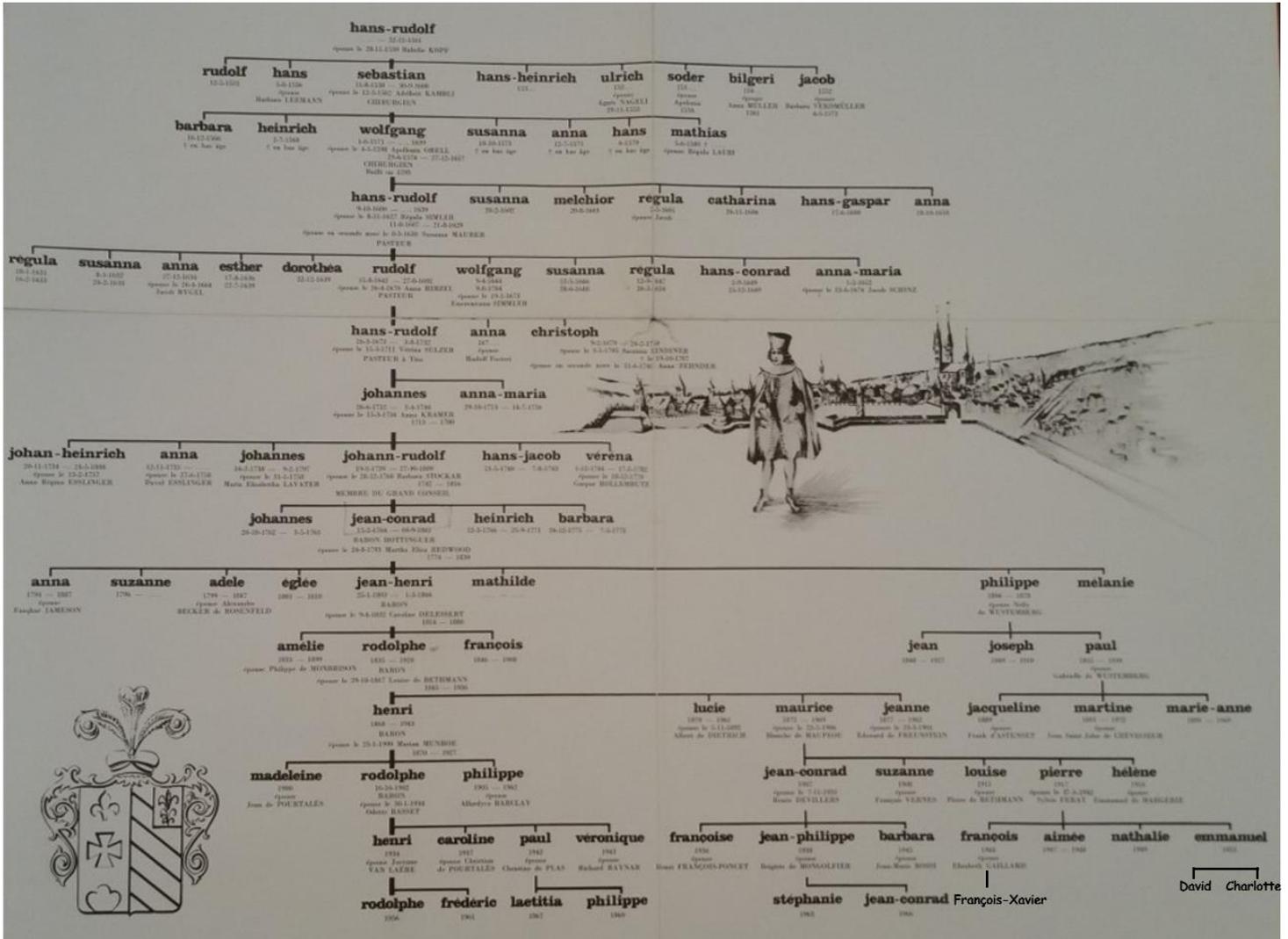
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# APPENDIX

## The Hottinguer Family Tree





# The Amarelli Case Study

Author : Salvatore Tomaselli

(Palermo Univesity)

## LES HENOKIENS CASE COLLECTION



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\* This case was prepared by Prof. Salvatore Tomaselli Ph.D. as the basis for class discussion, rather than to illustrate an effective or ineffective handling of an administrative situation.

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## Introduction and Motivation: Objectives of the case study and key questions

As Mr. Gerard Lipovitch suggested when he asked me to write the Amarelli case “it is certainly not a coincidence if this family & company have managed to last and progress since almost 300 years with a so unique product, maintaining a high level of quality, adapting its products to a changing demand, while finding new clients and new markets.”

There are many interesting things to find on an academic point of view into the Amarelli's story, especially the kind of topics students interested in Family Businesses can learn from it: **resources and the ability to make value out of it; link with the history and culture of the region; strategy and never ending innovation; values passed from generation to generation**

The main research questions, which we approach, are listed below:

- How have the family and the firm evolved over time, and especially in the course of the 12<sup>th</sup>, 13<sup>th</sup>, and 14<sup>th</sup> generation (relating also to industry and market developments)?
- How has the family coped with the many changes and challenges characterizing the evolution of the local economy, and the industry?
- How have the family, ownership, and governance structures as well as mechanisms evolved from the 11<sup>th</sup> to the 14<sup>th</sup> generation?
- How have the succession processes in ownership and management been managed?
- What is the vision and strategy on how to successfully and sustainably manage family-related and business-related goals in order to survive for so long and across different generations?
- How does the family leverage on culture and local resources to build its overall strategy, and what is the role of the Liquierice Museum in the strategic map of the family and the business?
- How does the international outlook of the firm look like? What are the plans for the future?
- What has been the role played by laws in the evolution of the family firm?



# 1. Amarelli: the inextricable interweaving of a family, a territory, a product, a business

In an ancient Byzantine center in the province of Cosenza, Rossano, the history of licorice intertwines inextricably with the Amarelli family, founder of the bicentennial factory of the confectionery sector. A long history of passion, tradition, culture and business where the root of licorice has always grown.

Craftsmanship and technology are the leitmotif in every structure and department of the business, while the entire production is now highly automated, in perfect symbiosis with this link with the past, making Amarelli the testimonial of the history and economic development of Calabria.

## 1.1. The origins and historical perspective

The origins of the Amarelli family date back to the Normands, who arrived on the Ionian coast around the year 1000. They cultivated their lands with wheat and olive trees and engaged in the commercial development of the products obtained there. From the beginning, the family understood that culture and territory, considered in their widest sense, constituted a valid foundation for their activities.

The commitment of the Amarelli barons ranged from the military task of Alexander - Crusader, who died in Palestine in 1103 - and Francis - among the participants in the victorious battle of Otranto, who died in 1514 - to the cultural dedication of Giovan Leonardo - Conte Palatino and Prior of the University of Messina, to whose development he contributed greatly, he was also a patriot and Luigi Settembrini's tutor, - who died in 1667.

Licorice plant, that grew and still grows spontaneously on the Ionian Calabrian coast, was known by the farmers as a cure for the problems of blood pressure drops especially in periods of intense heat. It is around 1500 that the Calabrian feudal families, among these the Amarelli, begin to extract the juice and commercialize it mainly for pharmaceutical uses.

The birth of the real factory dates back to 1731, when the family developed a process that allowed the licorice juice to be extracted from the root and transformed into a soft and tasty paste, greatly increasing the possibilities for preservation and transport. To make the production on a sufficient scale, a proto-industrial plant called "“concio”", a term coined by the Duke of Corigliano, was created to indicate the first production factory, which allowed the transformation of the licorice plant from the root to the finished product.

The “concio” was built near the sea, next to the splendid cask of the Amarelli countryside, in the homonymous district, dominating the expanses of olive groves. Next to the Amarelli's oil production, the licorice took over a secondary income that did not require much expense and which over time proved to be very profitable.

During the eighteenth century, other companies arose in the Sibaritide, thanks to noble and wealthy families, and the region - rich and industrialized due to the presence of factories for the processing of brown sugar, pitch, silk and weapons - turns into an important center of licorice processing, with about eighty factories in activity.

During the nineteenth century, the production of Calabrian licorice had particular stimulus, growing and expanding far beyond the local borders. That was made possible thanks to the improvement of shipping and the tax concessions granted by the Bourbons to the industries of the sector - already

recognized as emblem of tradition and typicality –. Around the 40's of the nineteenth century under the guidance of Domenico the business expands its market to the capital, Naples.

With the advent of the unification of Italy (1861), however, the flourishing licorice sector was affected by the change in conditions and the imposition by the new Kingdom of export duties, too high for the financial resources of small businesses of the time. That triggered a crisis that led to the closure of a large number of companies in the sector. Within a few years only the segments belonging to the Compagna, Barracco, Martucci, Sanseverino families and a few others survived. Among the survivors there was the Amarelli family, led at the time by Nicola Amarelli, who had succeeded to Domenico upon his death. In spite of the adverse conditions, he was able to extend the business' market of influence, exporting to England and to the Austro-Hungarian Empire and obtained numerous manifestations of appreciation for the quality and genuineness of the product, as can be seen from some ancient medals conferred by the Kingdom of Italy, during an exhibition of 1898 in Turin.

Licorice was not the only occupation of the family that not only boasted illustrious ancestors but covered not indifferent political and socio-cultural commitments. In their palace, in the historical center, numerous meetings were held to talk about politics and social reforms. It was also here that, at the end of the nineteenth century, important English merchants were accommodated in the guest quarters, who did not use the pounds to pay for the goods but rather precious handmade leather saddles.

Nicola had the burden and the honor to ferry it in the 21st century. The factory began to progress under the pressure of technology innovation, in conjunction with the futuristic trend that at that time exploded in Europe starting the modern industrialization.

In 1907 Nicola Amarelli began a courageous restructuring plan that finds its fulcrum in the modernization of the processing with two steam boilers designed, respectively, to prepare the root paste and extract the juice. A motorized pump put in action the hydraulic presses to compress the paste again and obtain other liquid. The ancient “concio” started towards a more modern process, reducing production times and speeding up the extraction phases.

In the '30s, there were four types of Amarelli licorice, but the search for novelty has always been a strong commitment of Amarelli, despite the small size of the business.

In 1931, the Amarelli business started purchasing the extruders that spin the licorice paste from the F.lli Barbieri business in Busto Arsizio. The family members who traveled a lot, both in Italy and abroad, had understood that, to revive the licorice business, they had to adapt to modern times and above all abandon the ancient systems, inhuman and unprofitable.

At the end of the '30s Nicola died leaving his sister Giuseppina heir of the “concio” that, compared to all the other properties, seemed to be the least important. Giuseppina Amarelli was a very tenacious, stubborn, cultured woman - she had a degree in Law - very intelligent and childless. In the thirties, well advised by a good lawyer, she had drawn up an innovative testament with a very important stratagem for tax purposes that saved the family from inheritance taxes. She named as her universal heirs the sons of the sons of the deceased Giuseppe, namely Fortunato, Giuseppe and Pasquale, still children. In this way she attributed to them the usufruct of the company assets, while their children owned the bare ownership. The effects of this decision would last for over sixty years, until the death of Giuseppe Amarelli in 1990, which will be discussed later. Of his three nephews only Fortunato and Giuseppe got married and had sons. Fortunato has Nicola, Alfonsina and Alessandro. Giuseppe has Nadia, Giorgio and Francesco. It must be specified that the usufruct of Fortunato, Giuseppe and Pasquale is entitled to accretion, this means that at the death of one of the

three brothers, the share of the company he had has to be divided equally between the rest. For this reason, the share of Pasquale, who died young, was divided between Fortunato and Giuseppe. In this branch of succession, moreover, there was a further event when Nicola, the first-born of Fortunato, died at the age of five. Nicola's place in the succession line was then taken over by his mother, Margherita Mazziotti, and his siblings, Alfonsina and Alessandro, who inherited his share. For the second time in the history of Amarelli, women inherit the company's shares.

Aunt Giuseppina stimulated the rest of the family to see in the factory a means to reaffirm their identity on the territory of Rossano and outside the region.

Those were difficult years, the Second World War was about to start and the uncertainty of any future program was shaking everyone, including those who had a tradition to be protected. At that time the occupation in the "concio" became more than a simple industry to make money, it became a way to be there and to make history.

Fortunato took care of the administrative part, Giuseppe took care of the technique part and Pasquale took care of public relationships in Turin. This was the three brothers managed to keep the business afloat despite the difficulties.

Among the three brothers, Giuseppe was the one who devoted himself fully to the business. Over the years the business reached an increasingly high quality, despite the social and economic difficulties of Italy during the Second World War.

## 1.2. The 12<sup>th</sup> generation: surviving in difficult times, mastering innovation

Giuseppe Amarelli offered a significant contribution to the maintenance of the Calabrian licorice industry. In spite of Italy's socio-economic difficulties, the Rossano business managed to resist and progress through a technological innovation that was at the forefront for those times. Thanks to his intelligence, this man who managed to maintain a tradition with commitment and perseverance, exalting the progressive appearance achieved over the years. If it wasn't for him, the industry would have been disdained and relegated to being a historical relic that, for those times, was useless and of little interest on the national market.

In the second half of the 30s of the 20st century, licorice began to be used as a seasoning in tobacco tanning, and in the production of dark beer. It was also used as a sweetener in the confectionery industry and in the pharmaceutical industry, considering that the US law indicated it as the only permitted sweetener. The characteristics of glycyrrizia glabra, naturally 30-40 times sweeter than the ones that grows in other areas, makes it a precious raw material for the American industrial giants. The Mac Forber broke onto the market and, in a desperate attempt to grab as much raw material as possible, it offered farmers four times higher prices than the market at that time. Those prices were way too high for the small Calabrian companies, which were heading toward a crisis that, just before the second world war, led to the closure of almost all the characteristic "conci".

It was a difficult time for the Amarelli company.

Giuseppe, stubbornly resisted, engaging with the American colossus a battle that led him to offer farmers systematically higher prices. In order to achieve this and to keep the manure alive, he had to sell land, properties and even the old mill for milling olives. Surrendering would have meant the loss of their identity, the oblivion of the family, and the loss of their job for countless workers. At the outbreak of World War II, the Americans left, and the demand for licorice collapsed, leading to the suspension of the activity of the "concio". The period of the conflict was a rough time and the workers of the Amarelli business were employed in the factory as well as in the fields to farm.

At the end of the conflict licorice consumption skyrocketed. The Amarelli company remained the only licorice factory in Calabria and among the few in Italy, and could resume its activity with renewed commitment and attention to innovation.

In 1947 new steam boilers with a capacity of 120 cubic meters were purchased from the Gaito company in Milan.

At the end of the 60s the economic situation of Calabria was deeply depressed.

The Amarelli company too was going through a crisis, especially involving its identity. The business could not make the definitive transition to a contemporary entrepreneurial logic and Giuseppe, no longer very young, did not see great prospects for the future of the company.

At that time the Opera for the Valorisation of the Sila - public agency founded in 1949 with the task of promoting and directly carrying out the land and agricultural transformation of the Silan plateau - carried out a series of operations to acquire companies in the territory. The Amarelli company received an offer of three hundred million lire (a considerable sum for the time) for the sale of the "concio".

It was a lot of money but the family did not need it. Don Geppino, at the time the business' leader, was a tenacious man and, after a brief moment of despair, decided not to give up.

*"I decided that I will not bind my name to the closure of an industry that has been operating for over two hundred years. So let's move on. To the bitter end. Let's start immediately to modernize, let's move back the activity in the old family home."*

To resist and restart, the Amarelli had once again to sacrifice another part of the family patrimony, which was sold to find the financial resources necessary to support the investments.

It is in these circumstances that Giorgio, Giuseppe's second son, after an important managerial experience in Milan, began to take an interest in the family business and joined his father.

### 1.3. The 13th generation: history, culture and tradition at the roots of all-around innovation.

Giuseppe had two sons, Franco and Giorgio.

Franco cultivated his academic career and achieved the role of ordinary professor of Roman Law.

During university became friends with Pina Amarelli. After five years of dating and two years of engagement, they got married in October 8th 1969.

Pina was born in Naples in 1945. Her mother, Dina Corsi, was Tuscan and her father, Giuseppe Menga, was Neapolitan. Pina was the first of three daughters.

After the wedding, Pina went to Rossano Calabro for the first time and had the opportunity to visit the ancient licorice factory of the Amarelli family.

In the archives of the family business she found some beautiful ancient photos dating back to the 19th century that evoke the strong value of the family and factory in the Calabrian reality, symbol of the culture and entrepreneurship of the territory.

Franco and Pina had two children, Francesca Romana and Giuseppe.

In the 70s, Giorgio dated Pina's younger sister, Valeria and fell in love with her. They got married in 1973. Between the two families a particular association was established, nourished by the great harmony between Pina and Valeria. Another contribution to this fellowship was given by the fact that they lived in the same building, sharing constantly the same space. Giorgio and Valeria's children, Cristiano and Marco, grew up together with Francesca and Giuseppe.

In this family and business context, the idea of introducing new small packs to address new markets matures. Giorgio bought the first aluminum packages in England.

Pina had the intuition to use the images of the family archive to decorate the boxes, believing that the photos found in the family archives could be an effective communication tool, capable of evoking the value of this activity, of its great tradition and its link with the history of the territory. The images showed of a past that was gone, a cross-section of history, of material culture, through the representation of the landscape of Rossano and the illustration of moments of everyday life with children who cheerfully ate licorice.

At the beginning it was only a game, it used a Bolognese graphic to rework the images to be affixed to the packs. The breakthrough came from the meeting with the commendator Luigi Deserti, of the D&C of Bologna, distributor of giants such as Veuve Cliquot and Droste. The refined boxes of Pina triggered a spark in him, who became a distributor, putting them on a very high market.

The distribution of this new packaging on the market was accompanied by the decision not to market wholesale kilo packs anymore, since the cost had become unsustainable over time.

Meanwhile, the business continues to show a special attention to technological innovation. In 1975 Giuseppe, accompanied by his sons Giorgio and Franco, visited the major iron and steel industries of Europe. In 1977, thanks to a specialized technician, he introduced in the small business new stainless steel machineries that allowed to obtain a purer licorice, allowing the factory to make a significant leap in quality, bringing Amarelli to the forefront of technology in the sector.

In 1978, the company reappeared on the national fair markets, taking part in the Milan EXpò CT where it was awarded a gold medal.

In the '80s, the introduction of informatics technology made it possible to establish precisely the phases of boiling and extraction of the juice. Huge steel boilers supplanted the old “conci” and above all the use of a cutter replaced the work of 46 women. The Amarelli family business became even more competitive at national level and regains markets that seemed long lost.

In those years Giorgio had the idea of creating a Licorice Museum, to show to the public the copious material present in the business archives, giving testimony to the history of licorice, the family, the business and the territory that hosts it. The project took shape over time encountering, however, difficulties finding the financial resources. The project was criticized from various representatives who disagreed with the business's choice, considering it as an investment not useful from an economic standpoint. In fact, in those were years the idea that culture wasn't profitable was widespread.

Giuseppe's commitment extended beyond the business boundaries, addressing the social growth of the Rossano territory, to which he was very close. For this reason, not unlike his ancestors, in 1985 he was acclaimed Honorary President of the Cultural Association Roscianum, still active, which is concerned with safeguarding the cultural heritage of the city.

To crown his entrepreneurial career, in 1987, he received, from the Board of the Italian Chemical Society - Calabria Section, the Gold Medal for industry, to have anticipated market trends, to have invested in new technologies that would improve the quality of the product and to have renewed the extraction system of a natural derivative of alimentary and pharmaceutical use.

The prize came in a sad moment for the family: a year before Giorgio had died of cancer and the elderly don Geppino was grieved for the loss of his beloved son, who had been the major pillar in the continuation of the company.

Three years later, on January 17th 1990, the noble man Giuseppe Amarelli died in his beloved Rossano.

The bare ownership is joined to the usufruct, and all the sons of Giuseppe and Fortunato Amarelli become heirs of the company. A limited partnership is established in which Alessandro and Francesco each hold 25% while the remaining 50% is divided between Margherita and Alfonsina on one side and between Valeria, Cristiano and Marco on the other. Margherita (widow of Fortunato) as the oldest is appointed administrator.

With the death of don Geppino and Giorgio it is up to Franco and his wife Pina together with their cousin Alessandro to continue the family legacy, despite having chosen different careers. Franco put his legal competences at the company's service. Alessandro, a pediatrician, began to dedicate each day a few hours of his time to the company, taking them away from his medical office in order to coordinate and supervise the production and management of the staff.

It was a choral effort of the whole family, in which everyone put their time and talent on the table with the intent to honor and carry on Geppino and Giorgio's legacy. However their commitment wasn't enough to guarantee a future to the company, that needed a new leader. It was then that Pina, driven by the love and dedication that her father-in-law and her brother-in-law had transmitted to her, accepted the challenge and became the new soul of the business.

Pina focused on history and communication to further characterize the business. She dreamed of returning licorice to the status symbol it had in the XIX century England, imagining increasingly precious and special packaging, unique pieces with artistic pictures or with old corporate advertisements.

Her first participation in a television program arose the interest of the world of communication. The journalists asked her for interviews, she started collaborating with great journalistic cooking magazines, triggering a real media explosion around licorice, starring Pina Amarelli.

She started also a collaboration with the signatures of *haute cuisine*: Alfonso Iaccarino, Gualtiero Marchesi, Pinuccio Alia, Fulvio Pierangelini, Massimiliano Alajmo. That led to new interpretations of licorice, bringing it out of confectioneries and projecting it towards new horizons. New partnerships with companies that share Amarelli's values were born, which extended, strengthened and consolidated over time, allowing the company a worldwide visibility never experienced before.

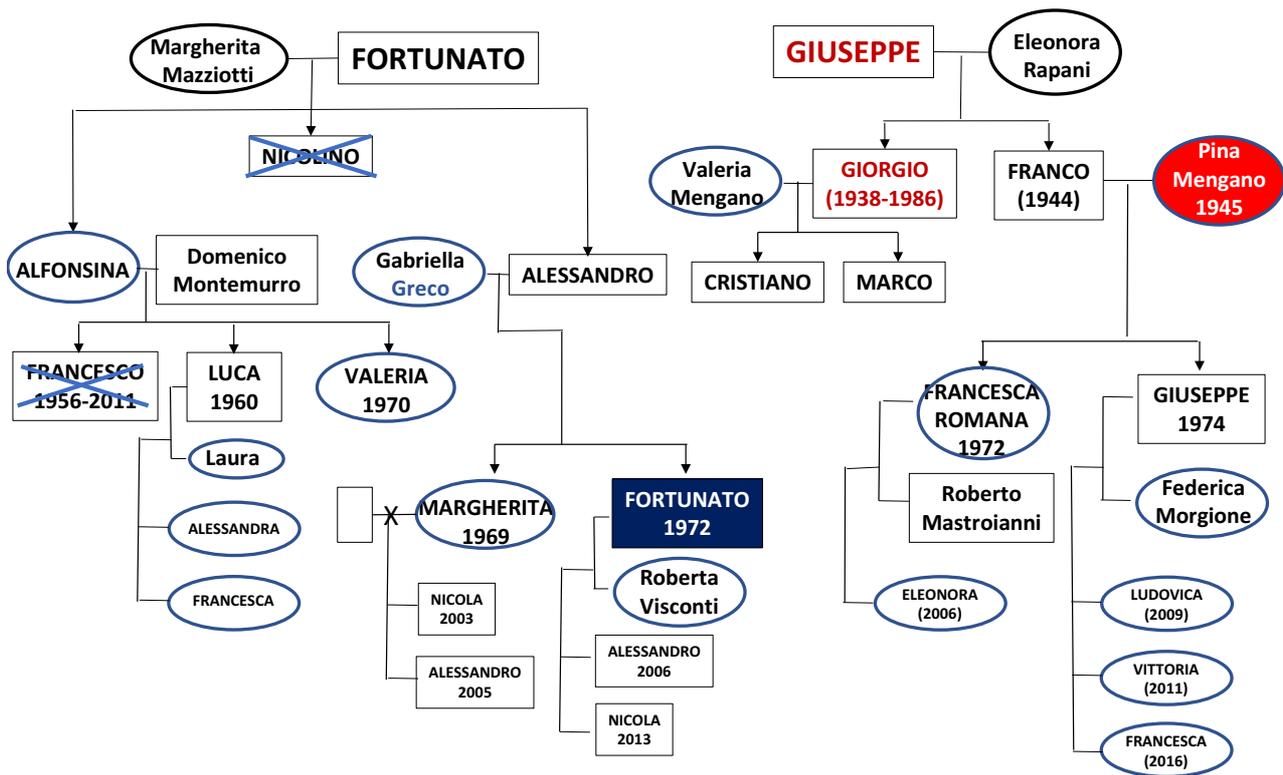
The years between 1990 and 2000 were a continuous sequence of successes for the business, which received many prestigious awards and prizes, never stopping to grow and improve, becoming known around the world.

The growth of the visibility also determines the growth of the revenue, which goes from 2,000 million lire of the 80s to 3,000 million lire in 2000, rising to 3 million euro in 2003. Small numbers, but they show a significant trend of growth for a traditional product with low added value.

Pina resumed the project of the museum, which had seen a setback with the death of Giorgio, and July 21st 2001 finally the museum, which was named after Giorgio Amarelli, was inaugurated.

On June 2nd 2003 Pina Amarelli was awarded - first and only woman in all of Calabria - by the President of the Italian Republic, Carlo Azeglio Ciampi, of the title of Official Knight of the Order of Merit of the Italian Republic, for having been able to combine business and culture.

#### 1.4. The 14th generation: into the third millennium, preparing for the third century



In 1999, the administrator Margherita, elderly and tired, decided to leave office. With her resignation, the role of CEO is assigned to Fortunato, the twentyseven years old son of Alessandro, making him the youngest director in the family.

The choice to pick such a young director marked an unprecedented change in the history of Amarelli, breaking with the logic of seniority that had characterized all the previous generational transitions.

In this choice there is the desire to continue, to give a new face to the business, but above all there is the essence of the relationship between two generations who live and share business choices in perfect harmony. The search for personal affirmation is absent, the leadership is collegial, each member of the family thinks, discusses and evaluates every single decision together with the rest of the family.

The family sees in Fortunato important talents that are essential to exercise the role of the leader. Among these, the inclination to dialogue and comparison, respect for others, the passion, the ability to get involved, the identification in the entrepreneurial culture, the sweet and peaceful character.

Fortunato graduated in law: he attended courses at the SDA Bocconi and at the Loyola University of Chicago, where he was guided by John Ward. He took part in initiatives promoted by AIDAF (Italian Association of Family Businesses) which is the Italian chapter of FBN and the Henokiens. He felt ready to take up challenges, and put into practice everything he learned, but initially the absence of a specific role to be felt as his own weighed him down.

The opening of the "Giorgio Amarelli" licorice museum gave him the opportunity to get his own role and autonomy, the managing role of the museum. Assuming this responsibility was a test and he managed to prove himself in his own eyes and in the eyes of the family.

Fortunato Amarelli inherited an important legacy: to keep alive the values and history of his family business. At 36 was elected President of the Young Entrepreneurs Group of Confindustria of Cosenza, an important role of representative for the young Calabrian entrepreneurship. With his management, the history and the strengths of the past management are preserved, continuing along the path of innovation and in the active search for new challenges to face.

In the year 2000 his sister Margherita began to collaborate with the business. Graduated in Law at the University of Florence in 1995, with a Master in Marketing and Business Communication, she became the executive of the legal department and legal affairs as well as of the Italian and foreign contracts. Then, in 2002, she became the lead of the Marketing and Commercial area.

Along these years, the family business has achieved the growth targets it had set for itself. It strengthened the identity of its brand and increased significantly its market share and the new distribution positions.

From 2002 to 2013 it doubled the market share in Italy and its top item, the tin packs, exceeded the million pieces sold.

Margherita develops a marketing philosophy further leveraging on regional identity and the spectacularization of the business and its history, and transfuses it in the packaging and the new areas of web, social and blog communication.

From 2006 she assumed the responsibility of General Manager for foreign markets, starting a leap in quality and dimension in the process of internationalizing the Business. That creates an export division, supported by the figure of a professional who takes care of the openings in 21 new foreign markets, bringing the export quota to 25%.

Margherita becomes product manager for the development of new products in partnership with major Italian companies. In 2013, in synergy with Caffarel SPA, realizes a successful series of combinations of chocolate and licorice and, with the Fallani, of candies and licorice.

She was promoter of the project to make the business the spokesman of quality Italian licorice. She made Amarelli a partner of Eataly in 2006, telling and training consumers in the world and the new generations to the agri-food excellence, in the sites of New York, Chicago, Tokyo, Istanbul and Dubai.

Nowdays the Amarelli company is set up as a limited partnership, whose capital is shared among 11 members, with a staff of about 40 permanent employees, to which are added seasonal workers in the period of collection, reaching a number of approximately 200 employees.

With an annual revenue of about 6 million euros Amarelli is probably considered the most famous and important licorice factory in Italy with a notable international reputation, with the record among the oldest Italian confectionery companies.

## 1.5. Awards and affiliations

### 1.5.1. Awards and Prizes

Since last century, Amarelli has received multiple awards, prizes, and:

- 1987: gold medal of the Italian Chemical Society, for having been able to combine the most advanced technology and respect for the typical handicraft tradition.
- May 6, 2000: Pina Amarelli received the "Mela d'oro" (Golden Apple), a prestigious award named after Marisa Bellisario.
- February 1st, 2001: Pina Amarelli received the "Minerva Prize", awarded to women from the South of Italy who have distinguished in the areas of research, politics, professions, voluntary work and entrepreneurship.
- November 17, 2001: Guggenheim Prize - II Sole 24 Ore Special Prize - awarded to the best debutant company with the following motivation: "For the new commitment to enhance the corporate culture, in a particular area of Southern Italy, linking a long success story to the development prospects and involving local social actors in growth processes.
- June 2nd, 2003: Pina Amarelli was decorated by President of the Italian Republic, Mr. Carlo Azeglio Ciampi, with the title of Official Knight of the Order of Merit of the Italian Republic, for having been able to combine culture and entrepreneurship.
- April 2004: the Ministry of Posts dedicates a stamp to the Amarelli Museum of the thematic series "the Italian artistic and cultural heritage". Pina Amarelli receives the "Prophet in homeland" award at the Quirinale.
- June 2006: the President of the Italian Republic, Giorgio Napolitano, has signed the decrees with which, Pina Amarelli has been named Cavaliere del Lavoro for the food sector in Calabria, the first woman in this region to have had this honor
- 2006: In the Eurispes report "Nostra Eccellenza 2006", Amarelli has been awarded among the 100 Italian institutional and entrepreneurial experiences for process and product innovation and quality of organizational processes.
- 2007: Pina Amarelli is awarded with the Veuve Cliequot award.

## 1.5.2. Affiliations

Les Henokiens



MUSEIMPRESA



Comitato Leonardo



UISI



GEMELLATI UIST



AIDAF



AIDEPI



SOCI ONORARI CENTENARI

*Associazione Aziende Storiche Familiari Campane*



## 2. The Licorice

### 2.1. Introduction

In the Euro-Asian area licorice has always been present within distinct traditions: like many other raw materials of animal, vegetable or mineral origin it has been used for medicare, dyeing, flavoring and preserving.

In the Mediterranean tradition, around the first century after Christ, Dioscorides was the first to write about licorice in his work "de materia medica" indicating it as a remedy for sore throat. In the Indian tradition, licorice gained more notoriety as raw material for the composition of a large number of medicines for the treatment of diseases of the respiratory system. It is in the Chinese tradition though that it acquired the greatest notoriety: in fact, the most ancient Chinese text of medicine in the world Hung-Di Nei-Jing, dating back about 5000 years ago, regarding its properties reads "preserves human life, maintaining the elastic body, helping to age over the years and not in the body".

Great characters such as, Hippocrates the father of medicine, have also spoken about it, saying that licorice is a good antidote against asthma, dry cough and other respiratory diseases. Theophrastus, universally recognized as the father of botany, praised it by associating it with the name Shiite, since the Shiites, an ancient nomadic people, consumed them in large quantities to be able to travel up to 12 days without water. It is also stated that Napoleon used it to relieve stomach pains before the battles and Jean Jacques Rousseau suggested to use it in his book "Emilio" as a way to educate children to a natural thing and not to spoil them with refined foods.

## 2.2. Uses of licorice

Finished and semi-finished products, obtained through the extraction of licorice root juice, are increasingly used in various industrial sectors, from food to herbal and pharmaceutical.

Nowdays, the food industry, namely the preparation of tablets, sweets, nougat, cocktails, liqueurs, grappa, licorice-flavored pasta, licorice ice cream, is the main area of consumption of these products, but there are also other relatively important outlets: the pharmaceutical field, for the

Tabella 1.1: settori d'uso dei prodotti di liquirizia

<b>MATERIA PRIMA:</b>	
Radici e stoloni	
<b>PRODOTTI OTTENUTI:</b>	
<b>SETTORI D'USO:</b>	
Dadini	Erboristeria
Radici naturali	Industria liquoristica
Radici decorticate	
Taglio tisane	
Macerato	
Polvere	Industria dolciaria Industria chimica Industria chimica farmaceutica
Estratto fluido	Industria farmaceutica
Estratto acquoso	Industria dolciaria
Estratto secco	Industria dei tabacchi Industria delle bevande

preparation of various products such as pills and syrups; the herbalist and phytotherapeutic, growing in recent years, thanks to the affirmation of a lifestyle that favors greater attention to preventive health and appearance, but also a healthy and balanced diet together with respect for the environment.

The licorice extract has many uses as well: in the industrial sector is used as a flavoring agent especially in the form of tobacco tanning for the manufacture of cigars, cigarettes or pipe tobacco; it's used as a coloring agent in the processing of dark beer; in the chemical field the pulp of the broken roots of licorice is treated with caustic soda to obtain a stabilizer of fire-fighting foamers

and the residue of this further operation is used in the preparation of substrates for the breeding of mushrooms and for the production of cartons from packaging.<sup>6</sup>

Currently, 40% of the Italian production of licorice roots, which is mainly Calabrian, is destined for the extraction of juice for the food industry; 35% of the production, however, is absorbed by herbal companies, 17% to the pharmaceutical market and the remaining 8% for second-tier industrial companies.<sup>1</sup>

In the ancient herbalist texts, until the last century, licorice was one of the most mentioned remedies and one of the most widely used ingredients for medical use.

In addition to the traditional sectors of use (food, herbal, pharmaceutical), licorice has also found a place in phytocosmetics, a sector of cosmetics characterized by the use of plant derivatives such as essential oils, natural colors, dry extracts and fluids. In fact, thanks to the specific actions of glycyrrhetic acid, endowed with decongestant, anti-irritating, anti-inflammatory and sweetening properties, licorice is also widely used in dentifrices and mouthwashes for oral hygiene or for the treatment of gingivitis or stomatitis, in sticks for lips, in facial lotions, in intimate cleansers, in products after sun to prevent irritation and redness, and again as a component of soaps, shampoos and bubble baths.<sup>2</sup>

### 2.3. The production

The licorice production cycle begins with the cultivation of the plant and continues up to the realization of the finished product. To better understand its most important aspects, it is useful to distinguish the entire cycle in two phases.

#### **Agricultural Phase:**

Since licorice is a spontaneous plant, cultivation requires little care and limited investments.

In the few cases of cultivation, the agricultural phases can be summarized as follows:

- trenching: an opening of the ground is necessary, especially on clay soils, and it can be up to 70-80 cm of depth;
- manuring: it's necessary to enrich the soil with about 400 quintals of manure per hectare;
- plowing: at a low depth, about 30 cm;
- choice cuttings and transplantation: 18-20 quintals of cuttings per hectare arranged horizontally in the furrows at 15 cm depth and at a distance of one another of 40 cm;
- 3 years of cures: nitrogen fertilization with granular ammonium nitrate, cures against pests and possible irrigations in summer;
- on the 4th year there's the harvest: mowed the aerial part of the plants, the production moves to the grubbing and the collection of roots and stilons through plowing, first mechanical and then manual, in order to leave the roots less developed and deeper on the ground, in order to preserve the plantation for the productions of the following years.<sup>3</sup>

Harvesting begins in October, between the third and fourth year of life of plants, when the leaves, after the first rains, begin to dry in preparation of the period of vegetative rest, during which the rhizomes reach the maximum concentration of glycyrrhizin.

After harvesting, the roots are reduced into fragments of about 20-30 cm, dried up to 10% of moisture, assembled in bales and sent to the following processing stages.

The production of roots varies considerably in terms of quality and quantity in relation to numerous factors, some agro-climatic (nature of the soil, composition, humidity), others of a technical-cultural

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<sup>1</sup> cfr. [www.istat.it](http://www.istat.it)

<sup>6</sup> cfr. Fardella G.G. - Privitera D., *Iprodotti della Calabria: il caso della liquirizia*, Lamffa Editore, Reggio Calabria, 1999.

<sup>3</sup> cfr. Bosso B., *La liquirizia: conoscerla e coltivarla*. Edizione Agricole. Bologna. 1990.

nature (workings, alternatives, cultivation practices, collection). The hilly soils, being basically clayey, do not allow the development of the root, on the contrary the roots that grow in sandy and slightly alkaline soils allow the best production.

Overall, the average yield per acre ranges from 4 to 5 tons and each terrain produces a quality crop every 4 years.<sup>4</sup>

### **Industrial phase and processing cycle:**

The industrial activity of the transformation of licorice, spanning from the processing of natural roots to the extraction of juice, dates back to the period between the end of the eighteenth century and the beginning of the nineteenth century. Back then this activity was allocated in the so-called "conci", the artisan and/or industrial companies located in the areas most suited to the cultivation of licorice.

Although in a different way and with more advanced technologies, the operation of industrial processing of liquorice roots is still divided into different phases according to the finished products and the sectors of use.

The first phase of the processing cycle is represented by the selection and cleaning of roots from soil and vegetation water, contained in the same roots for about 50% of their effective weight.

If the final product are the classic or decorticated natural "root sticks" for direct consumption, you must select the roots that are best suited for this purpose, both on the formal side, in terms of diameter, length and color, and substantial for qualitative content. The carefully selected roots are ready for drying, which takes place in the open air, depending on the season, for about 3-4 months.<sup>5</sup>

After this period of time, with special shears, the roots are manually cut into uniform sticks, left to mature in covered areas, in arcaded rooms, for about 2 weeks. After a further washing phase, they are decorticated and calibrated, according to the particular needs required by the sector of use, medium-large calibration for the herbal sector, thin for the liquor industry.<sup>6</sup>

The packaging generally takes place in one-kilogram bands, perfectly balanced, while the fragments of roots that are not perfectly regular generate the so-called "diced" and the "tisane cut".

If, on the other hand, the end product is the root extract for the production of semi-finished or finished products such as so-called "pastigliaggi", the processing steps following the cleaning and drying process take on very different connotations.

The first phase of processing consists in defatting and grinding of the roots through a "root shredder" in order to obtain small fragments, which are then defiled in the form of a uniform pulp.

The juice extraction takes place thanks to the water solubility of the substances contained in the roots. It occurs through more or less modern and automated systems which mix the paste with water, at high temperatures, that acts from solvent.

The extraction can take place with the discontinuous system, in which the extraction is carried out through a reactor, open or closed, provided inside stirrers. Those stirrers, moving, help the weakened paste to come into contact with the solvent liquid at a temperature of about 160 ° C. The

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<sup>4</sup> cfr. [http://www.licorice.org/The Plant/the\\_plant.htm](http://www.licorice.org/The Plant/the_plant.htm).

<sup>5</sup> cfr. Fardella G. G.- Privitera D., *prodotti tipici della Calabria: il caso della liquirizia*. Laruffa Editore, Reggio Calabria, 1999.

<sup>6</sup> cfr. Bosso B., *La liquirizia: conoscerla e coltivarla*. Edizione Agricole, Bologna. 1990.

extraction can otherwise take place with the continuous system, that employs the screw extractor or the carousel extractor. Once the juice has been extracted, the next processing steps are aimed at purifying and concentrating the extract itself, depending on whether the manufacturing company aims to produce semi-finished or finished products.

The purification takes place in large sedimentation tanks, in which the extract is left to rest in so that the slag is deposited by decanting on the bottom and can be subsequently removed. The concentration, however, occurs in large open containers with ladles that, at high temperatures, evaporate the water, bringing the juice to the optimum degree of consistency. At the end of this phase, the semi-finished product, black, dense and with an unmistakable fragrance, reached the right degree of cooling and is ready to be used for various forms of use.

In the confectionery industries, the process continues with the extrusion, that is with the spinning of the dough in special prototype machinery, allowing to give it the desired shapes and sizes according to the tablets they want to obtain, flavored with essences like mint or aniseed, or treated with molasses or arabic gum to give life to differentiated products.

In the production of sweets, the final processes of the entire production life cycle are: final drying, conducted in special rooms at a temperature of about 40 ° C, sterilization and polishing, which occurs exclusively with strong water vapor jets without addition of any chemical substance.

Nowadays the industrial processing of liquorice employs highly technological "know-how", mainly in the extraction phase, thanks to centuries-old knowledge and specific machinery that allow us to realize, even today, that perfect union between modern technology and ancient traditions.<sup>7</sup>

### 3. The Licorice Sector

#### 3.1. International licorice trade

Licorice can be found mainly in southern Europe such as Spain, Italy and France and in Asian countries such as Mongolia, Iran and Afghanistan, Australia, Brazil. According to the authoritative Encyclopedia Britannica the best licorice, from the qualitative point of view, arises spontaneously in Italy, precisely along the Ionian Calabrese coast.

Germany is the leading importer of liquorice coming from developing countries, mainly followed by France and Norway.

The demand for licorice roots continues to grow in Europe, especially for the production of MAG sweeteners (monoammonium Glyzyrrhizinat).

China, traditionally exporter of roots and extracts, is becoming instead an importer. This is not only caused by an increase in demand, but also by lower supplies in China.

The French company EVD and the German companies Hepner & Eschenbrenner, Norevo and CE Roeper supply the majority of the European market for liquorice extract. However, most of the supplies come from mining facilities in non-European countries.

Spain and Italy produce a significant amount of roots, but the total production of licorice extract does not go beyond a few hundred tons.

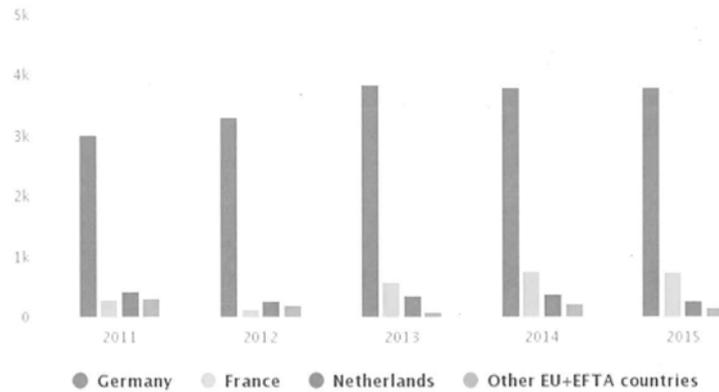
Although licorice roots are grown in a large area that extends from Iran to China, mining is limited to China and Iran. The countries of north-eastern Europe account for most of the European licorice imports for use in food applications.<sup>8</sup>

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<sup>7</sup> Pulimeni W. - Calapai R., *liquirizia: impieghi e mercato*, Tesi di laurea discussa alla Facoltà di Economia e Commercio, Università di Messina, 2003.

<sup>8</sup> cfr. dati Eurostat 2016.

Figura I.2: European Imports of liquorice from developing countries



Fonte: Eurostat 2016

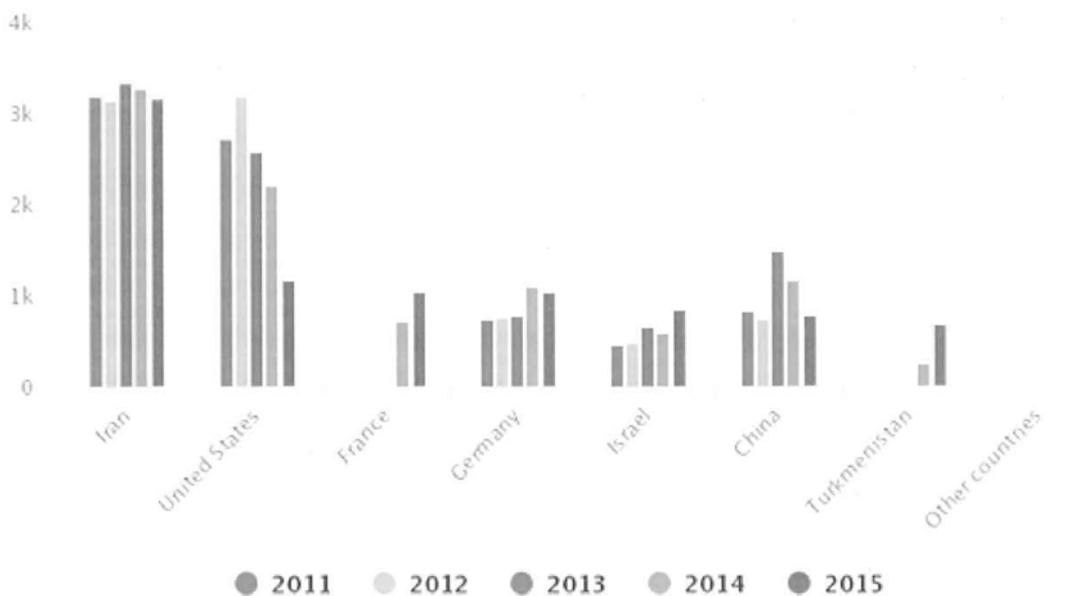
European liquorice root producers are not very competitive worldwide, as labor costs for collection are high.

Root collection takes place mainly in Central Asia (Iran, Turkmenistan, Afghanistan and China). Most of the mining facilities are located in Iran and China. However, Chinese licorice producers are increasingly turning their sales towards the domestic market. The analyzes carried out by the Eurostat institute show that Turkmenistan is an emerging supplier of licorice extracts.<sup>9</sup>

Licorice extract has a unique flavor profile and is difficult to replace, as a result, food producers continue to buy liquorice extract even when prices are high. Although the collection of licorice roots is very accessible, the extraction of liquorice requires significant investments. Furthermore, it is necessary to consider production instability linked to the climate and to the characteristics of the plant, which puts consumer materials at risk.<sup>10</sup>

The data previously exposed are shown in the figure 1.3.

Figure 1.3: Suppliers of liquorice to Europe



Fonte: Eurostat 2016

<sup>9</sup> cfr. dati Eurostat 2016

<sup>10</sup> cfr. CBI Competition 2016.

### 3.2. Internal licorice trade in Italy

The share of licorice cultivated in Italy, from a global perspective, assumes a marginal importance; in fact, as we can see in Figure 1.4, according to Ismea data collected through the economic observatory of official plants in June 2013, the commercial part of licorice, the root, has an annual use equal to 348,000 kg, for a total annual value equal to 814.329 Euro, so the average unit value of the licorice root is equal to 0.43 Euro / Kg, making it one of the first 40 official plants based on this parameter.<sup>11</sup>

Figure 1.4: List of the main cultivated and cultivable species in Italy (2013)

n. progr.	nome comune	parte commerciale	utilizzo	n. progr.	nome comune	parte commerciale	valore
1	mirtillo nero	frutto	3.614.400	1	mirtillo nero	frutto	15.035.904
2	vite rossa	seme	2.439.600	2	zafferano	stigmi	9.828.000
3	ginkgo	foglia	2.160.000	3	vite rossa	seme	6.830.880
4	cardo mariano	frutto	1.920.000	4	ginkgo	foglia	6.458.400
5	finocchio	frutto	480.000	5	cardo mariano	frutto	3.494.400
6	passiflora incarnata	parte aerea	432.000	6	passiflora incarnata	parte aerea	2.950.560
7	camomilla	fiore	426.000	7	genziana	radice	2.106.000
8	cipolla	bulbo	360.000	8	camomilla	fiore	1.938.300
9	origano	foglia	360.000	9	valeriana	radice	1.716.000
10	rosmarino	foglia	351.600	10	cartamo	fiore	1.638.000
11	liquirizia	radice	348.000	11	rabarbaro	radice	1.321.320
12	asserzio romano	parte aerea con fiori	300.000	12	origano	foglie	1.170.000
13	aglio	bulbo	240.000	13	aloe	succo	1.146.600
14	coriandolo	seme	240.000	14	cipolla	bulbo	1.123.200
15	valeriana	radice	240.000	15	finocchio	frutto	936.000
16	anice	frutto	216.000	16	liquirizia	radice	814.320
17	melliloto	parte aerea con fiori	205.200	17	anice	frutto	786.240
18	carciofo	foglia	192.000	18	aglio	bulbo	748.800
19	rabarbaro	radice	184.800	19	echinacea angustifolia	radice	748.800
20	aloe	succo	180.000	20	asserzio romano	parte aerea con fiori	585.000
21	cartamo	fiore	180.000	21	coriandolo	seme	547.200
22	genziana	radice	180.000	22	rosa canina	frutto	546.000
23	ginepro	frutto	180.000	23	tarassaco	radici	514.800
24	fagiolo	baccello	123.600	24	angelica	radice	507.000
25	arancio amaro	pericarpo	120.000	25	malva	fiori	468.000
26	rosa canina	frutto	120.000	26	rosmarino	foglia	457.080
27	asserzio gentile	parte aerea con fiori	109.200	27	carciofo	foglia	449.280
28	biancospino	fiori e foglie	108.000	28	melliloto	parte aerea con fiori	400.140
29	melissa	foglia	72.000	29	escholzia	parte aerea	390.000
30	menta piperita	foglia	72.000	30	arancio amaro	pericarpo	382.800

Fonte: Assoerbe, FIPFO, SISTE

Regarding exports, according to the Ismea observatory, in 2011 the total of Italian exports of medical plants and their derivatives amounted to about 82 thousand tons with revenues of 413 million euros. Compared to total exports of agricultural and food products, the sector represents around 1.4%.

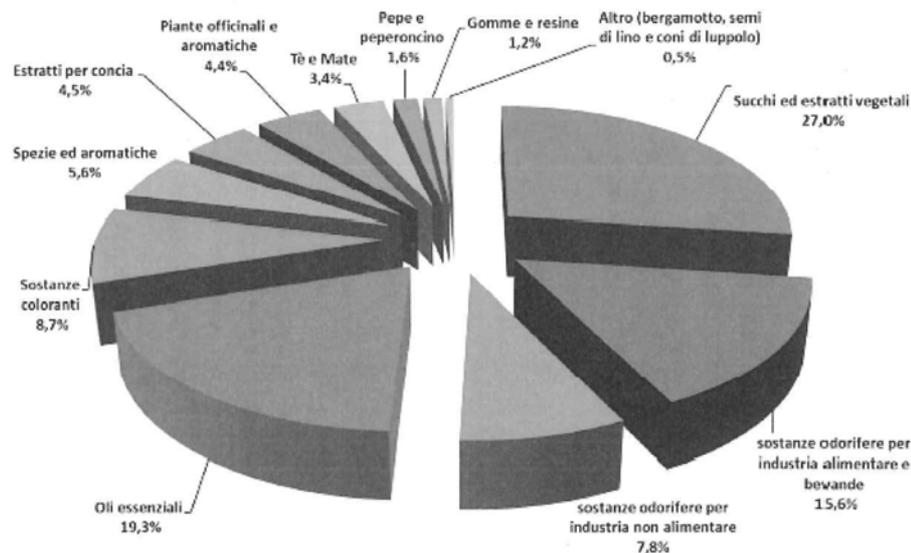
Among the most exported products, the main items are:

- vegetable juices and extracts, substantially including unspecified juices and extracts (CN code 13021980), licorice juices and extracts, excluding those with a sucrose content exceeding 10% (CN code 130212), carob beans and guar seeds;
- odoriferous substances for food use, which includes CN codes 330210 and 330290 (where it should again be reiterated that the products in this heading are not traceable to certain officinal species and their derivatives, nor to natural or chemical origin);
- essential oils, mainly essential oils not terpeneless of lemon and bergamot, but also that of orange;

<sup>11</sup> cfr. dati Ismea. secondo l'osservatorio economico delle piante officinali, del giugno 2013.

- spices and aromatic herbs and medicinal plants used mainly in perfumery, medicine or for insecticides and pesticides, that considered together account for about 10%.<sup>12</sup>

Figura 1.5: Prodotti agricoli e alimentari italiani più esportati



Fonte: elaborazioni ISMEA su dati Istat

The Italian region that mainly cultivates licorice is Calabria (about 80% of the total national production), especially along the Ionian coast. In this area the earth provides all that is needed in terms of climate and soil composition so that the plant, belonging to the family Papilionaceae, acquires the right content of glycyrrhizina, the active ingredient that characterizes its juice. The Calabrian licorice is exported to 25 countries around the world and according to the authoritative Encyclopedia Britannica in the 1922 edition "the best licorice is made in Calabria".<sup>13</sup>

Other regions that still grow Licorice in Italy are Abruzzo, and in smaller quantities Molise, Campania, Sicily and Sardinia.<sup>14</sup>

### 3.3. Competitors<sup>15</sup>

The Amarelli, establishing itself in a niche market, also owns a particular and carefully selected clientele that however deviates from the targets defined by the other companies operating in the market. Two hundred and more centuries of history have naturally subject the company to considerable and multiple changes in the sector, customers and companies.

According to a research carried out in 1997, more than a decade ago, the Italian licorice market was presented as follows:

<sup>12</sup> cfr. dati Ismea, secondo l'osservatorio economico delle piante officinali, del giugno 2013.

<sup>13</sup> cfr. <https://www.britannica.com/>.

<sup>14</sup> cfr. dati Ismea, secondo l'osservatorio economico delle piante officinali, del giugno 2013.

<sup>15</sup> The information included in the present section has been taken from Vitetti A. (2011). *L'internazionalizzazione delle PMI: Il caso Amarelli S.A.S tra tradizione ed innovazione*. Tesi di Laurea. Università Luiss Guido Carli. Anno Accademico 2011-2012.

Principali imprese di lavorazione di radici di liquirizia nel 1996<sup>48</sup>:

AZIENDE	LOCALIZZAZIONE NE STABILIMENTI	ATTIVITA' PRINCIPALI	FATTURATO (milioni di lire)	ESTERO	DIPENDENTI (N)
AMARELLI I.S.A.S	ROSSANO (CS)	PASTIGLIAGGI	3.000	35%	21
COSENTINO	CROTONE	ERBORISTERIA	600-700	-	4
MENOZZI DE ROSA S.P.A	ATRI (TR)	PASTIGLIAGGI	N.D.	N.D	52
PREZIA S.R.L	SIDERNO (RC)	ESTRATTI PASTIGLIAGGI	2000-2500	50%	7
SAILA S.P.A	MONTESILVANO (TE)	CONFETTERIA PASTIGLIAGGI	15000	-	264
RAO ERBE	SAN GREGORIO DI CATANIA	ERBORISTERIA	N.D.	-	3
ZAGARES E S.R.L	RENDE (CS)	ESTRATTI PASTIGLIAGGI	1050	10%	18
SILAGUM S.R.L	LAMEZIA TERME (CZ)	CONFETTERIA PASTIGLIAGGI	18000	50%	20

Fonte: elaborazione da Fardella, pg.37 grafico 4.6

As for the sales channels used by these companies, Amarelli and Cosentino relied mostly on dealers; Zagaresi to agents and to a concessionaire; Saila employed a direct distributive force with agents and representatives, while as regards the production of the Prezia company, it sold mostly semi-finished products to the confectionery industries, making a 50% of the turnover abroad. Naturally, since then, the situation of the companies competing in the Italian and foreign market in the licorice sector has changed consistently. Among the companies that have increased their market share, reaching a significant competitive position, we can mention:

#### *Perfetti Van Molle.*

This company was founded in 1913 in Lainate (MI): it was born as a small candy production business by Augusto Perfetti; his sons Ambrogio and Egidio sold the products of the shop in the district.

In 1946, the Perfetti brothers brought the family business to an industrial dimension by founding Dolcificio Lombardo, a company with 50 employees that after a few years became the Perfetti SpA. During the Italian economic boom, Perfetti was the first company to produce chewing gum, brought to Italy by American soldiers during the war and whose consumption was growing strongly; in 1969 the Brooklyn chewing gum was launched which, thanks to an effective advertising campaign, reached a 90% market share.

Towards the end of the '70s many new brands were created (Alpenliebe, Vigorsol, Happydent, Big Babol), made popular by advertising.

In the 80s the company began to grow and expand, acquiring Caremoli (under the GOLIA brand) in 1986. Gelco (Goleador) in 1987 and La Giulia in 1991.

The policy of foreign expansion started from Mediterranean Europe (Greece and Turkey), and then continued until the conclusion of commercial agreements with Van Melle, strong in Northern Europe and the East, whose subsequent developments were the entry into the ownership and finally the acquisition in 2001.

The Perfetti group, market leader in Italy and third worldwide in the field of caramel, confectionery and chewing gum, bought in 2006 the Spanish manufacturer of lollipop Chupa Chups for 440 million euro, realizing then in 2009 a turnover of 2,079 million euro with a workforce of 17 thousand employees. Among the brands belonging to PERFETTI S.P.A there are: Vigorsol, Alpenliebe, Big Babol, Brooklyn, Chupa Chups, Daygum, Frisk, Fruittella, Golia, Vivident, Morositas (...).

In particular, the brand that competes with the Amarelli company is represented by Morositas, which however is a licorice-flavored candy.

The group has its headquarters in Lainate (MI) and Breda (The Netherlands), while there are 35 subsidiaries in the 5 continents, of which 31 are also production units.

#### *La Menozzi de Rosa.*

In an ancient monastery, in Atri, already in 1836 the Dominican friars extracted the licorice juice thanks to the excellent quality of the roots that they collected in the surrounding area, while the Cavalier De Rosa organized the industrial processing of this legume and its derivatives.

In 1950 Aurelio Menozzi started a new business for the extraction of liquorice which later incorporated R. De Rosa into the current Aurelio Menozzi & R. De Rosa.

The processing of licorice is carried out with stainless steel equipment with the help of low temperature technology to fully maintain the purity and the organoleptic properties and not to burn the natural sugars and the thermolabile substances that make up the aroma<sup>16</sup>.

Even today, the core business of Menozzi de Rosa remains focused in the segment of the small basic confectionery industry, not forgetting what is the main product: licorice.

#### *Saila.*

The Saila Menta of Silvi Marina, in the province of Pescara, was founded in 1937 by the Barabaschi family. The name Saila which means "joint stock calabrian licorice company", was until 1994 managed by the three Barabaschi brothers.

The most privileged sector is the confectionery sector that produces mint dragees, licorice and fruit candies.

In 1994 the family decided to sell the company to the American multinational Warner Lambert.

The company from ABruzzo owned an extensive distribution network in the peninsula, a well-known brand thanks above all to robust advertising campaigns and a commercial organization based on advanced technologies, interesting elements for which the American multinational was in favor of the acquisition.

In Italy, Warner Lambert markets the Adams brands. among which the most famous product are the Malls cough candy, a \$ 400 million worldwide business. In addition, it sells sugar-free chewing gum under the *Trident* brand, the *Charms* and *Sanagola* candies. The purchase of Saila Menta is part of an extremely aggressive expansion strategy in Europe.

After this acquisition, the Saila was then bought in 2007 by the Leaf group, which also owns the brands Dietorelle, Sperlari and Dietor obtaining exclusive distribution for Italy.

In February 2012 the Leaf group then merged with the Swedish company Cloetta<sup>17</sup>.

#### *Nature Med s.r.l.*

The Nature Med s.r.l industry has its roots in the Zagarese industry, a company from Cosenza dating back to 1886. The processing of licorice in this family dates back to the seventeenth century even if the products obtained are distributed exclusively between relatives and friends. Only later the small family company Zagarese decided to expand by supplying its offer in the neighboring areas and slowly also to the other regions. With the new management it reached the necessary

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<sup>16</sup> <http://www.menozziderosa.com/italiano/>

<sup>17</sup> [http://en.wikipedia.org/wiki/Leaf\\_International](http://en.wikipedia.org/wiki/Leaf_International)

technological knowledge and decided to focus on quality and craftsmanship of their products. A product portfolio is therefore born, mostly related to the confectionery and pharmaceutical sector: the Zen line, particularly young, born for bars, tobaccos and GDO; the confectionery line, with the typical confectionery and caramel products deriving from liquorice; the pharmaceutical line, more organic; the herbalists line, reserved for natural products shops and liquors.

The new Zagarese, Nature Med, first worked for third parties, for prestigious brands already established on the market such as Saila, Pastiglie Leoni and others. Only later it opted for the direct marketing of its own brands, focusing on investments in research and development and on the search for new markets.<sup>18</sup>

Although this company, more than the others, by tradition and origin reflects very much that Amarelli, it differs mostly for the production that however does not provide high differentiation and remains linked to the primary business and also because it remains mostly anchored to the national territory.

Although licorice is a refined product, not appreciated by everyone and mostly connected to a niche positioning, its use in several sectors allows greater diffusion. The growth of competitors, the expansion of the reference market, the innovations and the differentiations that are associated with this leguminous, have allowed a rapid development of the market, binding the original producers that, in order to continue to maintain their position and being competitive, need to be constantly on the cutting edge and innovative.

## 4. Licorice Amarelli style

### 4.1. Licorice for tasting

#### 4.1.1. Manufacturing: tradition and technology

Amarelli manufactures high quality licorice in a natural way, trying to perfectly link the craft tradition based on a centuries-old experience with the most modern industrial technologies.

Once upon a time there were boilers fired by wood to make the liquorice boil and the work done by men was enormous and tiring. The fire was fed with wood coming from the mountains of the pre-Sila or sansa coming from the milling of the olives of the same Amarelli family.

The root was crushed by hand with grindstones, which dates back to 1700 and is still functioning today, although it has been placed outside the production process.

The root so crushed was put to boil and turned continuously by hand.

Then it was made to solidify and placed on marble surfaces, where women worked it by hand with great skill and speed; sticks were made and cut into pieces of various shapes and dried in a stove.

Then it was packaged in boxes.

Nowadays the roots, chopped up by a special machine, pass through a series of very modern and computerized phases, while in the final phases of cooking we return to the artisan stage. At this point the production is still similar to what was described and illustrated by the great travelers of the eighteenth century, including the Abbot of Saint-Non. Of course there is no longer the direct fire under the big "bowl" in which the black paste boils, there aren't men who laboriously run the liquorice to solidify it, but there is still - next to the "basin" - a "licorice master" that controls the exact solidification point of the product.

Only through great experience, handed down from father to son for centuries, the licorice master can identify the exact moment in which the pasta has reached the optimal consistency. It is precisely for this reason that the company favors the employment of local people, creating a close bond of trust and mutual respect with its employees.

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<sup>18</sup> <http://www.naturemed.it/ita/storia.htm>

Dense, black, glossy and perfumed paste is brought to the desired shapes through a series of prototype machines which are the result of centuries-old company experience.

After having given the desired shape to the licorice, a further process is carried out: the polishing, which still occurs exclusively with the use of strong jets of water vapor, without addition, therefore, of any chemical substance.

At this point the licorice, bright and seductive, are ready to be packaged and distributed on the market in the famous metal cans.

#### 4.1.2. Amarelli products

In an industry largely characterized by the presence of large companies, Amarelli has focused on a niche market, aiming at the highest level among licorice consumers.

##### *Classic licorice*

The "classic" portfolio of products offered by Amarelli includes everything that can be obtained from liquorice roots: the simple stick of raw wood, the pure liquorice with a natural scent or with an added aroma of anise or mint, the scented gummy liquorice all 'orange and purple and finally the series of confectionery liquorice products, from the classic "bianconero" to the highly sought-after "sassolino dello Ionio". It can be summarized as follows:

Spezzata	Liquirizia pura spezzata in pezzi regolari
Spezzatina	Tronchetti di liquirizia pura
Chicchi	Liquirizia pura in pezzetti tondeggianti piccoli e regolari
Favette	Liquirizia pura, aromatizzata con menta naturale, dalla forma appiattita
Rombetti	Liquirizia pura, tagliata in piccoli rombi con un aroma naturale di anice
Assabesi	Liquirizia con gomma arabica, aromatizzata con anice naturale
Morette	Piccola mora di liquirizia con gomma arabica e aroma naturale di anice o d'arancia
Senatori	Bottoncini di liquirizia con gomma arabica, profumati alla violetta
Bianconeri	Favette di liquirizia, pura alla menta, confettati con un sottile strato di zucchero
Amarellini	Favette di liquirizia, pura alla menta, confettati con un sottile strato di zucchero delicatamente colorate
Bastoncini	Radici di liquirizia accuratamente selezionate
Sassolini dello Ionio	Assabesi confettati con un sottile strato di zucchero delicatamente colorati

Fonte: elaborazione sui dati Amarelli tabella 4.4

##### *New interpretations of licorice and collaborations*

In the name of continuous research and constant updating and development of the product, Amarelli has aimed at expanding its horizons and entering different sectors from the core, with other products.

The factory offers today, in addition to the classic products already described, beer, liqueurs and grappa, jams but also refined tagliolini with liquorice aroma to amaze at the table with new flavors; as well as cookies, nougat, croissants, ice cream, dark chocolate and milk chocolate embellished with a heart of licorice.

The Amarelli brand is an univocal identification element of absolute strength, capable of evoking sensations of quality, trust, craftsmanship and territoriality. This is why the extension of the brand to market completely different products in addition to those just mentioned, such as shampoo shower or cologne water flavored with liquorice, is a winning product policy.

All these innovations, introduced progressively from the old Rossano house, are the result of a continuous search for new ways to attract the consumer, who becomes increasingly demanding but at the same time stimulated by the same company to try new sensations and satisfy new needs, previously non-existent, now hidden in new products.

The exploration of new sectors, however, requires specific skills capable of combining the Amarelli family tradition with the experimentation of new fields of activity.

This is why Amarelli has always been careful to cultivate and develop relationships of various kinds with companies in the same sector or other sectors. Case in point, the sodalice with shower shampoo or perfume companies as well as pasta or chocolate, to give birth to products that are totally new, but that have as a common feature: the unmistakable fragrance of the mythical Calabrian liquorice. This is how Amarelli collaborations are born:

*Domori*: company specialized in the production of flavored chocolate and cataloged product du cru. The collaboration with Amarelli has favored the production of liquorice flavored chocolate bars, available on the market in 45g packs through joint brand.

*Fabbriche riunite torroni Benevento S.P.A.*: Italian company specialized in the production of high quality nougat: from the collaboration the licorice nougat was born.

*Pirro*: Calabrian company producing special dried pasta and fresh pasta. From the collaboration with the Amarelli company has been created the pasta with the aroma of licorice, lemon or hot pepper.

*Casa Guicciardini Strozzi*: the company, which is sited in Siena, collaborates with the Amarelli company to create the "Grappa di vernaccia di San Gimignano".

*Borsci*: a liquor company that has produced in collaboration with Amarelli an exclusive liqueur with a delicate aroma and an intense licorice flavor, available in 500 ml format.

*Officina Profumo Farmaceutica Santa Maria Novella*: ancient and prestigious Florentine company producing perfumes, cologne and cosmetic products. Thanks to the combination of the knowledge of this company and the Amarelli's, new products were created with essence of licorice.

*Azienda di sale Pugliesi Sarnelli*: the product resulting from this partnership is liquorice salt.

*Marvis*: from the collaboration with Marvis the licorice toothpaste is produced, but it is marketed exclusively by the Marvis brand.

Amarelli's collaborations have given rise to co-branding cases that have proved successful thanks to the constant commitment, to the meticulousness shown in knowing how to combine craftsmanship and technology in order to put on the market a high quality product.

The business has also developed a relationship of scientific collaboration with the University of Calabria, where the departments of chemistry and biology are studying the new therapeutic

properties of licorice, in the wake of some studies carried out in China that have shown that the extract could be a carrier against cancer.

#### 4.1.3. The Amarelli Market

Total production is about 500 tons / year and is absorbed by the Dolciario (40%), Herbal (40%), Pharmaceutical (15%) and the aromatic sector (5%).

In Italy sales are about 55% directly - in the FactoryStore in Rossano Calabro (about 25% of sales) and in the sales point in Naples - and about 45% through sales through agent, wholesale and points specialized external sales such as pharmacies, pastry shops, wine shops.

Abroad, Amarelli liquorice reaches 25 countries including France (where Amarelli products are on the shelves of Galeries Lafayette and Magasin du Nord), United Kingdom (Harrod's), Spain, Germany, Holland and the United States, and also in Japan and United Arab Emirates (export accounts for an average of 30% of turnover). Con la collaborazione con le firme dell'alta cucina la liquirizia Amarelli esce dalle confetterie per entrare nel settore dell'alta cucina firmata da grandi chef come Alfonso Iaccarino Gualtiero Marchesi, Pinuccio Alia, tanto per citarne alcuni.

In France, Alain Ducasse, the famous chef from Paris, inserts it in his creations. To enhance the products, Ducasse decided to exhibit the photo of the producers in a boutique boulangerie of sophistication.

This shows that licorice is appreciated not only for its goodness but for the centuries-old history it intends to transmit and which is a product of the land that found in the South and in particular in Rossano an achievement beyond the food market becoming, mainly, a spokesperson for a cultural message: enhancing the resources of its territory.

### 4.2. Licorice as a vehicle of the region's culture and history of

#### 4.2.1. The Licorice Museum "Giorgio Amarelli"

The museum was wanted and imagined by Giorgio in the desire to show to the public a unique entrepreneurial experience, as well as the history of a unique product of the Calabrian territory. It occupies a good part of the ground floor of the Amarelli house in the homonymous district of Rossano and it was inaugurated in 2001, its construction was curated by the architect Giulio Pane.

The chosen guiding theme is the story of the family and of the company, through an exemplification of the moments and the most significant documentation. The visitor receives a variety of emotions from the biographies of the illustrious ancestors, from the ancient manuscripts with traces of the commercial operations of the seventeenth century (which highlights the remuneration of personnel directly proportional to the quantity produced, remuneration that still exists today) from the testimonies of the political vitality and the tools of domestic use, from the panoply of objects that evoke the costume of the countryside of the Rossano until a century ago. Some precious items of clothing, saddlery and period objects are a counterpoint in a symbolic environmental reconstruction.

The museum briefly shows the nature of the product, its evolution and the worldwide distribution and production of liquorice, with particular regard to Calabria. The narration then develops through the display of the processing systems illustrated by a production line, from the root bales to the

ancient manual tools and the first machinery, up to the modern steam extractors. It is also exposed an example of the complex accounting through which the management of a "concio" was held at the beginning of the nineteenth century.

The company's activity is then described through the most modern events, from the organization of marketing, to graphics, to the packaging of the product, to advertising.

A multimedia station allows the Internet connection to dedicated sites and the vision of corporate films that illustrate the production process and the company's history, also projected on the big screen.

The majority of the documentation presented comes from the company archives reorganized for the first time by Giorgio Amarelli (1938-1986) and reclassified by his brother Francesco. Other documents come from the family archive of Fortunato Amarelli (1902-1980), guarded by his son Alessandro, and a kind donation by Arturo Martucci di Scarfizzi.

Giuseppe Amarelli (1904-1990) was the one that preserved and cataloged the machinery: small ones have now been placed in the Museum spaces while for the others an adequate outdoor arrangement is imminent. Jacobella Martucci di Scarfizzi contributed with the donation of everyday objects as well as tools and relics of the homonymous "concio".

On November 17th 2001 the Museum was awarded the "Guggenheim Impresa & Cultura", the most important recognition in the museum area. The award was accompanied by the words: "For the new commitment to enhance the corporate culture, in a particular area of the South, linking a long history of success to development prospects and involving local social actors in growth processes".

In 2004 the Ministry of Posts and Telecommunications wanted to pay homage to the museum as part of a project to redevelop Italian cultural and artistic heritage, dedicating to it a postage stamp with a circulation of about three million representing a perspective of the fifteenth-century building.

In 2011, concurrently with the tenth anniversary, the museum was expanded with the opening of a new wing and a botanical garden connected to the licorice plant.

The number of visitors has grown systematically over time, from 3,000 in 2003 to 40,000 in 2009, reaching 60,000 in 2016, with a peak of about 1,000 visitors in a single day of August of the same year. The Touring Club mentions it as the second most visited business museum in Italy after Ferrari's one in Maranello.

At the end of the evocative free guided tour, visitors stop at the store adjacent to the museum to appreciate and buy the wide and varied range of Amarelli products.

The store had a revenue of over one million euros in 2016, contributing to the company's total revenue by a significant 25%.

Given the results, in 2017, the store's spaces have been expanded and reorganized with a project by architect Geo Lanza, transforming it into an immersive environment with videos, infographics and sensorial suggestions.

The new FactoryStore store, inaugurated on July 29th 2017, is another distinctive element of the company and it is only the beginning of an ambitious project which envisages the creation of a FactoryStore in every major city in the world.

#### 4.2.2. Communicating licorice: a unique product closely linked to the region

The same heritage built of the region's history, culture, tradition and values that find representation in the museum, constitutes the pivot around which the entire communication strategy of Amarelli rotates.

The location in the region of each single ring of the value chain, from harvesting to the packaging, makes Amarelli licorice products a local specialty, as much as it happens for the lemons and Amalfi, the truffles and Alba, the parmigiano and Emilia. Pure licorice is a typical product characterized by the particular characteristics of the soil and the optimal microclimate that offers spontaneously the root of licorice recognized in the scientific texts as the best and sweetest over the world. Its processing and workmanship have been passed down from father to son over the centuries, forging specialized workforce with specific know-how and skills. This makes Amarelli a multigenerational firm not only in respect to the owning family, also in reference to its workers. Emblematic in this respect is what Raffaele Gallina, licorice master, over seventy years old, recalls in an interview: "Before me there was my father and before him still my grandfather. Many things have changed, but the fundamentals of manufacturing are always just the same, as it is for enthusiasm".

Amarelli communicates itself and its regions through a refined use of mass-media, be it the participation to a television or broadcast program, an interview released to the press, or a chapter in a book or an entire book. Also the participation to conferences, special events and fairs is intended as a vehicle of communication.

The firm takes part in different fairs in Italy and abroad, increasing the visibility and the notoriety of the brand through the exposure of its products, always accompanied by printouts – invitation letters, posters, brochures, videos – telling the story of its heritage, in tune with the style of the business' institutional brochure. Fairs bring the firm to the market, testing its ability to sale its products, but also its capacity to interact with the industry, the distribution, the restoration, the world of gastronomy.

The Internet plays a very important role in the communication strategy designed by Fortunato. The integrated system consisting of the corporate website and social media - Facebook, Twitter, and a Youtube channel - becomes a powerful channel to spread the knowledge of products, retailers, history, also offering details about the manufacturing process and constantly updated news. The business is currently engaged in cultivating relationships with the new opinion leaders of the food and wine market, such as food bloggers. By offering its products, the business gets visibility and reviews in return, together with new recipes suggesting alternative and innovative use of licorice.

This representation of culture also has an educational value towards future generations, as it helps to increase their awareness, sense of belonging, love for the business - and therefore, the desire to perpetuate it - and for the region.

## 5. The elements that characterize Amarelli's strategy

What made it possible for a small family business, disadvantaged by the isolation and lack of adequate infrastructure in Calabria, to resist wars and destruction, fights for the hoarding of raw

materials and competitive pressures, time and fashions, as to passing down the business for fourteen generations?

In the long business' history it is possible to distinguish periods characterized by different contexts and strategies, and yet united by three elements that have constituted the common thread: quality, link with the region, and innovation. In a vision and oriented to pursue the longevity of the business, preserving its identity and values.

For over a century, from the foundation of the *concio* (the plant) to the mid-nineteenth century, the business, relying on innovation consisting of the "invention" of the *concio*, enjoyed the natural superior characteristics of the raw material and the millennial culture of processing present in the region. It also took advantage of the improvement of maritime transport and tax concessions granted by the Bourbons to the businesses in the industry to grow and expand its market, reaching the capital, Naples.

The first crisis in the sector came with the unification of Italy; Amarelli leveraged the superiority of the raw material to establish itself on the international markets, first of all the English one, particularly demanding and therefore able to recognize and appreciate the superiority given to the product by the raw material of the best quality.

With the entry in the twentieth century, the rythm of technological innovation changes, imposing the shortening of time intervals between one intervention and another. In the first three decades of the century, under the guidance of Nicola, the introduction of high capacity steam boilers, pumps and extruders improved the efficiency of processes, reducing costs and improving working conditions.

Giuseppe had to deal with difficult moments: the war on the price of raw material with the gigantic Mac Forber, the suspension of the activity of the *concio* during the Second World War, the deep industrial crisis of Calabria in the post-war period. During these years the sense of belonging to and strong link with the region is evident in its cultural traits, in continuity with the social and political commitment that had characterized the previous generations. The *concio* becomes much more than a simple production plant from which to make money, it represents a way of perpetuating the presence of the family in the region, of guaranteeing income and future for the families of the workers. To its survival, first, to its revival and modernization, subsequently, land, buildings, and other assets were sacrificed.

In this context, the business will be joined by Giorgio, the 13th generation. His era is characterized by a further acceleration of technological innovation, also experiencing the highest competitive pressure. A very challenging context, but also one in which the elements that characterize the business' strategy are combined in a more composite way, bulding the base of its resilience; ie its capacity over time to absorb and deal with challenges and changes in the financial markets, in the political and social environment, always reorganizing itself, and remaining sensitive to growth opportunities.

Surely it has been decisive an approach to business paying to economic and fnancial reuslts, but tempered by a moral sense deriving from the very long relationship with the region, with the environment and with the people surrounding the business.

The fundamental strategies characterizing the business' strategy during the last decades - the one leaded by Pina and, subsequently, by Fortunato, can be summarized as follows:

- Attention to quality, and strategic positioning of the product that assumes the world elite as the target audience;
- Relationship with the region characterized by a double-wire relationship: Amarelli, over time, has exploited the microclimatic and soil resources, processing an infesting root and making it the core business of its economic activity; on the other hand, it has offered employment, development, recognition to the Calabrian area, what finds the highest expression in the museum exhibition and in the involvement in cultural events;
- All-round innovation, achieved through investments in machinery, advanced technologies and staff skills, in compliance with the artisan tradition; but also through innovation in management, product, packaging, communication, aiming to create a relationship with the customer through investments in person-to-person, one to one marketing.  
If, until the 90s, Amarelli adopted a follower strategy - ie, liquorice was packaged in the Calabria sachet as the Saila marketed the Saila mint sachet - in those years Amarelli realizes to have distinctive skills and character and starts to leverage in them to build its competitive advantage.

The Amarelli brand has been synonymous with the most exquisite Italian liquorice in the world since 1731; an ambassador of taste and an ancient craft tradition, Amarelli still preserves the sense of an ancient processing, made of careful work and of wise experience, of entrepreneurial wisdom and love for its region.

The aim of Amarelli has always been to meet the new without breaking with tradition, the basic element of the success of the product. In the tradition we find Rossano's licorice culture, which for years has been an opportunity for work for the Rossano community and for all the inhabitants of the province of Cosenza, as well as being a source of pride for the economic history of Calabria.

All this has been accompanied by a wise management of succession processes. Lived in the past as a family fact, by virtue of which one became an heir and business leader as a mere consequence of being the son of the present owner, in the last generations education has received high and growing attention.

## 6. Challenges for the future

The author of the case interviewed Mr. Fortunato Amarelli, asking to describe the main challenges the business is facing for its future. Following, we report his views on this point.

*We have to continuously adjust our business model to the changing business and market environment, where traditional distribution channels - as distributors and retailers - are more and more leaving the stage to a different type of intermediary. We have to leverage on the experience we are making through the museum and the concept store. We have to extend our direct sales channels, by making more and more robust our e-commerce business model. Clients are more and more using social media to socialise their experiences with our product, what is causing a significant growth in direct sales. Today 40% of revenues are generated through emails; only three years ago it did not exceed 10%.*

*E-commerce is evolving dramatically, not only in volumes, but also in the way customers approach buying online. They have specific channels through which they buy*

*products online, this not anymore the time of generic e-commerce models; people do not buy “on the internet”, they choose to buy on specific portals, the most renown of which is Amazon, that is building almost a monopoly.*

*To reinforce our online channels, we have to build a strong sense of community, with our clients around the world feeling part of this community, with a strong sense of belonging to such community, and valuing the possibility to feel in the proper place when visiting one of our stores or corners around the world.*

*We have to replicate the idea of the concept store in different attractive locations and cities around the world, and extend to those phisical environment the same perception of being part of a community that our family and the firm have built in the geographical area of Rossano over the centuries.*

*Also, we have to continue exploring new applications of liquirice, and ”contamination” of products, and the consequent partnerships, as we already did for many products, both food such as pasta, rice, beer, sperits, almond, and non food, as bathofoam, perfumes, essences, etc.*

*Another issue is for sure reorganizing, ownership structure and be prepared to transfer to the next generation a manageable and govewrnable business, more and better institutionalized, able to go ahead even in the case the family wants to take distance from daily management and keep ownership.*

## 7. Aknowledgement

I want to express all my gratefulness to Pina, Franco, Fortunato and Margherita Amarelli, and their staff for opening so much of their family and business history, and for the assistance and support they provided during the meetings and interviews we had to prepare the case.



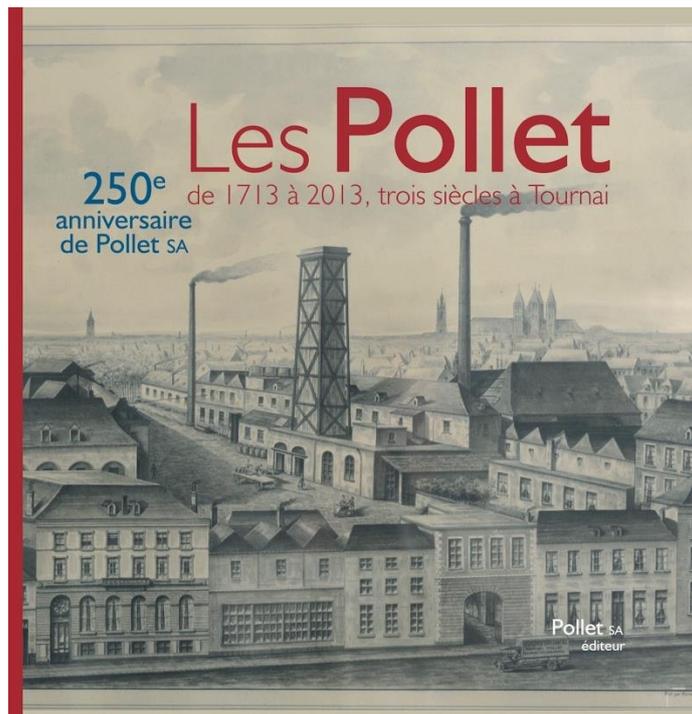
# The Pollet Case Study

Authors : Vincent Molly & Eddy Laveren  
(Antwerp Management School-Antwerp University)



## POLLET SA

### Case Study



By Vincent Molly & Eddy Laveren

**Prof. dr. Vincent Molly**

Co-Academic Director of the Family Business Community at Antwerp Management School;

Professor of Entrepreneurship & Family Business at KU Leuven

E-mail: [vincent.molly@ams.ac.be](mailto:vincent.molly@ams.ac.be)

**Prof. dr. Eddy Laveren**

Co-Academic Director of the Family Business Community at Antwerp Management School;

Professor of Financial Management & Entrepreneurship at University of Antwerp

E-mail: [eddy.laveren@uantwerpen.be](mailto:eddy.laveren@uantwerpen.be)

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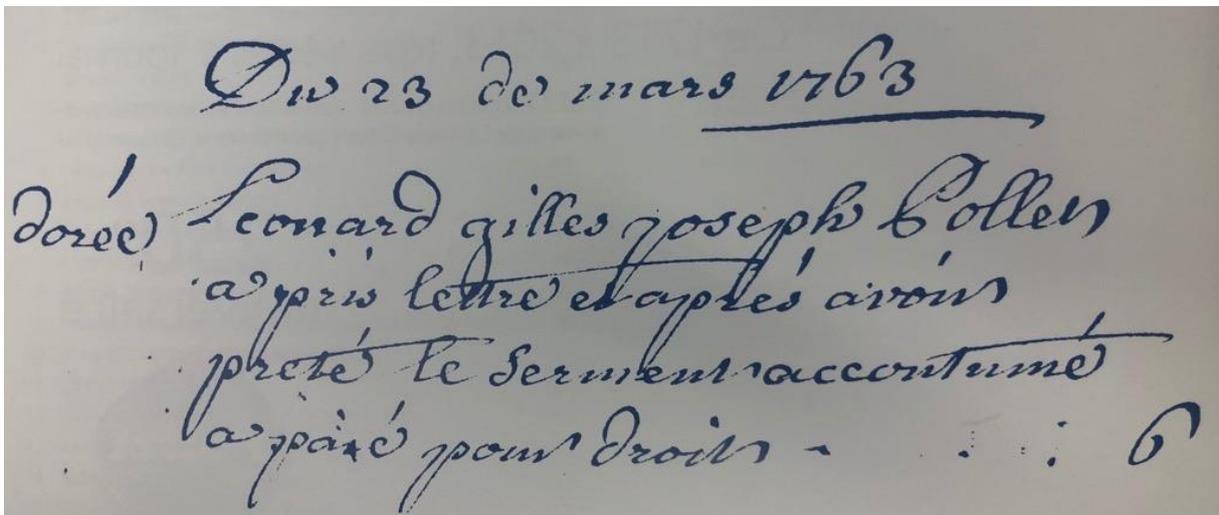
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# 1. Introduction

## 1.1 Pollet and Les Hénokiens

Writing about the Pollet case has been a unique and exciting experience. Located in Belgium in the city of Tournai, our journey through this family business' history took us back to the 18<sup>th</sup> century, from the French Revolution to the independence of Belgium, passing the two world wars, and crossing the different industrial revolutions. And each time again, the company survived, and this already since its inception in 1763.

Figure 1: The foundation of Pollet SA in 1763.



In 2013 Pollet celebrated their 250<sup>th</sup> anniversary, but its origins go even further back in time. The latest discoveries seem to indicate that the company's history even goes back to the beginning of the 18<sup>th</sup> century. All clear illustrations that this unique Belgian family business forms a real Hénokiens, the international association of family businesses and bicentenary companies of which they got member in 2013.

Besides Pollet's longevity, the family behind this company also forms a unique story from another perspective. Francine Pollet, family member of the 7<sup>th</sup> generation, was at the end of the previous century owner of two bicentary family firms, Pollet SA and Casterman, an editing company founded in 1780 and well-known for the publication of the albums of The

Adventures of Tintin. Eventually, Casterman got in hands of the Groupe Flammarion in 1999. But today, Pollet SA is still fully owned by the Pollet-D'Hondt family.

Writing this case study allowed us to explore and understand the patterns that already exist for more than 250 years, and which form part of the explanation for the success of the firm in the past, the present, and very likely in the future as well. This unique story can be a large source of inspiration for business families that want to safeguard the continuity of their firm and steer it past the current wave of industrial revolution.

## 1.2 Main research questions

As scholars active in the family business research field for many years, we were able to use extant knowledge from previous research and practical experience to derive some core research questions. The main research questions we approached, are listed below:

1. What is the main industry of your business and how does this relate to the development and strategy of your family firm?
2. How did key environmental forces and (regional, national) cultural forces influence the development of your business?
3. What are the major strategic and/or entrepreneurial events and initiatives during your history that have made you what you are today? And what are the most critical situations over the last generations?
4. To what extent has your family and business been oriented towards innovation and the generation of new ideas, experimentation and creative processes that have resulted in new initiatives/strategic actions, products or markets?
5. Do you generally have taken new initiatives/strategic actions ahead of your competitors proactively or have you preferred to "wait and see" and/or adopt "the new" later?
6. How did the history of your business develop with a focus on the family members' role and involvement?

7. What are your family's core values that are foundational for your family business and how have they related to growth and entrepreneurship?
8. How have the succession processes been managed in the past, and how did your family business' ownership, governance and management enhance or constrain your decision making related to growth and entrepreneurial opportunities?
9. What is your family's vision for continued ownership, management and governance to support the future growth over generations?
10. How does the family and particular family members (historically and today) have played a role in (local) networks and initiatives and how did they influence the business?

### 1.3 Methodology

To understand and develop this case study, we used a mixed research approach based on desk research and qualitative semi-structured interviews. We focused on the family and business' history since its inception and tried to gain a more thorough knowledge and a deeper understanding by interviewing two generations of family members.

Specific steps have been followed in order to systematically gather useful data and subsequently develop the case study.

The first step was to collect secondary data through desk research focusing on multiple sources such as literature, websites and newspaper articles. This allowed to gain a general understanding of the family and the firm and its structure, and to properly prepare the case study and the subsequent face-to-face interviews with family members.

In the second step we investigated some major aspects that resulted from step 1 and tried to gain a more thorough knowledge and a deeper understanding by interviewing two generations of family members: Antoine D'Hondt, family member of the 7<sup>th</sup> generation and current chairman of the family firm, and Jean-Nicolas D'Hondt, family member of the 8<sup>th</sup> generation and current CEO of the family firm. In these interviews we discussed the evolution

of the family and the firm in general, and the more recent history since Antoine D'hondt got in charge in particular.

In total, four interviews were conducted: two with Antoine D'Hondt and two with Jean-Nicolas D'Hondt in the period between April and August 2018. Three interviews took place face-to-face, while one interview was conducted by telephone. All the interviews were held in Dutch and were recorded if agreed on by the interviewers.

In the third step we prepared the transcript and started drafting the final case study. In this phase we developed the overall storyline for the case by integrating the two previous steps. Once the case study was completed, both Jean-Nicolas and Antoine D'Hondt were asked to read and comment on the text in order to approve the final written statements.

## 2. Pollet: from the past to the present and into the future

### 2.1 The firm

Pollet SA has a rich history that goes back to its foundation in 1763. This whole period of more than 250 years was full of opportunities and challenges which made the company of what we see of it today: a healthy family business of medium size that has set its stamp on the market and which has bright growth opportunities for the future.

#### 2.1.1 A historical perspective

When studying the company's history, several family CEO's and even external CEO's have been in charge of Pollet SA (see Table 1).

**Table 1:** Overview of CEO's

Name of CEO	Tenure	Family member
Léonard-Gilles Pollet	1763-1778	Yes
Widow Léonard-Gilles Pollet - Boucher	1778-1788	Yes
Simon-Léonard Pollet	1788-1830	Yes
Raphaël-Dominique Pollet	1830-1857	Yes
Widow Raphaël-Dominique Pollet - Pollet	1857-1868	Yes
Léonard Pollet & Edmond Cailliau	1868-1884	Yes
Edmond Cailliau & Robertine Pollet	1884-1895	Yes
Raphaël Pollet	1895-1957	Yes
Michel Pollet	1957-1978	Yes
Francine Pollet x Antoine D'Hondt	1978-2012	Yes
Patrick van Houtryve	1979-2007	No
Christophe Maisonneuve	2007-2012	No
Jean-Nicolas D'Hondt	2012-.....	Yes

Over a period of 3 centuries Pollet family members have been involved in 4 professions: producer of soap, salt, oil and detergents. Léonard-Gilles Pollet started the family firm in 1763 in Tournai. The artisanal business was specialized in producing soap, an activity which lasted for more than 2 centuries. In a period of 15 years, he laid the foundation of this unique family business, that after his death in 1778 got into the hands of his wife, who transferred the business activity after 10 years to their son Simon-Léonard in 1788. It was Simon-Léonard who further developed the firm and turned it into an industrial activity. He also diversified the family business' activities by starting with the production of oil and salt. In 1830 when the independence of Belgium was proclaimed, Simon-Léonard's son Raphaël-Dominique Pollet took over the firm and continued the further industrialization of his father. Soap and salt were sold in large numbers. Also the oil activity was very successful, serving as a resource in the production of soap and paint, and as fuel for lamps. By the end of his tenure, the refinement of salt was strongly reduced due to the large competition experienced by large manufacturers, putting this product no longer central in the family business' activities. In the period that followed after the death of Raphaël-Dominique Pollet until the end of the 19<sup>th</sup> century, the company and the economy were going through rough times, almost leading to the closure of the family business. In fact, it was a combination of a deteriorating market, the aging of the firm's machinery, unsuccessful successions and differing strategic visions within the family that heavily impacted on the company. Especially the demand for lamp oil significantly reduced during this period, with the introduction of gas and electricity as a deathblow for this activity.

Luckily, a young engineer of 25 years old, Raphaël Pollet, grandson of Raphaël-Dominique, was ready to turn around the family business's desperate situation. Apart from the soap business, he developed between the 2 World Wars new activities, such as Corona, the family's paint business in Valenciennes (France), and Sicomac, the plantation business in Congo. Especially the paint business was strongly developed, as it served a new market for Pollet's oil manufacturing. Instead of supplying this resource to the paint industry, Raphaël decided to start with the production of paint himself. In less than 15 years Corona became the second paint manufacturer in France. In 1966 the company was partly sold to Americans and totally left the family's hands in 1983. With regard to the plantation business, this activity was finally

sold in 1976 after the independence of the Congo Republic, which ended the family's Congolese adventure which took about 50 years.

In 1957 Michel Pollet, son of Raphaël, took over Pollet SA. He was a real chemist who loved to experiment and create new products. Through a strategic partnership with an American partner, which ended earlier than expected, he planted the seeds of a whole range of new products, such as liquid soaps and detergents serving the industrial cleaning market, which still play a significant role today. Despite these inventions, Michel did not manage to translate this created new product stream into business sales, bringing the company in a weak financial position at the end of the seventies. It's at this point when Michel's son-in-law Antoine D'Hondt offered help in restructuring and financing the family business, in close collaboration with two consecutive external CEO's, Patrick van Houtryve and Christophe Maisonneuve. Over the following period of 30 years, the urgently-needed changes were made, such as the introduction of a new commercial strategy, the relocation and modernization of the production facility and the development of a new enzyme product range. They form the base of the success the company experiences today under the leadership of Antoine's son Jean-Nicolas D'Hondt.

Figure 2: Activities of Pollet over generations.



### 2.1.2 Current activities and markets

Today, the company is still dedicated to cleanliness responding to the everyday needs of professional customers with eco-friendly products. To accomplish this, the company is loyal to the following values:

- Respect towards all stakeholders
- Accountable towards the environment and stakeholders
- Innovative mindset to bring renewal to the market
- Pragmatism in finding solutions to problems and challenges
- Excellence in everything they do

Their current cleaning product range contains about 150 different products of which they manufactured more than 4.000 tons in 2017. Every morning about 4 million m<sup>2</sup> of floors in supermarkets, sports halls or railway stations are cleaned with Pollet products. Many of their products go to distributors which arrange themselves as a hygiene one-stop-shop. Some larger customers such as the Belgian Railway Company, Auchan or Carrefour are delivered directly by the company.

Producing ecofriendly products has always been a high priority for Pollet SA. The fact that they are a pioneer in using enzymes and bacteria already since 1993 is probably the best illustration of this choice. In addition, they strongly focus on using ecofriendly packaging and sourcing. All of their packaging is 100% recyclable, and 85% of their product resources come from suppliers located at a maximum distance of 200km from Tournai. Today, 56% of the total volume being sold concerns eco-friendly products, where the company's goal is even to reach 70% by 2020. To put that into perspective, the average in the market is currently only 20%. The company today is CO<sub>2</sub> neutral thanks to their ecological products, their use of green energy, and a compensation programme in Ouganda.

*“We are still a chemical company, but without sustainability,  
there is no future for our company.” (Jean-Nicolas)*

The soap and detergent market today is largely in hands of a small number of multinational players having almost half of the market in their hands. The other half of the market is currently served by many local smaller players like Pollet SA. For the future, a consolidation is to be expected to take place in the market.

Despite its local presence in Tournai (Belgium), the company is very much international. They are present in 17 countries in Europe and beyond. Currently 65% of Pollet's sales figure is realized abroad, where France is their biggest market.

### 2.1.3 Key figures

Throughout history the family has had a large impact from a business-economic perspective. Especially the family's paint activity in Valenciennes (France) was very successful, employing 563 people in 1960 and realizing a sales figure of 350 million euro in 1966. At that moment, the family wasn't majority owner anymore after partly been taken over by the American PPG Industries Inc Pittsburg. Also Sicomac, the family's plantation business in Congo, was very successful, employing about 600 people at its top in the first half of the previous century. When turning to Pollet SA, the company employed about 100 people in the first half of the 20<sup>th</sup> century under the leadership of Raphaël Pollet. A number that felt back later on for various reasons. When Antoine D'Hondt and Francine Pollet got involved in the company in 1978 the family firm was not in best shape. However, the limited size of the company and the fact that the Pollet family had some other unrelated activities in their portfolio, definitely made it easier to deal with succession in the family. Since then, a lot of attention has been spent on creating a healthy company by focusing on profitability, optimization and cost reduction, thanks to Antoine D'Hondt's background and experience in banking.

*"If we would have been large, there would not have been Pollet today." (Jean-Nicolas)*

Today the company has a workforce of 44 people realizing about 8,5 million euro in revenue. Their ebitda is around 17%, which is really high in comparison to other companies in the sector. Where their realized growth in the past was around 1 to 3 percent, over the last three

years they realized a sales growth figure of about 20%. This can be explained among others by the strong focus on extending the sales team in the company in the last couple of years.

#### 2.1.4 Outlook for the future

For the future, it's the ambition of Jean-Nicolas D'Hondt, Pollet's current CEO and family member of the 8<sup>th</sup> generation, to multiply the company over the next 25 to 30 years, while at the same time safeguarding the family's control and independence and the company's continuity.

Over the years, Pollet's 'tree' has become very tall, but it has never been pruned. Therefore, 3 to 4 years ago, the company heavily invested in a thorough strategic audit, which allowed them to clearly answer questions such as: what do we want to sell, to whom, and in which countries. Thanks to this strategic exercise, they have a much clearer focus now on how to look at certain products, markets (B2B versus B2C) and countries. Recently, for example, they started to explore and deliver the Chinese market as one of the new markets on their list.

Today the company is focused on organic growth, but in the future more attention can go to growing through acquisition. This would be a logical step given the consolidation going on in the industry. Nevertheless, Jean-Nicolas is very well aware of the potential dangers of an M&A where many companies don't manage to get rewards out of an M&A, mainly because of integration problems. Working on the further professionalization of his team that becomes ready to 'digest' such an M&A is therefore of importance for the organization.

To let the company further thrive in the future, and to explore further expansion opportunities, Jean-Nicolas D'Hondt makes sure he is surrounded by specialists. At the level of management, he managed to hire some experts around him with a rich background, which gives him an edge over competitors. In the last couple of years he has attracted a number of highly-skilled managers in different positions, who are well paid in line with their expertise. At the level of the board he plans to further professionalize and to hire by 2019 two new outside board members. Also the chairman will be a non-family member. Installing this new board will

allow the company to strengthen its capacity especially in the direction of marketing and sales growth.

7 to 8 years ago, there was only a paper board, thus without involvement of outside directors. When Jean-Nicolas at that time entered the firm, the board was activated and was comprised of Jean-Nicolas, his father Antoine D'Hondt, the external CEO at that time, and 1 outside director. Further professionalization has thus been put high on the agenda of Jean-Nicolas D'Hondt.

*"I especially want to be challenged in the board." (Jean-Nicolas)*

## 2.2 The family

### 2.2.1 Origins

Léonard-Gilles Pollet was only 35 years old when he founded the soap business in 1763. Since then, besides his lineal descendants, also in-law family members played a significant role in continuing the legacy. The death of a Pollet family member resulted a number of times in a company controlled by the widow of the former CEO (see also Table 1). But also more recently, the entrance of Antoine D'Hondt in the seventies, and Jean-Nicolas D'Hondt in 2012 illustrate the strength of bringing capable in-laws into the company.

As history further shows, during rough times from an economic and business perspective, there has always been a family member with a strong personality, who was family-driven, and who absolutely wanted to restore the company. Raphaël Pollet has definitely played a decisive role in the company in the first half of previous century, after which the firm was taken over by Michel Pollet, family member of the 6<sup>th</sup> generation. The firm was further restructured by Antoine D'Hondt, son-in-law and belonging to the 7<sup>th</sup> generation. In the final decades of previous century, he managed to build the fundamentals of what we see today. And with Jean-

Nicolas D'Hondt on board, family member of the 8<sup>th</sup> generation, the future looks bright for the family business.

#### *2.2.1.1 5th generation*

Raphaël Pollet, son of Léonard Pollet, took over the company when he was only 25 years old, a firm which was at that time close to bankruptcy. It was a period in which the business activities almost vanished, and the factory was largely obsolete. Thanks to his great vision he managed to keep the 132-year-old family business alive and to put Pollet on the map again in Tournai and beyond. His presence was thus of utmost importance in the family business' survival.

From the moment when he got control over the firm, he introduced all the new technologies that were necessary to respond to the changing circumstances in the market. It was the start of the modern society with the introduction of electricity, the automobile, the telephone and the first airplanes. He successfully managed to adapt to these new circumstances by diversifying and internationalizing the family firm. Even the first World War didn't stop him from developing new business activities.

Besides being devoted to the family business and its employees, he played a major role in supporting arts and the patronage in Tournai. He was a very generous business man who upheld human values to the highest degree. During the second World War he even opened a library and a school in Tournai oriented towards the Congolese activities in which many local civilians were involved.

The period after the second World War was quite difficult, where Raphaël, already aged 75, struggled to introduce the necessary strategic changes. He stayed on board until he died in 1957, after which his son Michel took over the firm with the help of his cousin. The succession of Raphaël to his kids didn't go smoothly, which is one of the explanations for the extremely long tenure of Raphaël who eventually was in charge of the company for more than 60 years.

### *2.2.1.2 6<sup>th</sup> generation*

Michel Pollet, son of Raphaël, took over Pollet SA at an age of 37 after his father died in 1957. At that moment he already worked for the company as a chemist for 15 years. As a chemical engineer he was a brilliant scientist, but not a naturally-born business man. Despite this, he has always been highly respected by Antoine D'Hondt (7<sup>th</sup> generation), his son-in-law, and Jean-Nicolas (8<sup>th</sup> generation), his grandson. He was a master in experimenting in his laboratory and to create new products.

He run the company at a time when many technological changes took place. The market of soft soaps was gradually replaced by detergents, and also glycerin, one of the resources to produce soap, became synthetic. It was the period of the golden sixties, but the company struggled to adapt itself to the changing circumstances. Michel got help from his cousin Raphaël-Franz Pollet and his brother-in-law, and together they decided to phase out the production of oil and glycerine. In search of a new diversification strategy, they decided to develop an industrial cleaning activity together with an American partner in Boston, leading to the creation of a joint venture in 1963. A couple of years later, after the Americans lost interest in the European activities, Michel Pollet obtained all the know-how of industrial cleaning activities from the former partners in Boston. It continued his drive to develop a range of new products, such as liquid soaps and various detergents.

Today, still about a fifth of the firm's cashflow finds its origin in products invented by Michel. But invention is one thing. Bringing them to the market is another. And that's where Antoine D'Hondt, family member of the 7<sup>th</sup> generation, came in.

### *2.2.1.3 7<sup>th</sup> generation*

Antoine D'Hondt is 78 years old and married to Francine Pollet, daughter of Michel Pollet. He currently is still the chairman of the board of directors, after taking over this position from his wife in 2007. Together with his wife Francine they are the only shareholders of Pollet SA which is quite exceptional for a company with such a long history. However, pruning the family tree has never been a conscious choice in the history of the business family.

Antoine D'Hondt developed a rich career in the banking industry in different top management positions at Kredietbank Group, a large Belgian financial institution, which didn't allow him to take up an operational position within the company. However, he also had experience with the soap industry in which his own family was actively involved for many years.

Before Antoine and his wife became full owner of the company in 2003, the company was owned by Michel Pollet, his 3 sons and 1 daughter Francine, and his son-in-law Antoine. Antoine understood that he could only built up his involvement in the company defensively and with great respect towards his father-in-law. Given his top management position in the banking industry, operational involvement was not an option for Antoine. Therefore, in the period after the retirement of Michel Pollet at the end of the seventies, the leadership of the company was mainly in hands of two consecutive external CEOs who worked in close collaboration with Antoine D'Hondt. Monthly they had a meeting, especially to take strategic and financial decisions. At that time, also a minority of the shares was in hands of the management. Today, Antoine and his wife fully own the company, and the second external CEO is still on board in the top management team. He actually formed for a number of years a co-CEO-ship together with Jean-Nicolas, family member of the 8<sup>th</sup> generation, which was a good choice for Jean-Nicolas to gain the trust of the employees and other stakeholders.

For Antoine the company has always been an important way to develop the family patrimony and to safeguard the independence of the family. Thanks to his background as a banker he had analytical skills and knowledge of all the techniques of how to run a business. Never purely driven by financial motives, but especially by his Christian persuasion and human values. In this respect, Pollet SA has also been an important instrument for him to give an answer to the excesses of Neoliberalism broadly found in society.

### 2.2.2 The current generation

Jean-Nicolas was born in 1980 and graduated as commercial engineer. He entered the family business in 2012 after working for 7 years with Delhaize as a retail improvement director in Belgium and abroad. At first, he was not really interested in taking over the company. But

especially thanks to his father and his former brother in-law he gradually gained interest in becoming an entrepreneur and in having your own company. When Jean-Nicolas' father eventually wanted to take a step back from the company he gave him the choice of becoming actively involved in the firm. It was then that Jean-Nicolas left Delhaize to build up with much interest a career at Pollet SA.

He was only 31 when he took over the firm, but Delhaize gave him the right preparation. Working in a large multinational gave him the opportunity to gain international experience and to learn all about people management and how to act local but think global. He is the first D'Hondt that actually takes up the position of CEO. Jean-Nicolas very well understands that he has the whole history and legacy of his family in his hands. But he wants to take up that responsibility and show to his father and his two sisters that they made the right choice of letting him run the firm.

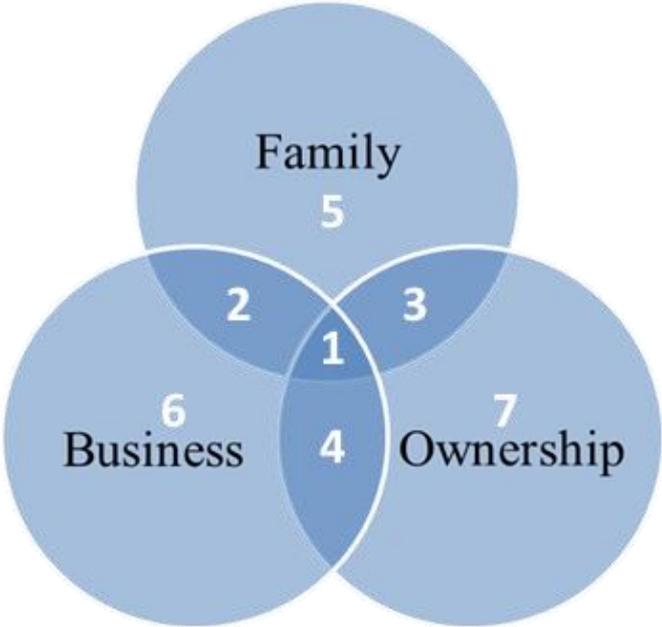
*"I want to do it right. I cannot mess it up" (Jean-Nicolas)*

Jean-Nicolas sees himself as a music conductor, a chief meaning officer, who doesn't play the instruments himself, but empowers people to work together and play a beautiful song. This requires finding a balance between the kind of decisions that he wants to take himself, and those that are the responsibility of his employees. He especially tries to focus on the firm's strategy and on innovative projects. At the same time, he strongly focuses on the human factor and integrates the strength of emotional intelligence. In serving the company today, he got inspired by at least 4 people: the way of thinking of his father, the mentoring by the former CEO of Delhaize Belgium, the entrepreneurial spirit of his former brother in-law, and the outside perspective of one of the external directors who is already on the board for more than 7 years.

Figure 3 below shows the famous 3-circle model of Tagiuri & Davis (1992) to illustrate which roles the business family members play today. The model makes a distinction between three subsystems, namely the business, the ownership and the family subsystem. Jean-Nicolas is currently family member without shares, who has actively taken up the role of CEO of Pollet SA since 2012 (position 2). His parents are the only shareholders, and his father is currently

still the chairman of the board, but without operational involvement in the company (position 3). Thus, over the last 6 years, there has been a clear distinction between ownership and leadership in family's hands. Finally, Jean-Nicolas has 2 sisters who are no shareholder and are not taking up responsibilities within the firm (position 5).

Figure 3: Different roles of current business family members



2.2.3 Continuing the family legacy in the future

For the future the family is doing their homework to keep the business healthy and the family satisfied, and to make sure that the company will remain in family's hands. With regard to corporate governance we refer to section 2.1.4 which illustrated the increased professionalization of the firm in the last decade. But also family governance is high on the agenda. As a former successor, Antoine understands very well that transferring the business is not easy at all, especially if you want to avoid that family members become frustrated over time or even start fighting. To handle this, Antoine is considering the creation of a foundation in which the continued family ownership can be embedded and safeguarded.

When taking into account the viewpoint of the 8<sup>th</sup> generation, Jean-Nicolas is strongly convinced that family members should get a chance to become actively involved in the company if they have the right competences but being a family member will not automatically give them a free ticket to become involved at all levels of the firm, i.e. the management, the governance, and the ownership level. He strongly believes in the right (wo)man in the right place.

### 3. Pollet: the strength of innovation

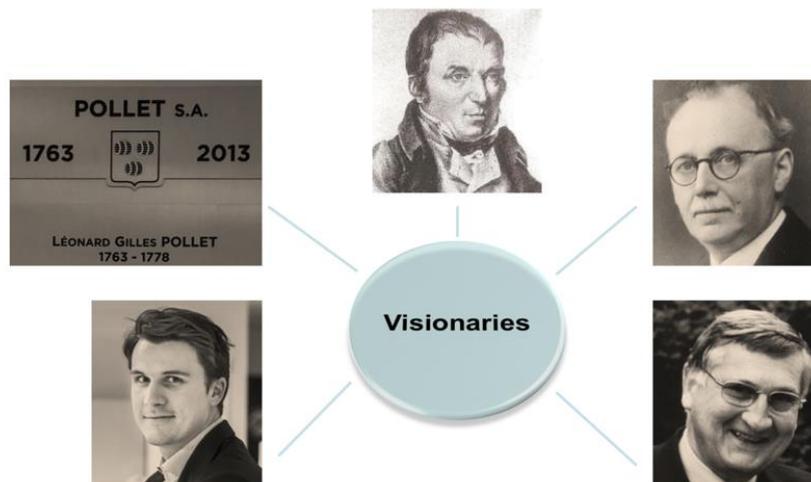
In the whole history of Pollet SA and still today, innovation belongs to one of the strengths and drivers of the company's values, strategy, success and survival. Over more than two centuries, Pollet SA reinvented itself several times, going from salt, to oil, to soap, and to detergents to stay relevant. From the moment markets got disrupted, and for example lamp oil was replaced by electricity, or the black soap industry totally dried up, the company had no other choice to reinvent itself. And every time they found within the family the capacity to renew.

*"If we want to stay independent, we need to keep on innovating." (Jean-Nicolas)*

#### 3.1 Different generations of visionaries

Throughout history, the family has proven that they managed to bring forward several strong visionaries who have been responsible for the transformation and survival of the family business (see Figure 4). The origin of Pollet SA lies in the first industrial revolution. Thanks to their Christian and strict education the Pollet family managed to adapt to the new world. The family had a background as "maître graissier" and gradually started to use the animal fats as a basic ingredient to produce soap. For them it was not about surviving but rather about participating to the new industrial revolution. Especially the name of the founder Léonard-Gilles and his son Simon-Léonard come forward as one of the first visionaries in the family business' history.

Figure 4: Visionaries in the Pollet family



Although Pollet SA managed to make the switch to electricity, they struggled at the beginning of the second industrial revolution. The firm survived but got significantly smaller over the years. It had to wait to finally get in the hands of Raphaël Pollet, who can be considered as the third visionary in the company's history. He successfully transformed the company in several ways, while at the same time keeping a strong balance between financial and ethical motives, and between tradition and renewal. It was Raphaël who made the switch from oil to soap.

The focus on detergents started with Michel Pollet who made a deal in 1963 with a company in the US which was actively involved in the detergent industry. However, the joint venture only lasted for a year, after which all the knowledge got into the hands of Michel Pollet. As a chemist, he developed in the seventies more than 50 new products over a period of only a couple of years, but he didn't care much about marketing and sales. As a result, the company didn't adapt to the third industrial revolution, which strongly weakened the competitive position of the firm. But luckily, at that moment, Antoine D'Hondt came forward.

When Antoine D'Hondt got involved in the family business in the seventies, the firm was not in best shape. Profits were really low, and the company had hardly evolved over the years. If the company wanted to be ready to successfully start the third industrial revolution, things had to change. Antoine D'Hondt can be considered as the fourth visionary in Pollet's history, as he looked through the weak financial position of the company to see the opportunities in

the market. Based on his banking experience he managed to restructure the company and to create a healthy financial position, allowing the firm to make the necessary investments that should have been realized much earlier. Over the period 1980-2010 he realized investments for more than 13 million euro in the company, among others going to the modernization and automatization of the firm and the relocation to a modern industrial area outside of Tournai. The major investment of about 1 million euro in a new IT and ERP system in 2010 is another example of his drive to let the company thrive. But also the switch to ecological products was inspired by Antoine.

*“If family descendants are not able to handle industrial revolutions, you get into trouble.”*

*(Antoine)*

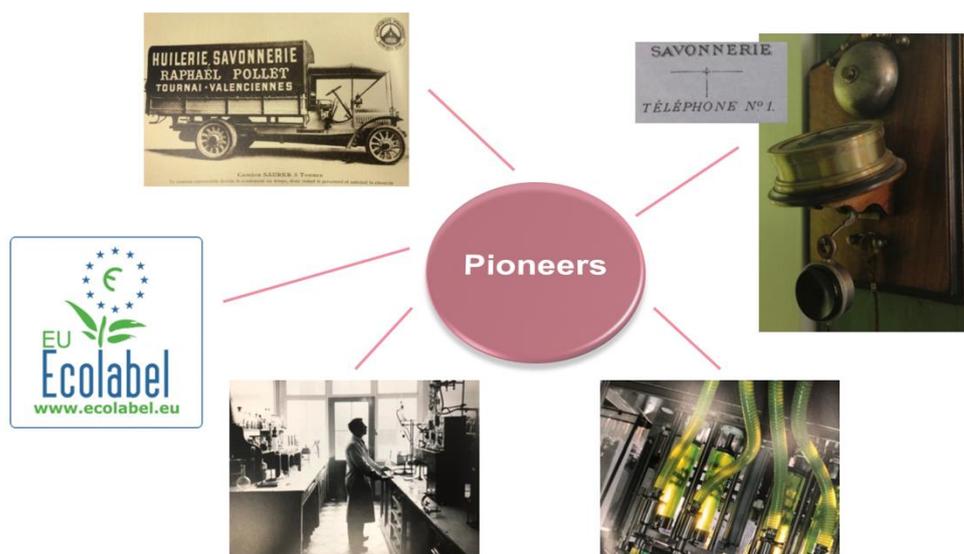
The fifth visionary is Jean-Nicolas, current CEO of the company. He left his successful position at Delhaize to jump into the major adventure of Pollet SA. Since then he has continued the path of strategic and innovative renewal like his predecessors. In 2017, he successfully launched a brand-new product line ‘Caps programme’ which has also been patented. It allows the company to sell and distribute concentrated versions of various detergents, which drastically reduces packaging and distribution costs. The company received a number of awards with the introduction of this highly innovative product. Jean-Nicolas looks forward in everything he does today. His constant time window in the future is about 18 to 24 months. He is convinced that if you want to take the next step within 2 years, you should start building the foundations already today. For him, innovation is more than just stimulating revenues. It’s also a way to position yourself on the market and to build an image in the industry.

### 3.2 Pollet as a pioneer

Throughout the whole history of Pollet SA, the company has always put innovation high on the agenda. This becomes visible among others through a number of decisions and activities where Pollet SA often proved to be first on the market (see Figure 5). They were one of the first in the region to install a telephone line, illustrated by the telephone number 1 to be dialed to reach the company. They also were one of the first in Belgium to make use of a truck in transporting their products to the customer. They were one of the first in Europe to bring

liquid soaps to the market after the second World War, as well as products with ecolabels. Today Pollet SA is very active with enzymes and bacteria, which is the new trend in the industry. However, the company already started with that in 1993, and no one else did that before them. In 2006 they were the second company in Belgium receiving the European Ecolabel. Being a pioneer thus always comes back in the history of the firm. Even though being first is not a conscious choice, they have a continuous drive to bring innovation the market.

Figure 5: Pollet as a pioneer



Today, in the industry a number of trends can be noticed, such as manufacturers who want to work without chemistry, or the evolution in the direction of probiotics. Pollet SA strongly believes in the latter, which explains why Jean-Nicolas and his team are already working on that for more than 1,5 years.

In 2017 the company integrated 38 product improvements. And in the next 12 months they have two new product lines in the pipeline with another pending patent. The company also proves to be successful on the market with these innovations. The four latest product launches represent 15% of Pollet's current sales figure.

With regard to innovation, Jean-Nicolas sees some advantages for his company regarding innovation in comparison to large multinationals. Although these large groups are much

stronger in terms of resources and capabilities, they are large ships difficult to turn and thus often struggle with innovation. This becomes visible from the longer lead-time in getting an innovation accepted and implemented in these organizations. They often copy the smaller innovations from smaller players that have been proven successful.

Since Pollet SA is strongly focusing on innovation, they meet on a monthly basis with their innovation committee, in which Jean-Nicolas and a number of managers are represented. The main tasks of this meeting are: ensuring that innovation stays central at Pollet SA; analyzing the evolutions in the market and scientific discoveries; looking at customers' questions; and implementation and control of projects in relationship to external parties. The innovation committee thus allows to structurally discuss all matters concerning innovation.

In addition, Pollet SA has 1 employee who is fulltime working on innovation. They also have 4 employees in their lab, of which 2 are engineers. Jean-Nicolas estimates that in total around 8 to 12% of the sales figure goes to innovation.

Pollet SA also believes in open innovation, since they understand that they cannot find everything internally. They very closely monitor the innovations of suppliers, and they test products internally and externally in cooperation with other organizations such as hospitals and universities. Pollet SA also developed an Academy some years ago, where they bring together and educate employees, customers and distributors, with the main purpose to share know-how and experience, and to co-create new products. They also installed a mobile system allowing customers to continuously receive virtual education on Pollet's product range.

Jean-Nicolas tries to find a balance between internal and external innovation. The former allows to keep ownership of their own recipe, but by doing everything internally, precious time is lost, and knowledge becomes very quickly inadequate. They understand very well that you have to profit from others' expertise. To cover the latter, they also extensively work together with the best consultants on the market. The company considers this as intangible investments, which have the last couple of years become even more important than investments in tangible assets.

## 4. Pollet: bringing SEW in to practice

Socio-emotional wealth (SEW) has gained a lot of attention in the academic literature in the last couple of years. Family business owners not only care about financial goals, they value, consciously or nonconsciously, also non-financial or affective aspects that result from their family control and identity. Pollet SA is driven by family-oriented motives in running the company and forms a clear illustration that SEW can be largely present within a family-owned firm.

SEW can lead to favorable outcomes (e.g. employee commitment, emotional attachment, better environmental performance) or to unfavorable outcomes (e.g. nepotism, incompetent family management, inefficient use of firm resources). Given the 5 fundamental values proposed by Pollet SA (respect, responsibility, excellence, result driven and innovation) we believe that the bright side arguments of SEW will be more important than the dark side arguments. Value-driven leadership by Pollet may be also a proof and guarantee of a bright future.

Berrone, Cruz, and Gomez-Meija (2012) showed that SEW is a multidimensional concept. They made a distinction between five dimensions: family control and influence, identification of family members with the firm, bonding social ties, emotional attachment of family members, renewal of family bonds through dynastic succession.

### 4.1 Family control and influence

The ownership of the company has been always in hands of family members. Today Pollet SA is 100% family-owned. Over the past generations the CEOs were mostly family CEOs (except for two external CEOs). Although the company has experience with working together with external CEOs, Pollet SA has the preference to have someone from the family to run the company (but only if they have the right competences).

We may conclude that preservation of family control and independence are important goals for the company

#### 4.2 Identification of family members with the firm

Today, all family members experience a major pride of being part of such a great family business with such a rich history. Especially over the last decade, the old lady has become a young sexy lady, which strongly increases the attractiveness of the company. That's one of the reasons why family members want to be involved in the ownership, although they are not operationally involved in the firm. The available dividend policy will allow the family to decently deal with this situation of passive family ownership.

Like any family business, also Pollet SA strongly counts on the capacity of non-family employees. Treating them well and making them feel good at work are therefore important priorities for the company. This translates itself into a strong base of loyal employees where a number of them even have more than 30 years of experience in the firm. In the company's history there even was an employee who worked for more than 60 years for Pollet SA.

Family members are proud to tell others that they are part of such a great family business with such a rich history. If people leave the firm, some of them come back after a couple of years. Just like newcomers, they come to the firm because of its strong project, its beautiful story and its rich history.

#### 4.3 Bonding social ties

In the whole history of the company, many family members did a lot for the local community in Tournai. Many initiatives they took were driven by their Christian values which included among others: no excesses and not showing off. Their main goal has never been to create financial wealth, but to find a middle ground between profit and doing good for stakeholders and society as a whole.

*“Profit can be a consequence, but it should never be a main motivation” (Antoine)*

Family members in different generations were active in promoting activities in the local community – several family members are active in the chamber of commerce or other organizations.

The current CEO sees himself as a music conductor, who empowers people to work together.

*“Treat the employees well and make them feel good at work”*

People who work at Pollet SA are listened to and are supported wherever they can. Temporally helping them out (financially) is something the company and its family members care about. The most beautiful example of this are the forced factory closures during the 2 world wars, where the family decided to keep on paying their employees and to give them alternative work. But also more recently, the company has shown to be open to support employees who are personally going through rough times.

#### 4.4 Emotional attachment of family members

As a family member you take decisions differently, for example by strongly taking into account the family’s perspective. External CEOs are less likely to do that.

*“As a family member you take decisions differently, eg. by strongly taking into account the family’s perspective”*

Emotions and sentiments can affect decision-making processes.

*“Family members are never purely driven by financial motives, but more by Christian persuasion and human values”*

It is good that the company strives for a strong balance between financial and ethical values.

#### 4.5 Renewal of family bonds through dynastic succession

Being a Hénokiens is something to be proud of as a family, but also from a business perspective it plays a significant role. As such, being a bicentary firm does not influence the firm's products directly but having such a rich history and long-term perspective sometimes gives the company an edge over competitors, especially in terms of the firm's credibility and in the creation of relationships with stakeholders.

Perennity is the word that is central when talking to Antoine D'Hondt and his son Jean-Nicolas. In everything they do, the continuity of the firm in hands of the family comes first. Even though the next generation is still too young or not showing interest yet in the company, his purpose is to stay independent and to transfer the company to the next generation.

Continuing the family legacy is an important goal for the company.

“Strong will to keep the family business into the same family”

Being prudent is a natural consequence of the family's strong focus on continuity. They think very careful on things, do it step-by-step, and are especially interested in the long term. They behave thrifty and don't jump into the wild without having considered things wisely.

“Short term thinkers can rarely last long”

## 5. Conclusion

Family businesses form a strong pillar in the world's economy, and that is not different in Belgium. Lambrecht & Molly (2011) identified that about 77% of the Belgian companies can be considered as family firms, contributing about a third to the Belgian GDP. Many of them are still in their first or second generation, but a significant number have a much longer history, sometimes going back more than 200 years. In Belgium, two of these companies can proudly state to be a bicentary firm and to be member of Les Hénokiens. This case study has been devoted to one of them, Pollet SA.

Writing about Pollet SA has been an inspiring journey. Diving into the family's and the firm's history deepened our insights and knowledge on the survival of a family business over more than 2 centuries. It's a story about passion, perseverance and the persistent capacity to link firm renewal to a changing demand in the market. This case study allowed us to identify the main drivers of the family business' growth and evolution that will undeniably form an inspiration for any organization that wants to grow and develop over future generations.

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# The H. Beligné & Fils Case Study

Author : Patrice Charlier

(EM Strasbourg-University of Strasbourg)

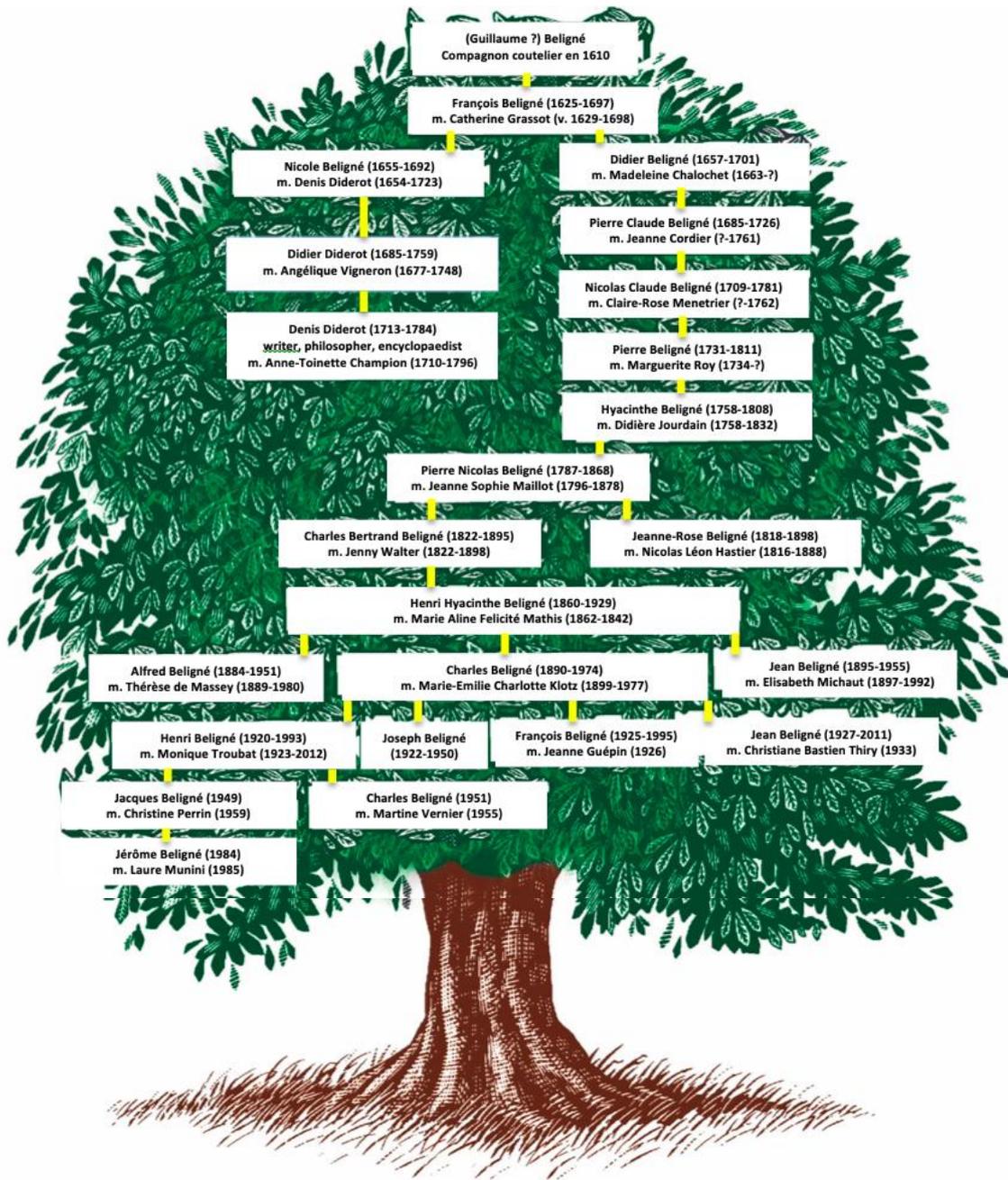


H. BELIGNÉ & Fils

**THE HENOKIEN CASE STUDY COLLECTION**

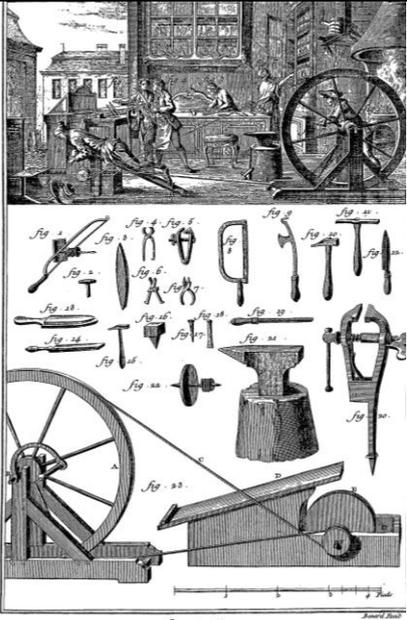
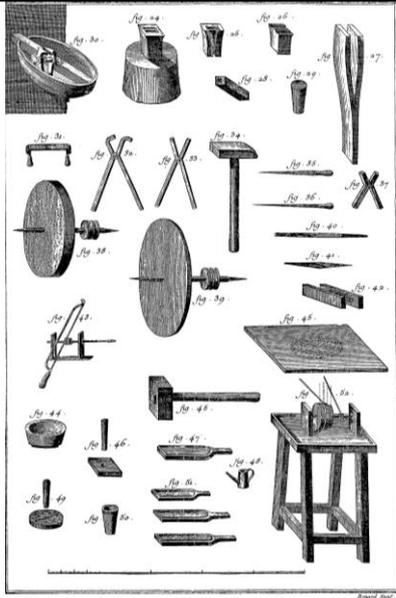
**Beligné**

# Since 1610



## SIMPLIFIED FAMILY TREE OF THE BELIGNÉ CUTLERY MAKERS

This tree only shows the leading cutlers

	<p>Cutlery pieces:          Dictionary of the sciences, arts and crafts, by Diderot and d'Alembert, 1772</p>	
		
<p>Nicolas-Claude (1709-1781) Couteau, argent, écaïlle incrusté d'argent, 21,5 c, vers 1750. Musée du Louvre.</p>	<p>Couteau fermant à pompe, manche écaïlle, garniture or, lame argent          Marque « Le Bâton Royal, Belignez Cout. Du Roy à Langre » XVIII<sup>e</sup>.</p>	

## Abstract

The low percentage of family firms passed to the third generation is evidence that the transmission of a family business is a risky venture, and confirms the three-generation legend, or Thomas Mann's 'Buddenbrook' model (1901). Hence the interest in studying the Beligné family, which has achieved 13 intergenerational transfers in a little over four centuries. To this end, we use four theoretical models. First, Gersick and Davis's *three-circle intergenerational model* (1997), which makes it possible to identify areas that put the sustainability of the family business at risk. Second is the Sonnenfeld (1988) *four types of transfer model* in conjunction with Irving and Sharma's (2005) *four types of successor commitment model*. Finally, we draw upon the *five-dimensional socio emotional wealth (FIBER) model*, developed by Berrone, Cruz and Gomez-Mejia (2012). The application of these models highlights that the almost systematic decision to transfer ownership of the company to a single child, which has long been a very common practice among family SMEs, helps to avoid the intra-family conflicts that tend to undermine transmission. It also shows that the behaviour of transferors and successors is fundamental to ensuring the sustainability of the family business.

## 1. H. Beligné et Fils



H. Beligné et Fils is an SME that, since its creation, has been based in Langres, a historic centre of French cutlery. It employs about thirty people, with a turnover generated solely in B2B. Its Bank of France rating is E3++. The letter E indicates a turnover of between 15 and 30 million euros. The 3++ rating corresponds to the best credit rating given by the Bank of France, which is consistent with the financial prudence that is traditionally associated with family SMEs.

Beligné has constantly adapted to market changes, whether the fall of the monarchy in 1789, or recent economic developments. While initially the company focused on cutlery, it later diversified when it bought a forge to manufacture parts for the automotive industry. From the 1970s onwards, the company gradually stopped manufacturing cutlery to concentrate on forging and distribution. Finally, from the 13<sup>th</sup> generation onwards, its owners began to undertake professional careers outside the family business, before they resumed control and adapted the company to market forces.

### 1.1. Cutlery

The study of the different generations shows that the dynasty began in 1610<sup>1</sup>, with a cutler's companion (*compagnon coutelier*). From the second generation onwards, his descendants were known as Master Cutlers (*Maître coutelier*). The 5<sup>th</sup>, 6<sup>th</sup> and 7<sup>th</sup> generations obtained the title of Cutler to the King (*coutelier du Roi*), until the 1789 Revolution. The 6<sup>th</sup> generation expanded sales in France, Switzerland, Germany, Spain and America. The 7<sup>th</sup> generation participated in the 1802 (year X) Exhibition of Products of French Industry held in the courtyard of the Louvre. The 8<sup>th</sup> generation extended the sales network in France and abroad. Charles-Bertrand, a member of the 9<sup>th</sup> generation would, for the first time, diversify the company's activities. In 1849, together with his brother-in-law, Nicolas-Léon Hastier, he founded a company for the wholesale sale and purchase of cutlery, while continuing to manufacture and innovate: one result of this was a custom-made multifunction knife.

### 1.2. Diversification

Henri-Hyacinthe (10<sup>th</sup> generation) brought a new dimension to the company's activities by expanding trade. In particular, beginning in 1909, he began selling to Parisian department stores (Bon Marché, Printemps, Bazar de l'Hôtel de Ville, etc.).

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<sup>1</sup>Although there are traces of a 'couteiller' Beligné in 1581, there is no conclusive proof of filiation.



For the first time the company registered its brand and patents (1911: patent for a horn cutter; 1931: patent for compensating ball joint scissors). In 1914, it became the exclusive distributor of Victorinox Swiss knives in France, and diversified its activities into the manufacture of parts for the automobile and aviation industries, agricultural machinery, etc. This diversification led Henri-Hyacinthe to encourage his sons to study business at St Gallen, close to the Elsener family, which awarded him exclusive distribution rights in France for their Victorinox Swiss knives.

The eldest of the 11<sup>th</sup> generation, Charles expanded the distribution business with his two brothers, but left them to manage the company when he became mayor of Langres in 1941.

### *1.3. The end of knife manufacturing*

Henri, the eldest of the 12<sup>th</sup> generation, was educated at a leading international business school (HEC Paris) thereby continuing the new tradition, initiated by his father Charles, of studying business. This is likely to be what prompted him to lead the company to take a new turn; manufacturing ended, to be replaced by a new focus on distribution. Given increasing, strong competition from Asia, Henri decided to refocus the family's business on its strong points.

### *1.4. Training beyond the family business*

Jacques (13<sup>th</sup> generation) also studied business. He was the first in the dynasty to start his professional life outside the family firm. After working for several years in a large international group, he decided to resume control of the family business. He expanded distribution activities, in particular, externally, through the acquisition of two competitors. But, above all, beginning in 2005, Jacques pioneered the automation of logistics in a small to medium-sized distribution company.

Jacques invested in the construction of a new building in Langres to install storage facilities that could offer same-day shipping for any order received before noon, from a 5,000-item catalogue.



Jérôme (14<sup>th</sup> generation) initially studied engineering, with the aim of working outside the family business. He worked for a few years in a construction company, then joined an investment bank

before taking over the family business. With this in mind, he completed his Master's degree in European Business at ESCP Europe in 2009, and initially gained experience in the commercial domain by working in a large manufacturing company. He joined the family business in 2014, where he set up a website for B2B customers—today, one third of orders are taken directly from this website. He also established the company's presence on social networks, with the aim of publicising the business and its new products to customers.

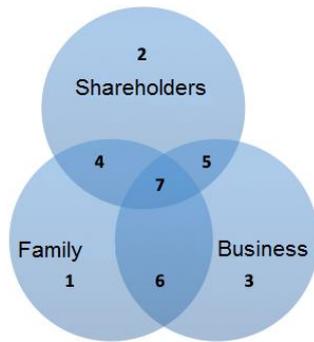
Thus, each generation has made its own contribution. Each step along the way, the company has taken account of changing market conditions, and it celebrated its 400<sup>th</sup> anniversary in 2010. This durability, which is exceptional for a French family business, is mainly due to finding the right balance between socioemotional and financial value for each of the 14 generations that have headed the company. In the next section, we highlight how four theoretical models can help us to better understand the longevity of Beligné.

## **2. The contribution of theoretical models**

### *2.1 The three-circle transgenerational model (Gersick and Davis, 1997)*

This intergenerational model explicitly distinguishes the different interests in a family business. Each group in the system has its own centre of interest, and all of these must be taken into account and integrated, in one way or another, into the company's policies and decisions. Hence, this model is particularly relevant to the study of a family business that has lasted for 13 generations.

**Figure 1. The three-circle transgenerational model**



The *Shareholders* circle includes shareholders, whether or not they are family members. The *Family* circle includes heirs and their spouses. The *Business* circle includes employees and administrators<sup>2</sup>. This model takes into account the evolving needs of each group. The three circles are always moving. Families must not only meet current challenges, but also prepare for future ones.

The intersections between the three circles show interactions between the groups, and how each group influences other parts of the system. These intersections represent the greatest risk to the sustainability of the family business, notably due to ongoing challenges to *family communism* (as the sociologist Émile Durkheim put it) and its clan spirit, in favour of individualism. While, in the first reference system, the family is “a whole whose units no longer have distinct individuality”, in the second, “each of the members [of the family] has his own individuality, his own sphere of action”<sup>3</sup>. In a democratic system, the family tends to emancipate itself and encourage individualization. This personal and professional emancipation, reported by Durkheim more than a century ago, builds on the remains of family communism, and can therefore serve as a foundation for understanding the weakening of family ties, a phenomenon that is often noted in the literature on family businesses.

In family firms, most behavioural biases originate within the family, and can be grouped into four categories. Part 1 of the *Family* circle typically includes children and step-parents, who are neither employees nor shareholders. Although they are not part of the company, they can influence and put pressure on the family that runs it. In the case of an eponymous company like Beligné, this group places great importance on the reputation linked to their family name. Intersection 6 includes family members who are employees or administrators, but not shareholders in the company. Here, biases generally come from: i) the desire to advance a career, ii) resentment of family shareholders who do not work in the company, but who nonetheless benefit from its existence, and iii) the expectation that they will be treated differently to non-family employees. Intersection 4 includes family members who are shareholders, but who do not work in the company: brothers, sisters, cousins and retired parents. Their main concern is company profits; anything that could compromise this income

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<sup>2</sup>For the sake of simplicity, we only refer to administrators, although it is clear that there are also supervisory bodies.

<sup>3</sup> Gérard Hirigoyen & Amélie Villéger : L'apport de la pensée d'Émile Durkheim à la connaissance de l'entreprise familiale, Revue Française de Gestion, 2018.

is a problem. It is within this group that family ties tend to erode over the years. As the company is transmitted through the generations, a decline in cooperation and loyalty is concomitant with increasing rivalry and parochial jealousies<sup>4</sup>.

It is the job of family shareholders who work in the family business (Intersection 7) to represent the interests of all the other groups, and reconcile the needs and requirements of the three circles. In order to limit the risks of conflict with other family members, most companies set up formal governance mechanisms, such as a family council and a family charter. However, while these governance mechanisms may limit or resolve a large number of conflicts, they cannot prevent the most serious disputes. Past and recent events involving the Lacoste or Taittinger<sup>5</sup> families illustrate how difficult it is to ensure the sustainability of a company when capital is dispersed over generations. *Affectio societatis* fades, the family's control weakens and the emotional attachment to the family's property breaks down.

In the case of a family business, the three circles overlap, more or less, depending on the commitment of family members and potential behavioural biases. It is therefore important to analyse the involvement of family members in the company and, in particular, the behaviour of fathers and the children who take over the business.

## 2.2 *The transfer or behavioural model (Sonnenfeld, 1988)*

This model describes four types of directors as a function of their behaviour during the transmission process. First is the *monarch*, who remains at his post, often until his death, as was the case in France for the family company Dassault<sup>6</sup>. This behaviour appears to be typical among European family businesses, whose directors continue working until a very old age. Next is the *general*, who announces his retirement but who, in reality, remains very present, hoping that he will be called back to save the company. This behaviour may lead him to fail to choose the most competent successor to take over. On the other hand, the *governor* truly withdraws; in most cases, the transferor announces his date of departure in advance. In this case, the risk is that he or she is no longer sufficiently involved in the company's growth. Finally, the ideal behaviour is the *ambassador*, who smoothly detaches him or herself from the management and control of the company, having prepared his successor and the company for the long term.

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<sup>4</sup>Le Breton-Miller I., Miller D. (2018). Beyond the firm: Business families as entrepreneurs, *Entrepreneurship Theory and Practice*, pp. 527–536.

<sup>5</sup> The Taittingers, who owned the Louvre company, sold it to the Starwood group in 2005.

<sup>6</sup> Marcel, the founder, and his son Serge, both died while they were still running the company.

### 2.3 *The successor commitment model (Irving and Sharma, 2005)*

This model identifies four types of commitment found among successors. The first is *affective* commitment; this is based on an emotional attachment and identification with the company, and a willingness to contribute to its objectives. *Normative* commitment is based on a perceived sense of obligation to one's parents to pursue a career in the company. In this case, the successor tries to maintain good relations with the previous generation. While affective engagement is motivated by the desire to contribute, or the feeling of wanting to continue the work of earlier generations, here, the main motivating factor is a feeling of obligation or duty. *Calculated* commitment is based on the successor's perception of substantial opportunity costs and the threat of a loss of their investment or value if they do not pursue a career in the company. In family businesses, investments are often built over time and are not transferable (for example, *familiness*). The term refers to idiosyncratic resources and capacities that result from family influences, which can create a competitive advantage for the company. Finally, *imperative* commitment is based on a sense of self-doubt and uncertainty about one's ability to successfully pursue a career outside the family business. People with a high degree of imperative commitment feel that they have no other alternatives.

### 2.4 *The FIBER model (Berrone, Cruz and Gomez-Mejia, 2012)*

In recent years, the behaviour of family members has also been analysed through the prism of the theory of socioemotional wealth, which takes into account the non-financial objectives of family shareholders. The combination of monetary and non-monetary objectives means that value creation is not simply reduced to shareholder value, but also results from the creation of socioemotional wealth<sup>7</sup>. In this context, one method of observing socioemotional wealth consists in using a five-dimensional approach: Family control and influence (F); family members' Identification with the firm (I); Binding social ties (B); Emotional attachment (E); and Renewal of family bonds to the firm through dynastic succession (R), together referred to as FIBER.

The dimension relating to the control and influence of family shareholders (F), is a key feature of family businesses. In practice, the family seeks to exercise control over strategic decisions. Control and influence are an integral part of the socioemotional wealth sought by family members. However, this dimension is likely to have negative effects on performance. Thus, a reluctance to relinquish control may reduce innovation and limit internationalization.

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<sup>7</sup> Gomez-Mejía, Cruz and Berrone (2011). The Bind that Ties: Socioemotional Wealth Preservation in Family Firms, *Academy of Management Annals*, pp. 653–707.

The second dimension concerns the close identification of the family with the company (I). The interweaving of family and business, as seen in the three-circle model, gives rise to an intrinsically unique identity within family businesses. The identity of the owner of a family business is inextricably linked to the eponymous organization that often bears the family's name. In highly cohesive families, members see the company as an extension of their own identity, while internal and external stakeholders see the company as an extension of the family. Therefore, the family seeks to maintain a positive reputation with customers, suppliers and other stakeholders. However, from the 2<sup>nd</sup> generation on, and even more so in the 3<sup>rd</sup> generation, identification can become more difficult.

The third dimension (B) refers to the binding social ties found in family businesses. Socio emotional wealth concerns parental links that offer some of the same collective benefits found in closed networks, such as collective social capital, relational trust, or feelings of proximity and interpersonal solidarity. The reciprocal obligations linked to these social ties do not only concern family members, but tend to extend to a wide range of stakeholders. For example, family businesses often have suppliers who may be perceived as family members.

The fourth dimension addresses the emotional content of socioemotional wealth, and refers to the role of emotions (E). Since the boundaries between family and the business can be blurred in family businesses, emotions permeate the organization and influence the decision-making process. In this context, researchers have developed indicators of emotional wealth specific to the family business, such as emotional cost and returns, emotional capital and emotional value.

The last dimension refers to the intention to transmit the business to future generations. In practice, transgenerational sustainability is one of the central aspects of socioemotional wealth, and the idea of losing the company is very distressing for most owners. As a result, family members view the firm as a longterm investment that will be bequeathed to their descendants. As Jean-Philippe Peugeot notes<sup>8</sup>, "*I am only an heir, a link in a chain at a given moment. I hope there will be many other links after me*". However, and notably when the company enters the post-foundation phase, the desire to keep the firm within the family for future generations may have a negative impact on financial performance, as identification with the company and emotional attachment begin to weaken. Those who inherit from the founder's company may be more inclined to exploit its resources than to seek to establish a successful organization that risks being passed on to a consortium of cousins.

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<sup>8</sup> President of EPF (Etablissements Peugeot Frères). Quoted in 'Peugeot, a family against all odds', *L'Est Républicain*, 27 November 2017.

### 3. The application of theoretical models to H. Beligné et Fils

Until the 10<sup>th</sup> generation, the transmission of the company to its descendants followed the principle, traditional during this period, of male primogeniture. From the 11<sup>th</sup> to the 13<sup>th</sup> generation, the sons of one of the directors took over the family business together.



In the 13<sup>th</sup> generation, Henri Beligné's two sons, Jacques and Charles, bought their uncle's shares from him. Jacques, the eldest, took over the cutlery business, his brother Charles having taken over Forges Beligné three years earlier. The forge was sold when he retired in 2014, as no family member wanted to take over.

We see that the transmission mode adopted by Beligné made it possible to maintain a small number of shareholders, all employees of the company are, therefore, in the same zone of the transgenerational model. As a result, the three circles overlap much more than in Gersick and Davis's (1997) theoretical model. This method, which is seen in the Mellerio family business that was founded at the same time (in 1613), is very likely to be one of the factors explaining its extreme durability.

It is probable that, until the 11<sup>th</sup> generation, transferors adopted *monarch* behaviour as this was generally the case during the period, resulting from their position as head of the family. However, it was undoubtedly coupled with *ambassador* behaviour; the transferor prepared the way for his successor in order to ensure the sustainability of the family business. Up to the 11<sup>th</sup> generation, the sons who took over the family business demonstrated a *normative* commitment, due to the father's desire for his eldest son to succeed him. This normative commitment seems to have been accompanied by an *affective* commitment, evidenced by the diplomas and results they obtained<sup>9</sup>. There is no evidence of an *imperative* commitment, insofar as all successors were Master Cutlers, a status that was extremely difficult to obtain at the time<sup>10</sup>. From the 12<sup>th</sup> generation onwards, transferor behaviour became increasingly *ambassador*-type; both Henri, then Jacques left their business in an orderly fashion, both having prepared their successor to take over.

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<sup>9</sup> These results were presented in Section 3.2.

<sup>10</sup> Although the status of Master Cutler could be passed from father to son, the successor was nevertheless required to pass an examination.

These modalities for the transmission of the company supported the growth of socioemotional wealth, measured with the FIBER model. Ensuring that the company was only passed to sons made it possible to maintain control over the descendants who ran the company (F) and, at the same time, maintained the company’s eponymous name (I). In addition, correspondence archived by the company confirms that the family always maintained close social ties (B) with its suppliers. Similarly, the boundaries between the company and the family have always been blurred, which shows that emotions (E) permeate the organization, thus influencing decision-making processes. Finally, the intention to bequeath the business to future generations (R) is found in Jacques Beligné’s observation,

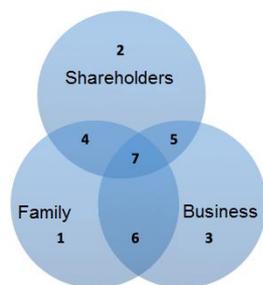
*our philosophy, since the company’s inception, has always been to consider ourselves as those who hand the business over to the next generation.*

### 3.1 The three-circle model applied to Beligné

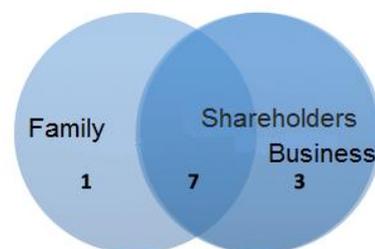
If the three-circle model is applied to Beligné, we see that there is only one intersection between the *Family* and the *Business* circles, the latter being totally encompassed by the *Shareholders* circle, since only sons who worked in the company became owners. In later years, only one of these sons passed on the company to his sons. Thus, there is no intersection 4, namely family shareholders who do not work in the company. This group presents the greatest risk to family harmony, notably regarding the distribution of profits. Similarly, as there are no risks associated with Intersection 6, the family does not need a family council or charter, whose influence is, anyway, limited.

**Figure 2. The three-circle transgenerational model**

**The theoretical model**



**The model applied to Beligné**



An interview with Jérôme (14<sup>th</sup> generation) demonstrates the risk of family tensions when family shareholders or employees are in intersections 4 and 6,

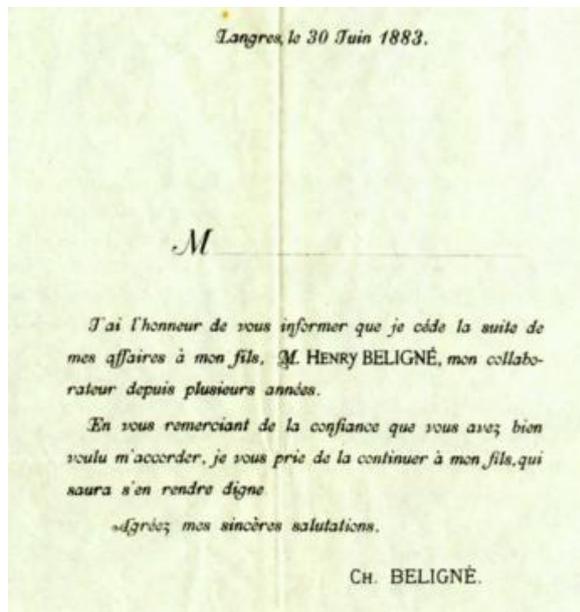
*When we started talking about transmission, our lawyer suggested that my brothers and sisters should be shareholders like me, whereas I was the only one working in the company. At that point, I thought to myself that the people who*

*weren't working there weren't qualified to be shareholders. To avoid a dilution of governance, it was better to simplify things by buying back their shares.*

### 3.2 Transferor behaviour applied to Beligné

The sustainability of the business has been a function of the behaviour of transferors during the company's 13 transfers. Until the 9<sup>th</sup> generation, fathers trained their eldest sons to enable them to succeed them in their profession, which allowed them to become Master Cutlers. From the 10<sup>th</sup> generation onwards, all of the eldest sons obtained their baccalaureate<sup>11</sup>, before going on to study business (during this period, distribution began to play a major role in the firm's expansion). Thus, as is often the case during such periods, the transferor acted as both a *monarch* (linked to his status as head of the family) but, above all, as an *ambassador*, ensuring that his successor was well prepared. This point is illustrated by the memorandum prepared by Charles-Bertrand (9<sup>th</sup> generation) in 1883:

#### Memorandum prepared by Charles-Bertrand Beligné to announce the transfer of the family business to his son Henri-Hyacinthe



Langres, 30 June, 1883.

*I have the honour to inform you that I am transferring the succession of my affairs to my son, my collaborator for several years. Thank you for the trust you have placed in me, I ask you to extend it to my son, who will prove himself worthy of it.*

*Please accept my sincere greetings.*

CH. BELIGNÉ

Similarly, Jacques' statements show that, from the 12<sup>th</sup> generation onwards, the father's behaviour moved away from *monarchical* to *ambassadorial*:

*At first, I made my mark and after 3–4 years, my father said to me: now you're the boss: you decide: I'm still here, but I'll leave you to take care of things.*

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<sup>11</sup>This was exceptional for the time (1878). In 1900, only 7400 students were awarded their baccalaureate, about 0.4% of the male age group (Winock M. (2003). *The Belle Epoque*, Éditions Perrin).

Jérôme, who was a director of the company while his father was still active, confirms that the transfer went very well:



*I joined the company in 2014. At first, I just watched what was happening, then my father delegated certain dossiers to me, and I went to see him when I had questions. As time went on, my father delegated all the new dossiers to me.*

*Now I'm responsible for changes related to new technologies, such as our website and our presence on social networks. My father is still here to help me, and that's reassuring.*

### *3.3 Successorcommitment applied to Beligné*

Until the 12<sup>th</sup> generation, successors have always had a *normative* and *emotional* commitment to the company (Irving and Sharma, 2005). They were all educated: beginning with the Master Cutlers (Vaxelaire, 2010) at the time when the company manufactured knives –and extending to business studies, when the company diversified into distribution. This new training and experience were key elements in the company's strategic regeneration, allowing it to adapt to changing market conditions. From the 13<sup>th</sup> generation onwards, we know that parents did not exert pressure on their children to take over the family business.

Jacques, a business school graduate, began his professional career outside the family business in a large international group, and it was only a few years later that he expressed his interest in taking over the family firm. When he spoke to his father about the possibility, his father replied, "*If you want to, you can join the family business: it's up to you.*" This clearly shows that Jacques' commitment is mainly *emotional*. Thirty years later, he behaved in the same way with his own children, leaving them the choice of whether or not to take over the business, "*I really should have considered the possibility of selling, in case none of my children wanted to take over.*" This behaviour paved the way for an *emotional* commitment from Jérôme who, like his father, joined the business after a number of years working in a leading French bank. Before joining the firm, Jérôme wanted to gain experience in the field of distribution, by being responsible for sales in a large company, which again confirms his *emotional* commitment.

### 3.4 The FIBER model applied to Beligné

The commitment of transferors and successors highlights several components of the FIBER model. Maintaining family control (F) was facilitated by the transfer of the business to the eldest son until the 10<sup>th</sup> generation, before the principle of male primogeniture gave way to transmission to the sons of one of the directors from the 11<sup>th</sup> to the 13<sup>th</sup> generations. From the 13<sup>th</sup> generation onwards, it was the sons who decided to take over the company, after first gaining experience outside the family business.

At the same time, the transfer of the company to sons perpetuated identification with the eponymous family name (I). This results in an interweaving of family and business, demonstrated by the application of the three-circle model to the company. The business becomes an extension of the family, and its leading members seek to maintain the family's good reputation.

In addition, the family maintains social ties (B) with its long-standing suppliers, as evidenced by the commemoration, in 2014, of 100 years of collaboration with one of its most important suppliers, Victorinox (another family business). The letters exchanged between the two families over the past century show that this is much more than just a professional relationship.

These elements, together with interviews with Jacques and Jérôme, confirm the emotional attachment (E) of family shareholders, who work in the company. Beginning with the 13<sup>th</sup> generation, heirs who do not work in the company have transferred their shares to the transferee, thus avoiding the dilution of *affection societatis* as the years go by. This risk is underlined by Patrick Daher<sup>12</sup>:

*when we reach the 6<sup>th</sup> or 7<sup>th</sup> generation, the blood bond gets weaker and weaker  
and the family can no longer build upon love.*

This is what motivated Jacques, Charles and Jérôme to buy their brothers and sisters' shares.

All of these elements support the family inheritance (R). The company is currently managed by the 14<sup>th</sup> generation, which confirms that transgenerational sustainability is a fundamental aspect of its socioemotional wealth. The family's decision to adopt the principle of male primogeniture made it possible to transmit the company to the family's sons, thus limiting the dispersion of capital over the generations. In addition, the fact that the successor is always a descendant of the company's founder has not only made it possible to maintain the eponymous nature of the company, but also

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<sup>12</sup> Desjardins C. Daher : *la gouvernance, fondement de la croissance*, Les Échos, 4 February 2014.

avoid the risk that a desire to maintain the business within the family has a negative impact on financial performance.

In fact, on the contrary, each successor has made their own contribution, continuously adapting the company to changes in its environment. Henri-Hyacinthe (10<sup>th</sup> generation) diversified into distribution, notably in the form of an exclusive sales contract with the famous Swiss knife brand, Victorinox. Jacques says, *“he felt that it was no longer enough to be satisfied with manufacturing, he also had to be a trader”*. Similarly, Henri (12<sup>th</sup> generation) reoriented the company’s focus to distribution alone, following strong competition from Asia on costs. According to Jacques, *“it was my father who decided to gradually end manufacturing, which was highly competitive, to focus only on distribution”*. He goes on to say, *“if he hadn’t made that courageous decision, despite his doubts, I don’t know if the company would still exist today.”*

Jacques himself automated logistics in 2005, a time when few others SMEs had adopted such technology. Jérôme, in turn, led the company into the digital world, enabling it to become very reactive to its customers, and active on social networks.

#### **4. Conclusion**

In conclusion, this case study shows how academic theory can contribute to a better understanding of the great family dynasties that have seen multiple intergenerational transmissions over several centuries. The results confirm that socioemotional considerations and the behaviour of transferors and their successors play a determinant role in the sustainability of Henokien family businesses, which place greater value on emotions than finance.

### Appendix: Role of the directors of the different generations at Beligné

G	First name	Year	Children	Contributions to the company
G1	Guillaume?	1610	François	<ul style="list-style-type: none"> <li>• Cutler's companion</li> </ul>
G2	François	1654	Nicole <sup>13</sup> , <b>Didier</b> Remonde Simonne Françoise François	<ul style="list-style-type: none"> <li>• Master Cutler (1654)</li> <li>• Master Juror of the <i>Corporation des couteliers de Langres</i></li> </ul>
G3	Didier	1670	<b>Pierre-Claude</b> Jean-Baptiste Nicolas Martine Françoise	<ul style="list-style-type: none"> <li>• Master Cutler(1670)</li> <li>• Cutler to the King</li> </ul>
G4	Pierre-Claude	1707	<b>Nicolas-Claude</b> and 9 brothers and sisters	<ul style="list-style-type: none"> <li>• Master Cutler(1707)</li> <li>• Master Juror of the <i>Corporation des couteliers de Langres</i></li> </ul>
G5	Nicolas-Claude	1729	Pierre	<ul style="list-style-type: none"> <li>• Master Cutler(1729)</li> <li>• Cutler to the King Louis XV (1745)</li> <li>• Cutler to the King (1750)</li> </ul>
G6	Pierre	1759	<b>Hyacinth</b> and 7 brothers and sisters	<ul style="list-style-type: none"> <li>• Cutler to the King Louis XV (1759)</li> <li>• Master Juror of the <i>Corporation des couteliers de Langres</i> (1768)</li> <li>• Sales in France, Switzerland, Germany, Spain and America</li> </ul>
G7	Hyacinth	1783	<b>Pierre-Nicolas</b> and 5 brothers and sisters	<ul style="list-style-type: none"> <li>• Cutler to the King Louis XVI (1783)</li> <li>• Participation in the year X Exhibition of Products of French Industry in the Louvre's courtyard(1802)</li> </ul>
G8	Pierre-Nicolas	1813	Nicolas-Hyacinthe Jeanne-Rose <b>Charles-Bertrand</b>	<ul style="list-style-type: none"> <li>• Expands the company's sales network in France and abroad</li> </ul>
G9	Charles-Bertrand	1839	Pierre Marthe Albert <b>Henri-Hyacinthe</b>	<ul style="list-style-type: none"> <li>• Bachelor of Arts</li> <li>• Obtains authorization to sell surgical instruments and knives in German-speaking Switzerland in 1846</li> <li>• With his brother-in-law Nicolas-Léon Hastier, found the company <i>Beligné et Hastier</i> for the wholesale purchase and sale of cutlery (1849)</li> <li>• Universal Exhibition at Langres (1873)</li> <li>• Custom-made multifunction knife</li> </ul>
G10	Henri-Hyacinthe	1883	Alfred	<ul style="list-style-type: none"> <li>• Bachelor of Arts</li> </ul>

<sup>13</sup>Nicole married a cutler's son, Denis Diderot, who took over Beligné's 'pearl' brand and their motto *Virtus et labor patrum fasti* (The virtue and labour of the ancestors bring good fortune).

G	First name	Year	Children	Contributions to the company
			Gabrielle Marie-Marthe <b>Charles</b> Jean	<ul style="list-style-type: none"> <li>• Business studies in Paris</li> <li>• Gave the company a new lease of life: launched the sale of cutlery made by craftsmen in Nogent to merchants in France and abroad</li> <li>• Registered the trademarks HB and HB520 (still registered today)</li> <li>• Was the first to file patents and protect his brands (1911 patent for a horn cutter; 1931 patent for compensating ball joint scissors)</li> <li>• Out of competition participation in the 1893 Universal Exposition in Chicago</li> <li>• Out of competition participation in the 1900 Universal Exhibition in Paris</li> <li>• Launched sales to Parisian department stores (Bon Marché, Printemps, Bazar de l'Hôtel de Ville, etc.) (1909)</li> <li>• Exclusive rights to distribute Elsenner knives in France (1914)</li> <li>• Acquisition of a forge in Nogent: manufacture of parts for the automobile and aviation industries, agricultural machinery, etc. (1916)</li> <li>• Fabrication of scissors</li> <li>• Exclusive right to sell Gillette razors and blades in France for a period of 15 years</li> </ul>
G11	<b>Charles</b> , Alfred and Jean	1929	<b>Henri</b> Joseph Marie François Jean Marthe	<ul style="list-style-type: none"> <li>• Business studies at St Gallen</li> <li>• Mayor of Langres from 1941 to 1959</li> </ul>
G12	<b>Henri</b> , Joseph, François and Jean	1941	Jacques Charles	<ul style="list-style-type: none"> <li>• HEC Paris</li> <li>• Decides to stop manufacturing, and switch to distribution</li> </ul>
G13	<b>Jacques</b> and Charles	1978	Marie <b>Jérôme</b> Hervé Hubert	<ul style="list-style-type: none"> <li>• <i>Institut supérieur de commerce de Paris</i></li> <li>• Experience in a large international group</li> <li>• External growth: purchase of Waldmann, a competitor with no successor (1987), and Crailco, operating in the tobacco industry (1994)</li> <li>• Automated logistics (2005)</li> </ul>
G14	Jérôme	2015		<ul style="list-style-type: none"> <li>• <i>Hautes Etudes d'Ingénieur</i> (2008)</li> <li>• ESCP Europe: Master's degree in European Business (2009)</li> <li>• Experience at Société Générale and Atlantic</li> <li>• Set up a customer website (currently contributing a third of turnover)</li> </ul>



# The J.D. Neuhaus Case Study

Author : Anne K. Heider, Tom A. Rösen  
& Marcel Hülsbeck  
(Witten-Herdecke University)



**Anne K. Heider, Tom A. Rösen & Marcel Hülsbeck**

**J.D. Neuhaus**  
**Hoists and Cranes Engineered for Extremes over**  
**Seven Generations**

**Dr. Anne K. Heider**

Research Fellow, Chair of Management of Family Businesses

Witten/Herdecke University, Witten Institute for Family Business (WIFU), Germany

Email: [Anne.Heider@uni-wh.de](mailto:Anne.Heider@uni-wh.de)

**Prof. Dr. Tom A. Rüsen**

Managing Director, Witten Institute for Family Business (WIFU)

Witten/Herdecke University, Witten Institute for Family Business (WIFU), Germany

Email: [Tom.Ruesen@uni-wh.de](mailto:Tom.Ruesen@uni-wh.de)

**Prof. Dr. Marcel Hülsbeck**

Full Professor/Chairholder, Chair of Management of Family Businesses

Witten/Herdecke University, Witten Institute for Family Business (WIFU), Germany

Email: [Marcel.Huelsbeck@uni-wh.de](mailto:Marcel.Huelsbeck@uni-wh.de)

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## Introduction

The oldest German mechanical engineering business, J.D. Neuhaus GmbH & Co. KG (hereafter shortened to JDN), has been family-owned for six generations. JDN started out as a winch blacksmith for wooden shaft winches<sup>1</sup> and today is a leading manufacturer of pneumatic and hydraulic hoists<sup>2</sup> and crane systems. It was a long journey from producer of wooden shaft winches, which, considering the state of the roads in 1745, were a vital necessity for carriage drivers as vehicle jacks, to the industrial business of today. It all started over 270 years ago with the winch maker Johann Diederich Conrad Neuhaus's registration in the "Sprockhövelsche Fabrickenbuch", or factory register. The founder's descendants continued to produce winches. All the way into the 20<sup>th</sup> century, they were handmade and delivered, largely to mines, carters and small-scale operations. The hand-made winches could move up to 7,500 kg by 1880. With the increasing quality of the components, JDN hoists became ever more compact. The business also started to produce winches made from high-performance materials that could be employed in the most varied conditions. As JDN hoists could be used by a wide range of customers, sales increased in this niche domestic market. In 1952, JDN introduced an innovation that is still considered decisive for the business' success today: a hoist with a compressed-air driven vane motor. This allowed the hoists to be deployed in challenging areas.

Today, as a manufacturer of pneumatically and hydraulically driven hoists and cranes, JDN employs 160 people at its Witten-Heven headquarters and a further 40 at locations worldwide. In 2018 the business recorded consolidated sales of 36 million euro, although turnover has since dropped by more than a third due to a crisis in one of its core markets, the oil industry. JDN now earns more than 90% of its revenue in overseas markets. Selling around 8,000 hoists a year, JDN has developed a market position in 90 countries and 70 different branches of industry, including oil and gas transportation, raw materials processing, mining, chemicals and large-scale plant construction. JDN has subsidiaries in France, the United Kingdom, Singapore and the USA.<sup>3</sup>

This case study shows, in particular, the development of a small artisanal operation into a global player. To prepare this case study, the following questions were posed, forming the

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<sup>1</sup> A winch is a lifting or pulling mechanism consisting of a chain or rope that wraps round a horizontally rotating drum driven by a crank or motor.

<sup>2</sup> A hoist is a mechanical device with hooks and chains to lift and carry heavy loads.

<sup>3</sup> cf. JDN Group.

basis of the interview with the managing partner Wilfried Neuhaus-Galladé and of the literature evaluated:

- For what reasons was it possible to retain ownership in the hands of the Neuhaus business family for so long?
- How was the transformation (from domestic mining to world market leader in hydraulic and pneumatic hoists and crane systems) achieved and what precautionary measures must be taken to mitigate the imminent crisis (oil)?
- What measures must be taken to ensure the future viability of the business?

The authors and the Hénokiens hope that this case study will help successors and researchers of the family business to identify the success pattern of long-lived family businesses. We hope that the following lives up to this aim.

Witten, May 2019

Dr. Anne K. Heider, Prof. Dr. Tom A. Rüsen, Prof. Dr. Marcel Hülsbeck

## **1. Founding situation: how JDN rose out of the blacksmiths' guild**

In Hattingen, the closest town to Sprockhövel and Heven, a blacksmiths' guild had formed as early as in the 16<sup>th</sup> century. Until 1732, the government in Berlin enforced a basic mediaeval principle that, south of the Ruhr, industry was carried out in cities, while villages remained unindustrialised. Typical rural manufacture such as forging was, however, always allowed in the countryside. Before 1735, the artisan smiths in the hilly country south of Hattingen had not yet formed an association. But the relaxation of the late medieval structures since 1732 fostered a common organisation of the rural blacksmiths, which was also desired in the sense of Prussian export policy to the Netherlands and France. In any case, the "Sprockhövelsche Metallwaren Fabrick" (Sprockhövel Metal Goods Factory) certainly existed in 1745; it was probably founded between 1735 and 1740.

The historical sources allow us to determine that the freeholding family Neuhaus, from Herbede, became residents of Heven in 1606. It is assumed that men in the family were already pursuing forging as a profession by 1700, first as village blacksmiths, then as farriers. The production of winches and screws shows that the family did not stop at the level of village blacksmiths (shoeing horses, making tools for farmers), but began to specialise in technical devices. This development occurred with the rise of the horse-drawn carriage, which had to be jacked up for loading, unloading and repairs. The smiths' location, directly alongside the most frequented east-west connection (the Westphalian Hellweg) also favoured the development of the business. One of the most important buyers of their products must have been the mining industry, which intensified in the 17<sup>th</sup> century in the Ruhr area, and the transportation industry that was dependant on it and suffered under the dreadful state of rural roads. Axle and cargo container breakages were part of daily life for the coal carts; this made winches very much in demand. The acceptance, around 1745, into the Sprockhövel Metal and Iron Factory appears to be the first decisive step from village artisans to specialised entrepreneurs. Specialisations of this nature were themselves only possible if people were able to work collaboratively in a larger-scale association.

The rise of the Neuhaus family was favoured by reconstruction after the Thirty Years' War (1618–1648). The initial impetus came when Brandenburg politics began to support the iron industry, and with it the blacksmiths' trade. This development, and the continuous rise in demand for smiths' products in Heven, Herbede and Witten due to the constant growth of the local coal mines, must be seen as the starting position for the foundation of the business.

These general developments offered opportunities that the members of the Neuhaus family were able to take advantage of. This was aided by the family's marital policy, which was in accordance with the customary practices of the blacksmiths' guild: it was usual for sons and daughters to marry the heirs of other families from the same guild. This ensured that they kept their position in the same social class as before and also allowed them to pass on and further perfect the technical knowledge of forging.

This is what Wilfried Neuhaus-Galladé has to say in this regard: “Through this marital policy, the smiths had access to the then modern forging techniques. This exchange of information yielded improvements. A further factor for the interdependence of the artisan smiths was their exemption from military service as soon as they became active as master blacksmiths. Real family teamwork was achieved by my ancestors at that time, which helped to maintain the business.”

Around 1700, two brothers (Diederich and Heinrich) took the opportunity to specialise in screw and winch manufacture. Both had married into smiths' families. A daughter of one of the brothers (Catharina) was married at 21 to the son of the smith of Mengelinghausen, Heinrich Jörgen Schmid, who immediately took the name Neuhaus zu Heven. He was a master blacksmith when the “Sprockhövel Metal Goods Factory” was founded. The term “Factory” cannot be understood in today's terms; rather, it was a guild-like association of independent master blacksmiths. The masters at that time were known as “Fabrikanten” (“fabricators”).

The “Sprockhövel Metal Goods Factory” can therefore be seen as representing all those active in a particular industrial sector (in this case, smiths) and within a certain area, who were obliged to maintain cooperatively agreed, state-sanctioned and controlled standards.

This kind of cooperative served to sell the members' forge products domestically and abroad, and accept new orders. The registration of the business on 09/09/1745 can be seen as the start of the business history of JDN.

It is clear that forging represented a key part of the Neuhaus family existence when the business was founded. Embedded in the blacksmiths' guild and furnished with the technological expertise of its members, the family began a new stage in its entrepreneurial development with the registration of the winch smithy by Johann Diederich Conrad Neuhaus. The skills of this founding entrepreneur can be traced back to the family skills of his predecessors, who had probably already been active in artisanal forging for more than a century.

## **2. The founding generation (1745–1800)**

When Johann Diederich Neuhaus built his first wooden shaft winches in 1745, he had no idea how decisive this achievement would be for the effortless movement of heavy loads. With this masterpiece, he was accepted onto the masters' roll of the "Sprockhövel Metal Goods Factory". This first product, laid the foundation stone for the future business. Winches were produced for the locks on the river Ruhr and horse-drawn vehicles; later, they were used to lift railway waggons onto rails and load goods. Their use in coal mines also gained in importance and by 1800, the winches could already move loads of 7,500 kg. The better the available material, the more compact and powerful the products became.

Today, hoisting loads is still the central focus of the business' activities, even if the demands made of the product have changed dramatically over the last 200 years. Quality control in the 18<sup>th</sup> century, for example, had very little to do with what the term means today. If a smith wanted to check whether the teeth on a rack were within the tolerance limits, he would place a finger between two teeth and run the other hand over it. The business remained dedicated to winches, but these had to meet ever increasing demands. Their load-bearing capacities, which suddenly rose to 20 t, made huge demands on the materials and the many parts, which were still hand made. It was in this period that the close connection was formed between the business and the mining industry, which was becoming ever more important as a customer. Winches from this smithy were used in many of the coal mines in the region.

The early history of the Neuhaus family in Heven proves the importance of the smithy as a locational factor for further development of the business. Essential milestones in the business' development were reached at this site.

With the acceptance of J.D. Neuhaus into the Sprockhövel Metal and Iron Factory, a guild-like association of master artisanal blacksmiths in the hilly country of Hattingen, the business' rise began. As a master craftsman and member of the association, Johann Diederich could henceforth describe himself as a "fabricator". Ordinarily, masters employed journeymen and apprentices. Around 1800, the Sprockhövel association had 184 masters, 112 journeymen and 92 apprentices. Journeymen and apprentices were often the sons of the masters. Since 1746, all three groups had been exempt from Prussian military service, an important privilege. This exemption also shows how important the work of small-scale blacksmiths was to Brandenburg/Prussia in the essential war industry, weapon production. Every year, assemblies were held in the blacksmiths' factory in Sprockhövel at which the masters (fabricators)

appeared. This was an opportunity to choose the board of the factory, discuss wages and prices and regulate makers' marks. Masterpieces were also presented at these assemblies and applicants for the status of master craftsman were accepted or denied. While the factory thus controlled education and prices, it was itself subject to the control of a state commissar. It can be categorised as an intermediate stage between the cooperative guilds, the domestic system and a state inspection body. These kinds of factories can therefore be defined as the sum of all those industrially active in a sector, here forging, in a particular area, who were obliged to keep to cooperatively agreed, state-sanctioned and controlled standards. The distribution of their products depended on merchants who would settle where a large number of the masters of the trade were resident. For the Sprockhövel factory, this was Nieder-Sprockhövel, where between 1729 and 1785 alone, 63 masters had settled.

### **3. Development up to the First World War**

#### **The second to fourth generations (1800–1952)**

At the start of the 19<sup>th</sup> century, Napoleon Bonaparte was waging war in Europe. The Prussian armies suffered major defeats at the battles of Jena and Auerstedt (1806) and the Prussian King fled to East Prussia. In 1807, Napoleon signed the Treaties of Tilsit, dividing Europe into French and Russian spheres and reducing Prussia (and the rest of Europe) to insignificance. The business J.D. Neuhaus, named with the initials of the founder Johann Diederich Neuhaus, therefore had to restructure itself strategically from 1807. The Peace of Tilsit meant the end of the association of local smiths in “factories”. Now, production and local sales had to be organised independently and viability proven. In 1809, the founder of the winch factory, Johann Diederich Conrad Neuhaus, died at the age of 83. His eldest son Heinrich Wilhelm (1764–1831) inherited the business at the age of 45. The start of large-scale industry and small-scale blacksmithing industry both fall under Heinrich Wilhelm's time. Before his death in 1831, Heinrich Wilhelm Neuhaus developed the business into a flourishing business. In that year, his son, Johann Diederich II, took the winch smithy in its third generation.

German industrialisation began in the 1830s. In 1835, for example, the first railway line was opened between Nuremberg and Fürth, increasing demand for steel and steel products for the nascent railway industry. Coal and iron ore mining blossomed in this period. In this period, JDN produced winches for locks in the Ruhr region, an important transport artery in the Rhine

network. Simultaneously, railway operators became important new customers for the winches. Using the winches JDN produced, wagons could be lifted, rails laid and goods transferred. The third large customer group were the coal mines, whose demand rose year after year. The demands made of the products also increased. The winches had to lift ever heavier loads, up to 20 tons by the end of the period.

J. Diederich II had three sons, of which two died relatively young in the Franco-Prussian War of 1870, before they could take the examination to become master smiths. The third son, Louis (1848–1905) became the fourth-generation successor and concentrated the business on the mining industry, which boomed in the second German industrial revolution from 1870 onwards.



**Figure 1: Louis Neuhaus (1848–1905)**

Like his predecessors, he produced winches for collieries, locks and vehicles. Under Louis Neuhaus, operations became increasingly specialised, the principal customer for the winches being the mining industry. JDN soon held a strong position as a supplier of auxiliary tools. Although at that time, JDN still had not expanded its operations beyond a traditional blacksmith's shop manufacturing winches, Louis was very successful in expanding the business. He had the old smithy torn down and erected a new and more spacious one next to his residence, in which the first muscle-powered machines were deployed.

Louis Neuhaus died at the age of only 57 years. Now, his wife Emma (née Brinckhoff) (1859–1932) had to lead the business.



**Figure 2: Emma Neuhaus (née Brinckhoff, 1859–1932)**

Louis and Emma Neuhaus had seven children together. Following the death of her husband, she was responsible as the head of the house, family and business, but was unable to master the physical work of forging herself. In 1907, two years after the death of her husband, Emma Neuhaus married the master blacksmith Wilhelm Müller (1875–1951), a former apprentice of Louis Neuhaus, who worked in the business as a machine expert. This demonstrates the unbending staying power of the Neuhaus family. Other businesses in similar situations would probably have been sold off or liquidated. Because of the untiring work of Emma Neuhaus, the business could be managed until its handover to the next generation.

After 15 years of co-management by Emma Neuhaus and Wilhelm Müller, the business was finally handed over to Max Neuhaus (1900–1984) in 1922, in the fifth generation.



**Figure 3: Max Neuhaus (1900–1984)**

He was the seventh child of Louis and Emma and had completed a business apprenticeship and worked in numerous firms. In 1919, he entered his father's business. The First World War had almost brought the production of winches to a standstill; at this time, only the repair of used winches was carried out. Through the realignment of the business and the resumption of

winch production, the business was able to stand on its own two feet again. A large order from the Central Office of the “Reichsbahn” was the turning point in its economic development. In this period, JDN focused on the railway industry as its central target sector. In the mid-twenties, JDN was already able to employ 25 people again.

Max was granted commercial power of representation on his entry into the business and soon started trading hoists and winches. His determination and drive as an entrepreneur and the business successes he achieved caused his mother, in agreement with all other living siblings, to transfer the entire estate to him in 1922 through a deed of donation. Thus, he became, aged only 22, the sole proprietor and managing director of JDN. The ever-increasing upwards trend required new investment, such as the expansion of the machine inventory, the extension of production areas and goods warehouses and the modernisation of the workshop.

In the early 30s, the Great Depression shook the entire German economy. Many Ruhr companies, including numerous collieries, had to close. The crisis also left its mark on JDN, but Max succeeded in steering the business through these difficult economic times, as one of the few companies that was able to hold its ground.

After the Second World War, the coal and steel industries were one of the main motors of German reconstruction. The demand for winches to be used in mining grew accordingly. Due to high demand, JDN built a second production facility in Witten in 1952.

#### **4. Post-war development and fraternal strife**

##### **The fifth and sixth generations (from 1952 to 1995)**

In the same year that the new workshop was erected, J. Diederich Neuhaus (1925–2010), Max Neuhaus’ eldest son, entered the business, representing the sixth generation.



**Figure 4: J. Diederich Neuhaus (1925–2010)**

He had studied mechanical engineering and gained his first professional experience outside the business. Shortly after his entry into the business in 1952, J. Diederich came up with the idea of drive the winches with motors powered by pressurised air. This innovative product was in high demand in the mining industry as the motor created no sparks. The new product made the laborious manual work easier for the miners and made work processes more efficient and safer by replacing the hoists' traditional manual drive with a pressurised air motor. It was now possible to use the hoist everywhere where there was a risk of explosion. The basis for the success of JDN products can be dated back to this innovation in the sixth generation. At first the innovation revolutionised the application possibilities in the mining industry and simultaneously triggered the business' economic upturn.

While JDN owed its growth to the mining industry, it would also have to deal with the industry's economic crises. Structural change was achieved through the reorientation to new areas of business for pressurised air driven hoists beyond the domestic coal mining industry and the expansion of exports.

Over time, through its unique specialisation and expertise in pressurised air as a driving medium, JDN became a recognised expert worldwide. The advantage of this technology over electrically operated hoists was and is its usability as standard in potentially explosive atmospheres, because air does not create sparks. The technology also distinguishes itself through precise control, a number of other drive-related advantages and the patented rotary-vane motor, which enjoys a legendary status with customers because of its long life and high load-bearing capacity.

In 1966, the first JDN pressurised air hoists for applications outside the field of subterranean mining with load-bearing capacities of 250 to 1000 kg came onto the market. The chemical industry was an obvious choice in the search for further areas of application, as there, as in underground mining, there was a risk of explosion in many areas. In the years that followed, with a family member at its head who was a passionate engineer, J.D. Neuhaus brought ever more powerful pressurised air hoists onto the market. One highlight was the 1979 Profi 100 TI, the first pressurised air hoist in the world with a load-bearing capacity of 100 t. In the same year, JDN introduced the monorail hoist. It was developed specially for the offshore oil industry for BOP (blow-out preventer) handling. BOP handling refers to special valves that are installed on the borehole. They are designed to ensure that when drilling an oil field, the raw materials that shoot upward from the earth's crust under elemental pressure are kept under control. The valves can weigh up to 200 tons, comparable to the weight of a jumbo

jet. These heavy weights can only be transported to their place of deployment above the borehole with special hoists. What makes these constructions special is that, despite their high load-bearing capacity, monorail hoists have an extremely low overall height, an important requirement for drilling rigs.

Max Neuhaus was active in the business until the end of the 1960s. While his father, a down-to-earth man with deep local roots, was responsible for the financial side of the business, Johann Diederich was responsible for products, production and overall business strategy.

The entry of the second son of Max Rötger Neuhaus (\*1926) into the business marked an historical first break in the business' pattern. In the five preceding generations only one son had stepped up as the successor to his father, now two sons were actively involved in operations. Rötger worked closely with his father and was above all occupied with financial and administrative tasks in the business.

Max Neuhaus was managing director of the company until his death in 1984. Both sons (J. Diederich and Rötger) had corresponding shares and Max acted as regulator between the two brothers. He mediated in all discrepancies. With his death, this regulation between the brothers ceased to apply. Even the majority of J. Diederich's votes inherited at that time did not bring peace within the company. Only the self-selected resignation of the younger brother Rötger eased the situation within the company, as 100% of the shares were in the hands of J. Diederich Neuhaus.

At first, the relationship between J. Diederich and Rötger was described as intimate. Over time, however, it deteriorated and in the last few years of their collaboration their relationship was marked by a long-term, destructive conflict. The two brothers grew apart over time and were unable to agree on a common approach to the management of the business.

The different positions of the two brothers were probably never discussed by the father in the context of succession. On one side was the Managing Partner, on the other a subordinate who acted as an individually authorised signatory. In terms of ownership, there was a majority shareholder on one side and a minority shareholder on the other. On the family level, they were older and younger brothers.

Research into family businesses has shown that unresolved relationships between siblings or cousins are highly conflict-prone, if different hierarchical relationships exist in different areas of the relationship. In the case of the two brothers there was a disparity in the logic of the

formal hierarchy in the business and shareholdings; it seems likely, that this inequality in the family relationship was never fully resolved and that a mutually acceptable approach was never found.

In addition to this, the majority shareholder J. Diederich remained childless, while the minority shareholder Rötger had four children. There was, therefore, also a disparity regarding the next generation – in the exact opposite direction. The Managing Director and majority shareholder was unable to pass the business to his own descendants. To fulfil the transgenerational task as a family entrepreneur, he had to rely on the cooperation of his brother, his subordinate, individually authorised signatory and minority shareholder.

At first, an attempt was made to introduce a successor from Rötger's family into the business, but the attempt remained unsuccessful. We can be sure that this failed attempt to find a successor left new, deep wounds on the two brothers that had a destructive effect on cooperation in the management of the business and between shareholders.

With the death of the father in 1984, J. Diederich began the search for his own successor in his extended family circle. This led to talks with his nephew Wilfried Galladé (\*1957), the son of his sister Ursula. J. Diederich was also his godfather and the two had a close personal relationship.

Following Wilfried's entry into the business (see next section), J. Diederich and Rötger agreed on a separation. The shared leadership of the business would not be continued in the next generation. Rötger was bought out, which placed a severe financial burden on the business, but made necessary restructuring and repositioning possible.

Despite all the discord between the two brothers over several decades, they succeeded where many family businesses fail: they achieved an agreement and separation to preserve the business. In contrast to many other cases, the fraternal conflict was not perpetuated to the point where the well-established business was destroyed. A further example of the Neuhaus family finding a way to deal with the typical existential challenges that multi-generational family businesses face and implementing a solution to ensure its survival.

## 5. Entry and adoption of Wilfried (his transformation of the business away from mining)

### The seventh generation (1987–today)



**Figure 5: Wilfried Neuhaus-Galladé (\*1957)**

Wilfried Galladé was 27 years old when he was invited to enter the family business by his godfather and uncle. He was the scion of a business family on his father's side too, one which was active in the metal processing sector. He successfully studied economics and worked in commerce as a management consultant in a large business, as his elder brother was the successor to his father's business. Wilfried agreed to enter his uncle's business and, on 1 April 1986, started work in the USA at two associated firms. Before entering the family business, it was important to him to gain experience in the sector and abroad, outside the existing structures. On 1 October 1987, Wilfried joined JDN as head of sales with international experience.

At the same time as he joined the business, his family circumstances also changed. Wilfried was adopted by J. Diederich and his wife, Anke Neuhaus, making him a legal heir to the J. Diederich Neuhaus family. He took the Neuhaus name to ensure family continuity. For J. Diederich, this step guaranteed the handover to the next generation. After decades of childlessness, he now had a son to whom he could pass on the family business. The continuity and life purpose of J. Diederich could now be fulfilled after all.

Tax reasons doubtless also played a role in this context, as transfers of shares to sons are subject to a significantly lower tax rate than transfers to more distant relatives.

Wilfried entered the business at a critical time. From the mid-80s, the mining industry in Germany declined due to cheap imported coal, which was up to 30 percent cheaper than domestic coal. JDN's revenue dropped accordingly from 1985 to 1990, the height of the crisis,

by about 50 percent. At the same time, the business was weakened by the continuing conflict between the brothers J. Diederich and Rötger, which prevented the necessary repositioning and alleviation of structural weaknesses. The business' equity capital had been seriously stretched by the buy-out of Rötger, substantial resources had been drained and loans had been taken out.

The successor's starting situation was, as for many of his predecessors, unassuming. But the newly arrived successor, Wilfried Neuhaus-Galladé, made a virtue of necessity and thoroughly reorganised the business. In addition to realigning sales to sectors outside mining and shifting from domestic sales to exports, he changed internal processes. To maintain the business, he was forced to carry out a reduction of personnel: he halved the number of employees by 50%, to 110. The financing banks provided the necessary liquid funds to cope with the crisis and buy out the minority shareholder, largely because the restructuring concept and the successor himself were highly trusted.

Wilfried had two main goals: the generation of growth in international markets and in other new branches of industry beyond the crisis-ridden domestic mining industry, and the rigorous development of new products for new customer segments.

In the course of the internationalisation strategy, he opened a distribution business in the USA in 1989, with a second following in France in 1990.

Then, further distribution companies were founded in England (1999), Singapore (2002) and China (2009). JDN's export turnover rose accordingly. In 2011, exports accounted for about 80 percent of sales. JDN also grew further in new market areas and sectors. As a result of the transformation of the business, the customer segments shifted. In the 1980s, before the crisis, 85 percent of sales were generated in mining and only 15 percent in the industrial sector; in 2006 that ratio was almost exactly inverted: 10 percent of sales went to mining and 90 percent to the industrial sector. The main reason for this was the rigorous marketing of the product portfolio in new sectors.

A complete relaunch of the JDN product palette up to 20 t load-bearing capacity was conducted from 2003 to 2005. In 2010, hoists with capacities from 25 t to 50 t followed and, finally, in 2014 hoists with load-bearing capacities up to 100 t. The entire series was optimised and set new standards in the field of pneumatic hoists. Parallel to these developments, the plant construction department was founded in 2011. Here, JDN specialised itself in the construction of customer-specific crane systems, overwhelmingly for use on

drilling rigs. As an alternative to pressurised air, J.D. Neuhaus also offers its entire product palette with hydraulic drives. The fields of application range from the automotive to the cement industry. The focus is on oil and gas exploration and processing, mining, the chemical industry and heavy plant construction. In accordance with the slogan, “engineered for extremes”, JDN states that usage in Siberia at minus 45°C or 70 m below the surface of the sea are not uncommon. Digitalisation will fundamentally influence the further development of the sector. A particular challenge in this regard is presented by the drive media air and hydraulics (oil). One question for the future would be how the digital transformation can be managed without electricity. It is clear at this point that digitalisation will bring about considerable changes.

In the course of realignment, a strategic guideline was defined: sector independence as far as possible. Consequently, one of the business’ goals is never to have more than 30% of turnover in any one sector.

This goal can be understood as a strategic formula to guarantee survival, which Wilfried made on the basis of his dramatic experiences when he entered the family business. At that point, the business made around 90% of its sales in the mining industry. High sales in one sector, however, create a simultaneous dependence on the customers and their development. If the sector takes a downturn, the supplier who generates 90% of turnover in this sector is usually caught in a strategic trap. Slumps in sales, a massive “colliery die-off” like the one the German mining industry experienced in the 80s, led many mining suppliers into insolvency. JDN was able, by enormous force of will, to escape this destructive sectoral dynamic and adjust its business concept to enter new and international markets. The lesson from over 100 years as a mining supplier is to set up the business in an independent, cross-sectoral way. For example, the crisis in the oil industry, which also hit JDN hard, has now been overcome and was offset by sales gains in other business areas.

Wilfried took a further lesson from the experiences gained on his entry: dismantling inflexible organisational structures. Shortly after his entry into the business, he had to carry out massive cuts to personnel. Undoubtedly a measure that was very difficult for him as a person with deep roots in the region, as some employees were already employed in the business in the 2<sup>nd</sup> and 3<sup>rd</sup> generations. Once he had got JDN’s market realignment under way, in the early 2000s, he began questioning all the internal structures and processes in the business. The Kaizen

philosophy and Kanban production system were introduced as the business' underlying philosophy and are used to this day as the basis for every operational control consideration. As a result, all the processes and procedures in all areas of the business, in production, in sales as well as in administration are systematically and critically questioned on a regular basis.

After a successful reorganisation and transformation of the business, Wilfried was named Managing Director in 1995. At the end of the year, J. Diederich Neuhaus stepped down as Managing Director, staying as a member of the advisory board on until 2000. After buying out his brother Rötger in 1989, J. Diederich immediately began the gradual transfer of shares to his adopted son Wilfried. He became sole proprietor of JDN in 2007. After a long, and in parts unhappy, phase of shared ownership, a single family member was once again responsible for the business.

## **6. Agenda for the future (realignment of the business through Kaizen and family governance)**

### **Preparation for the eighth generation**

The following section aims to cast some light on the future. What are the characteristics that distinguish JDN as a business and the Neuhaus-Galladé business family?

### **Kaizen philosophy as core strand of business DNA**

The decisive process innovation for JDN in the last few years was to adjust production from “pulling” to “pushing”, in accordance with the Kanban principle. Part of the new production process is the already outlined Kaizen philosophy of continuous improvement, which aims at incremental process innovation. The aim of these procedures is precision, reliability, rapidity and optimisation. Kaizen is a Japanese life and work philosophy the guiding principle of which is the quest for constant improvement. It does not consider improvement by leaps and bounds the path to success, but gradual, continuous amelioration. Today, a functioning Kanban system is being put in place. All the work processes in the business are subject to this process. Since 2015, regular workshops and processes have also been held at the business to focus on optimising the business by making use of digital opportunities. Step by step, digital technologies are tested and reflected in products and workflows. As a result, the business is undergoing a continuous digital transformation.

### **JDN's orientation in global competition**

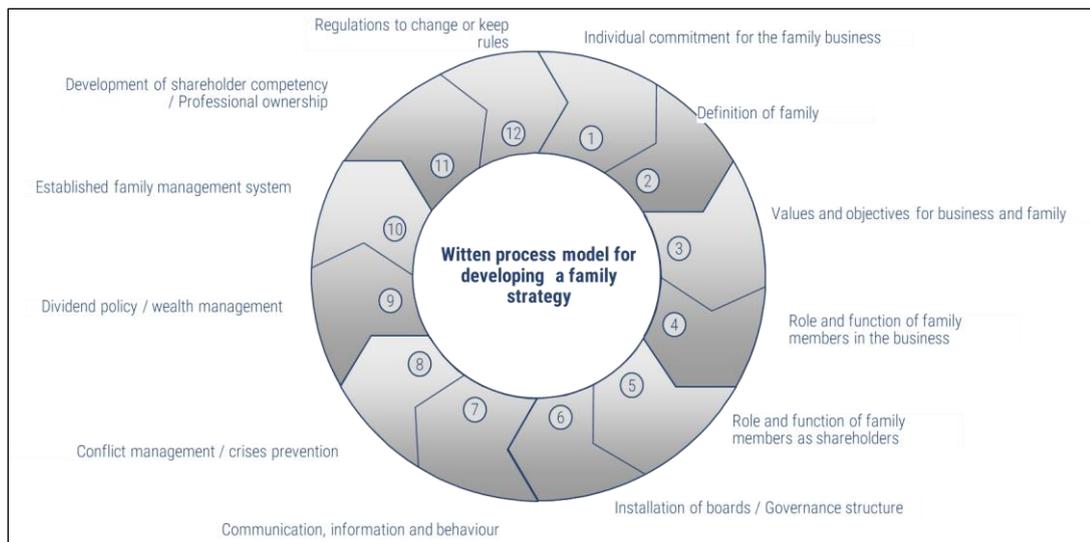
JDN is in a niche market for hoists and winches for use in extreme conditions (e.g. in environments where there is a risk of explosion, underwater operations, extreme heat and cold etc.). Its specialisation is focused on pneumatic and hydraulic hoists. The business takes particular care to maintain the quality of the products. These are distinguished by their long working lives and ability to be deployed in high-stress, aggressive environments. JDN products can also bear heavy loads of up to 100 tons. For several decades, the basic philosophy regarding products has been to “engineer for extremes”. All product development and production considerations are rigorously oriented to this demand.

The export share has risen from 5% in 1980 to 70% today, making JDN a globally active provider. The business thus set itself apart at an early stage from many competitors who pursued regional strategies. Through its strong global presence, with foreign subsidiaries in the USA, the UK, France, Singapore and China, and with an entry into Brazil, Russia and India, it is possible to serve all markets. JDN hoists are used in over 70 different sectors. They are currently particularly sought after in oil and gas exploration and processing, in mining, chemicals and heavy plant construction.

With regard to their deployment and quality, JDN products are best suited to difficult environmental conditions. As a necessary tool for production in “heavy” industries, everywhere where heavy loads must be lifted, the demand for JDN products will continue in the foreseeable future and could even increase if industrialisation continues to grow in emerging markets.

### **Orientation of the family**

In 2015, Wilfried transferred 3 percent of the shares to each of his three children, commencing the transfer to the eighth generation. Before the transfer, an almost 3-year family strategy development process took place. In the course of this, Wilfried and his wife considered the shared life and cohesion of the family, the transfer of shares and the leadership of the business. In this, they followed the Witten Model for the development of a family strategy.



**Figure 6: Witten Model for a family strategy<sup>4</sup>**

In the context of the development of a business family strategy for the Neuhaus-Galladés, the couple discussed twelve thematic areas and developed solutions for them. In the second stage, the solutions were discussed with the three children or representatives of the eighth generation. At the end of the process, the family agreed on shared values, processes and basic attitudes for the future development of succession, share transfers, treatment of each other and the family business. At the same time, family governance institutions were established. These include, *inter alia*, an annual family day, regular shareholder meetings, inheritance management sessions and shared family trips. Since 2018, the family has worked on the further development of their family strategy or Family Governance System at regular intervals. They apply the Kaizen philosophy to family management.

The representatives of the 8<sup>th</sup> generation are preparing themselves rigorously for potential roles in the business, on the board of shareholders and in the family office. There are defined processes through which decisions on the entry of family representatives into the business can be made by nonfamily members of the supervisory board. If the interests of the eighth generation are maintained and the necessary competences achieved, nothing stands in the way of keeping JDN in the hands of the business family.

<sup>4</sup> cf. Schlippe et al. (2017).

## **7. Summary, why we believe JDN has grown so old and what others could learn from this**

The case study highlights essential core issues for a successful multi-generational family business. Overall, this case presents a successful example of the transformation from domestic mining to a world market leader in hydraulic and pneumatic hoists and crane systems. It was possible to manage the transformation successfully because JDN understood how to react to environmental conditions and adjust production accordingly, while sectoral development also favoured the business' development.

All in all, several turning points can be determined in the business' history that contributed decisively to its development.

In particular, these are the rise from village blacksmiths to a specialised artisanal operation up to about 1880/90, the Neuhaus winch smiths during the economic cycles from 1885 to the First World War and the alternating sequence of good and bad economic conditions for the small-scale winch factory between 1920 and 1950.

A further turning point can be seen after the Second World War, when orders began to slow down. JDN understood how to react flexibly to the needs and demands of the market, in order to survive the war years and the period of reconstruction in Germany. The German reconstruction essentially favoured the business' development, as Neuhaus winches were essential to mining for the reconstruction of the destroyed railways. Coal mining was, between 1946 and 1948, at the heart of all economic and political interventions by the occupying forces. Coal was essential both as reparations and as an energy source for reconstruction and heating. The transport routes, in particular the tracks of the "Deutsche Reichsbahn", had to be reconstructed as quickly as possible after being crippled by aerial bombardment and dynamiting towards the end of the war. The coal and steel industries were also the main motors of German economic reconstruction. Accordingly, the demand for winches to be used in mining rose. An innovative technology replaced the manual operation that was standard for JDN hoists up to 1952 with a pressurised air motor. This was a decisive milestone in the business' development. The air hoist innovation was a decisive step forward for mining and at the same time offered an entry into the worldwide market in the field of pneumatic hoists and crane systems. This was the decisive technological breakthrough for JDN's expansion. This innovation replaced manual operation and avoided electric operation. With regard to the former, the pressurised air motor relieved heavy physical work, while with regard to the latter,

pressurised air guaranteed explosion prevention as no sparks are created, an inestimable advantage when using the hoists in mining. The next structural crisis came in the 80s, when domestic mining declined. JDN's 90% revenue share in the sector was massively affected by this. A restructuring programme, required by structural problems, began in the business, rethinking nearly every structure and process at JDN. Subsequently, the entire production system was realigned.

A further reason why the business remained under the ownership of the Neuhaus family was the specialisation that evidently took place early on in the business' history, first of family members then of the business itself. Therefore, the case study especially illustrates the development of the family and the early history of the Neuhaus smiths as an operation in the so-called Sprockhövel Factory in the 18<sup>th</sup> century.

Early in the history of the first generations of the Neuhaus family, generational thinking and strong family cohesion are evident. Family continuity was marked among other things by a clear marriage policy, where smiths married among each other ensuring the continuation of the business in family hands. Documentary evidence shows that in a kind of targeted regional marriage policy, people married as far as possible in blacksmith families and rooting themselves in the region. The regional consideration not only allows observations of marriage policy but also shows the importance of location for the business' development.

It is also crucial for the business' development that all the business' fundamental innovations come from people who explicitly broke out of the immediate circle. Max Neuhaus had a commercial background which led to the industrialisation of his own products. J. Diederich Neuhaus was an engineer and invented the pneumatic winch in 1952. Wilfried Neuhaus-Galladé was the first successor with international experience. Here, it is evident that this background led to the internationalisation of the business and a diversification strategy. The personal stamp of the leading family members was an essential reason for the transformation and further development of the business over generations, into one fitting the market and environmental conditions then in force.

Business progress arises from tradition: the movement of loads is still in the foreground today. At the same time, the ability of the family business to be both tradition-driven and highly innovative is evident. Specialisation continues to this day. In particular, the business distinguishes itself from its competitors through its technological leadership on the market. This characteristic is important in regard to the business' future viability. From over 40 years

of experience in the mining industry, the business has learnt never to be dependent on a single sector again. For Herr Neuhaus-Galladé, one requirement for the future viability of the business is that the members of the family agree on topics that will drive the business forward in the future, such as questions of succession. This also means that the products that are made are future-proof. The movement of loads should be continued in the coming generations. Future-proof also means being independent of financial investment and also with regard to the relationships with customers and suppliers. The business family talks about the expectations the business has of the next generation in particular. Future-proofing also means that every generation has to leave behind its mark. Today, the age of digitalisation is heralding dramatic change, which the new generation can see as the starting point for developing the business. The fact that the representatives of the eighth generation have already finished internships in the business, getting to know its internal structures, regularly take part in digitalisation workshops within the business and are able to network systematically with other representatives of business families should be understood as a positive sign of things to come.

A further reason for the survival of the family business over seven generations is, ultimately, the absolute will of family members in the Neuhaus/Neuhaus-Galladé family to transfer the business to the next generation. There were often moments in the history of the business where the situation, war, deaths, quarrels, sectoral upheaval, could have led to the relinquishing of the business. The family managed, in every generation, to overcome these challenges and find solutions to deal with them. The fact that, in every generation, a creative spirit in the family drove the business forward, in combination with the family members' absolute willingness to work, can be described as the core of this business family's DNA for over 270 years. It is to be hoped that this strength will guide the representatives of the family in future generations.

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# The Pictet Case Study

Author : Torsten Groth and Fritz B. Simon  
(Witten Institute for Family Business)

# The Pictet model

A company that  
continuously reinvents  
its family ownership

A case study by Torsten Groth and Fritz B. Simon  
Witten Institute for Family Business

The original case study was published in 2005 in the book  
Mehr-Generationen-Familienunternehmen by F.B. Simon,  
R. Wimmer, T. Groth, Carl Auer Verlag

Photo credits: Marco Grob, Lucie Deluz, Sabine Senn,  
Pictet Historical Archives

# A company that continuously reinvents its family ownership

One of the most radical and yet most adaptable ways to ensure the survival of a company was developed by the Geneva wealth and asset management group Pictet. It combines family and business structural principles, in a unique – perhaps even ideal – way. For more than 200 years the organisational structure of Pictet has been constantly refined on the basis of tried-and-tested practice and against the backdrop of business requirements, after originally evolving in an unplanned way.

What makes the Pictet model so appealing is that it seems not only to have succeeded in squaring the circle, but keeps on doing so time and again. Let us examine what is meant by this metaphor. It may be true in general that family businesses gain a survival advantage compared with listed companies because their capital is provided by a family rather than a market, but therein lies their risk, too, since family dynamics are centred on personalities, and emotions play a central role in behaviour and decision-making. Over several generations, it is not uncommon for family firms to fail to strike a balance over the long term between thinking like a family and thinking like a business. By showing itself capable of developing in an evolutionary manner, Pictet's partnership model seems to have found a way to exploit the advantages of family-type structures to the maximum, while at the same time reducing the associated risks to the minimum.<sup>1</sup>

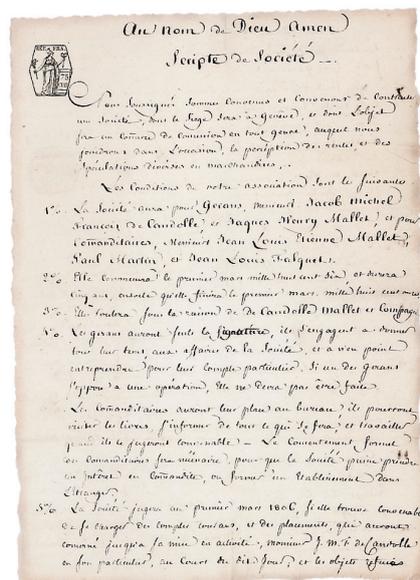
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<sup>1</sup> We should like to thank Ivan Pictet (Senior Partner from 2005 to 2010), who provided insights into the organisational model of his business for the first edition of the book, once the actual research project had been completed. Jacques de Saussure (Senior Partner from 2010 to 2016) and Marc Pictet, a current Partner, were willing to be interviewed for the initial updates and reviews, and an interview was conducted with Renaud de Planta, the Senior Partner, for the present fifth edition. We are grateful to them all for their cooperation.

# The Pictet Group

## A SHORT HISTORY

In 1798, the city state of Geneva was annexed by the French *Directoire* and became the capital of the *Département du Léman* – as part of France. War and blockade had interrupted the export of watches – Geneva's forte – while the French monarchy's default after the Revolution had caused most banks to collapse. Yet Geneva's entrepreneurial flame, kindled by Calvinist principles of discipline and hard work, and fanned by the optimism of the Enlightenment, stayed alive. As a result of the inflation which persisted after the Revolution, a new form of financial partnership emerged, eventually to be known as private bankers.



The *scripte de société* signed in 1805 by Jacob-Michel-François de Candolle and Jacques-Henry Mallet to form the original partnership

“The formal history of Pictet begins in Geneva on 23 July 1805. On that day, Jacob-Michel-François de Candolle and Jacques-Henry Mallet sign, with three limited partners, the *scripte de société* that creates the original partnership of de Candolle, Mallet & Cie.” Thus begins the history of Pictet, as described in the Annual Review.

It was not until 1841 that a member of the Pictet family became one of the bank's General Partners. Shortly before his death, Jacob-Michel-François de Candolle, having no son to succeed him, turned to his wife's nephew, Edouard Pictet (1813-1878), who became a Partner in 1841. The bank was then known as Turretini, Pictet & Cie until 1848.

“Pictet” has been part of the firm’s name ever since – and care has been taken to ensure that the ownership circle includes at least one person of that name. François Pictet, the son of former Senior Partner Charles Pictet, was recently appointed as a Partner. This means there are now two Partners bearing the name, the other being Marc Pictet, who is descended from a different branch of the Pictet family; he has been a Partner since 2011 and is now responsible for the Group’s Wealth Management business.



Jacob-Michel-François de Candolle, one of the founders of the bank

Apart from Pictet, other Partners’ names also appeared regularly throughout the bank’s history. In the 19th century, these were names such as Necker, Candolle and Turrettini, who came from the same circle of families and therefore belonged to the Calvinist *milieu* of the city of Geneva. It was not until 1909 that Guillaume Pictet looked beyond these families for a suitable director for the bank and appointed Jacques Marion, a loyal employee, as a Partner. Then, in 1914, on the eve of the First World War, the bank invited as a Partner Gustave Dunant (1880-1933), formerly one of the owners of a London bank, Morris, Prevost and Co. This was to have a major influence on business relationships with Britain.

More names can be added from this point on, as many non-family members played a significant role as Partners in the 20th century. Here we can already see the particular Pictet paradigm: the business does not pass down by linear descent through one family, as traditionally defined; instead, its model has been developed over several generations by Partners who are drawn from selected families or employees handpicked for their outstanding contributions. Ivan Pictet, former Senior Partner of the bank, explains this as follows: “We are not actually a family business, but rather a family-run business.” Nowadays, perhaps, more emphasis would be placed on it being an “owner-run business”.

Private bank,  
specialising in wealth management  
and asset management

More than **5,100** employees worldwide  
(at 30 June 2022)

CHF **610** billion  
assets under management  
or custody  
(at 30 June 2022)

A number of incidents show that at Pictet, ownership decisions were being made that would have been unthinkable for many family companies: a wife's nephew succeeding to the business, and employees and even owners of other companies being accepted as Partners. At the same time, since the decisions were clearly beneficial to the success of the business, this created a precedent for the integration of non-family members, which was to continue in the succeeding generations and has developed even further in recent years, such as through the appointment of Laurent Ramsey, Sébastien Eisinger and the very first female Partner, Elif Aktuğ.

#### **FORMAL AND INFORMAL RULES AND STRUCTURES**

Since it was founded, the company has always been owned by several Managing Partners. To begin with, there were only two or three, but in recent decades the number of Partners has expanded along with the Group. Nevertheless, Pictet has all the features and advantages of a family business.

For one thing, members of the Pictet family have had a substantial involvement in managing the business for around 180 years (or nine generations), and it is highly likely that they will continue to do so in the future. We can rightly speak, therefore, of the co-evolution of family and business. Second, a significant proportion of the Partners have come from a small circle of families who have been part of Geneva society for a very long time. Third, key personnel from within the company are also invited to join the Partners if they are able to contribute both professional expertise and the right cultural fit. Overall – and this is the most fascinating aspect of the Pictet model in terms of systems theory – the Partners' Committee appears to recreate the structures of a nuclear family (or team), yet recruitment decisions are not made within the narrow limits of parentage and close relationships. A look at the criteria for choosing Partners – in addition to the high degree of competence they are expected to have – shows that what makes the ownership circle special is a balanced combination of three things: direct descent (Pictet family), local cultural background (Geneva and its environs), and the cultural fit between carefully selected managers.

Based on these three criteria, Pictet as a business has set up an ownership structure that is in keeping with its own particular survival objectives. It has developed a system of management by owners which promotes and regulates its own style of cooperation and enables constant self-renewal. It is probably no coincidence that the result is a social entity with many of the characteristics – and therefore the functions – of a

nuclear family, while at the same time demonstrating many of the features of a management team. When Marc Pictet says: “The Partnership is a family,” the dual nature of the team of Partners becomes evident.

## “We believe that the ideal number of Partners is between six and nine.”

RENAUD DE PLANTA

The Partners’ Committee generally consists of about six to nine Partners who jointly own and manage the business. The “Senior Partner” has a special role to play. He chairs the meetings, essentially determines the agendas and takes charge of interactions with other management bodies. Overall, the Senior Partner’s role and function is more like that of a referee than a chairman of the board. The eight Partners at Pictet today (two of whom currently bear the name Pictet) always make decisions jointly.

### A UNIQUE SUCCESSION PATTERN

One similarity to the rules and social forms of nuclear families may be seen in the three-generation formula: the Pictet Group strives to appoint new Partners regularly – every five to ten years. This accession pattern means that the youngest Partners are usually in their early 40s, several others are aged between 45 and 55, and the most experienced Partners are generally aged between 55 and 65. The “generational transition”, as it may be termed, is therefore not a matter of chance – dependent on the life and fate of an individual, for example – nor does it cause a major interruption in the management of the business. The succession of individual Partners is institutionalised and regulated as a foreseeable aspect of the team’s life cycle. Moreover, this succession can take place within a narrower time frame than is the case for family companies, which see the baton passed on to the next generation of descendants every 25 to 40 years. The Partners themselves ensure that they are regularly joined by new members who “bring a young and modern perspective”, as Renaud de Planta, the current spokesman for the Partners says.

Once they leave the Group, the Partners have no further claims on the business (although the custom is that they remain available to offer advice to their successors, and they may continue to look after selected clients)<sup>2</sup>. They keep only the assets they have generated for themselves in the course of their career and are bought out at book value by the new Partners, with the payment being made in stages. Each new Partner receives

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<sup>2</sup> Furthermore, former Partners hold management positions in the recently created Pictet Group Foundation, which supports causes relevant to the future of society.



From left to right:  
Sébastien Eisinger, Elif Aktuğ, Laurent Ramsey, Renaud de Planta (Senior Partner), Rémy Best, François Pictet, Bertrand Demole and Marc Pictet.

a form of loan from the others, which he/she pays back over several years from his/her share in the profits. This means that, in terms of their capital assets tied up in the company, all Partners are on an equal footing until they leave the company. Thus, although being an owner in the company is a career-long status, it is a temporary position that is associated with the individuals and their management function, not their family, and cannot be passed on to their children.

### JOINT DECISIONS

The personal nature of communication – something that is typical of modern nuclear families – is assured by the small number of Partners, who also work together in close proximity on a day-to-day basis. Experience shows that groups of over 12 people need someone to organise communication as, at this point, the number of possible two-way conversations increases and there is less likely to be spontaneous informal communication among participants. On this subject, Renaud de Planta states: “We believe that the ideal number of Partners is between six and nine. A certain number are required in order to cover the various areas of responsibility within the Group. However, if there are too many people, it becomes difficult to reach joint decisions.”

The Partners have morning meetings in the “Salon” several times a week. This allows current matters to be discussed and decided as quickly and informally as necessary.<sup>3</sup> Meanwhile, longer meetings are scheduled to deal with strategic planning and more complex subjects. The aim is to ensure that time is not wasted on unnecessary bureaucracy, while at the same time applying contemporary standards and meeting all regulatory requirements. In the management of Pictet, a culture of communication and consensus has thus become established over the decades. This has latterly come to be regarded as indispensable for the proper functioning of self-organised teams, not least because of its flexibility.

The importance of personal relationships is also evident in the manner in which new Partners are appointed. It is not just a matter of “buying into” the company: new Partners have to be unanimously nominated by the existing Partners. And as they know they are likely to be working together for the next 20 years or so, this decision is probably given more consideration than many marriages. The Partners certainly have to get on well with each other, but this, in itself, is not sufficient. What is needed is the right match at an emotional, intellectual and cultural level, together with a high degree of expertise. According to Jacques de Saussure, a former Senior Partner, “A new Partner must be somebody you would also like to go out for a meal with.”

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<sup>3</sup> Since the change in legal form (see below), the Salon has been required to keep records of all its decisions.

## A FABRICATED “NUCLEAR FAMILY”

From these rules, we can already see some of the advantages of such a fabricated “nuclear family” compared with biological families. A wider pool of candidates can be considered as part of succession planning. Their professional development can be observed and evaluated over a period of years. When a successor is needed, the most able can then be selected, and it is also possible to choose people with a different skills profile whenever markets, technology and clients place additional demands on senior management. The sequence of the generations is conceived as a “transmission without DNA”, according to Jacques de Saussure, and according to this principle it is based functionally, socially and temporally on the needs of the business, and is far easier to plan for and adapt than would be the case in a natural family. It does not depend on a descendant being willing and able to take over, as would be hoped for and expected in “nuclear family” models. At the same time, the Pictet model is not as open and unconstrained as the usual succession process for boards or teams of directors.

In Pictet’s example, the relationship between the generations is unencumbered by childhood experiences or generational conflicts. From the start, it is a relationship between adults. Whereas chance alone determines who is born into an entrepreneurial family, membership in the Partners’ Committee can be restricted to those with whom the Partners actually work well and, more particularly, those who have the required skills and qualifications. As the relationships forged serve the same objective goal, they are less vulnerable than family ties to emotional disappointments and complications – and if it should subsequently prove that a particular person, contrary to expectations, does not play a satisfactory part in the Partners’ Committee, it is easier to make a change than it would be in a “family only” entrepreneurial family, in which such a change can offer cause long-lasting friction between close relatives.

Other aspects of a family arrangement do nevertheless surface in the group of Partners. The most significant point in this respect is the principle of equality. Each Partner has one vote. There are none of the formal hierarchical distinctions that would result from the status of majority or minority Partners. And even if there are some differences with respect to age and seniority of partnership, this is not associated with any formal power. Authority has to be earned and preserved through the individual Partners’ contribution to the company as a whole. The Senior Partner is a special case, as they act as a spokesman to the outside world and as an arbiter within the Partners’ Committee.



## THE ROLE OF THE SENIOR PARTNER

Nicolas Pictet, who was Senior Partner from 2016 to 2019, emphasises three main aspects of this role: “The first is to ensure the Partners work effectively and in harmony, and that contains both a professional and a human element. The second is to act as an ambassador of the firm, a double role that concerns both the staff and the external world. And third, the Senior Partner must embody the values and culture of the firm, a role that’s more symbolic, and one must live up to people’s expectations.”

The link to the extended Pictet family is closer than might be expected, given the formal distance. According to Renaud de Planta, there’s no shortage of suitable offspring waiting in the wings. In this respect, the family may be considered to have privileged access, making



It is in this room that the Partners meet every week to discuss current matters.

itself available to the company as a resource. A suitably qualified Pictet always has the option of joining the firm. However, the family aspect is restricted by the unwritten rule that a father and son or two siblings cannot be Partners at the same time. “We want to avoid any clannishness or family disputes,” say the Partners. And to further reduce the likelihood of emotional complications, Partners from the Pictet family must be chosen by the non-family members among the Partners. The family relationships are thus counteracted to a certain extent by a system of “chosen relationships”.

In general, the Partners bearing the Pictet name have the same rights and obligations as the others, although the fact that their name is synonymous with the company may result in a special role being ascribed to them by outsiders. Their partnership, and thus their entitlement to a share in the company profits, is restricted to the period they remain with the company.

It ends once they leave the Group. Furthermore, their offspring are never automatically entitled to become a Partner; they too have to be suitably qualified. Internal decision-making among the Partners focuses more on maintaining equilibrium than exposing conflict.

There is no formalised voting system within the Partners' Committee. In the event of a difference of opinion, the Senior Partner takes on the role of coordinator, seeking to find a balance between opposing forces. "The decision we eventually take has had any rough edges smoothed out during the process," says Rémy Best. Even teams that work on the basis of consensus need to weigh up the cost of such a decision-making model. It is possible for discussions to go on too long before agreement is reached, and to lead to rather risk-averse decisions. All the Partners are conscious of the need to make decisions for the good of the business as a whole, and as Renaud de Planta says: "The right of veto should be used only sparingly." Overall, the Pictet management sees this consensus-oriented management style as an advantage, in that it allows the Partners to consider their decisions more efficiently, and if things turn out negatively, to take joint responsibility for the consequences, since decisions cannot be forced through by a predetermined majority vote against the wishes of the minority.

#### **A BUSINESS MODEL THAT SPRINGS FROM CALVINISM**

From a historical perspective, such a model emerges naturally in Calvinist Geneva, with a cultural framework that values the personal attributes of modesty, discipline and hard work. These underpin the entrepreneurial spirit of Pictet. An unwritten but unanimous objective among the Partners is to constantly improve the bank and to pass it on to the next generation of Partners in the best possible condition. Just like many other heads of families, the Partners see themselves as custodians of wealth. Wealth is passed on, and the business may not be sold to outsiders, or other investors allowed to buy into it.

This objective has clearly been met over the past two hundred years, with a semi-open partnership structure that offers talented and motivated individuals from outside the family an opportunity to contribute to the Group's leading position. Meanwhile, continuity has been assured by consistently focusing on the Group's core business – wealth and asset management – and resisting the temptation to make short-term gains in investment banking. Lastly, what makes this model so unique and so successful is the manner in which it combines experience with youthful energy, continuity with a spirit of

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Pictet’s partnership model seems to have found a way to exploit the advantages of family-type structures to the maximum, while at the same time reducing the associated risks to the minimum.

”

innovation, and a family environment with external influences. As a consequence, Pictet is today one of the world's leading wealth and asset managers.

And, against a background of tradition and consistency, it has always enjoyed the ability to adapt to a changing environment. As Ivan Pictet pointed out in an interview after the first edition of our book, the basic rules given here are not embedded in stone: "They can be changed at any time." As shown below, the system has indeed been adapted.

#### **THE MODEL IS DEVELOPED FURTHER: A CHANGE OF LEGAL FORM AND ADDITIONAL EQUITY OWNERS**

Two major changes have taken place since the first edition of our book was published in 2005. For one thing – and this was undoubtedly a much more important step than can be fully covered here – the legal form of the Group's Swiss bank was changed. On 1 January 2014, Pictet & Cie, which had been run as a partnership for over 200 years, became a limited company called Banque Pictet & Cie SA. A partnership limited by shares was founded, bringing together all Pictet Group entities.

Furthermore, it was necessary to make changes to the legal form in order to facilitate the creation of foreign subsidiaries. As Jacques de Saussure put it: "The company outgrew its legal form." Changing the legal form from a partnership of individuals to a corporation had an impact on several framework conditions of relevance to family businesses. The company is required to make information public, and the liability of the individual Partners is changing. Although these changes may be very new to a typically reticent Swiss banking institution, they are part of the evident opening-up of the entire Swiss banking sector, and have been implemented by the Pictet management with a view to the growing number of international, institutional clients who welcome transparency in the accounts. Here too, however, Pictet tries to balance the opposition between tradition and innovation in a manner that is suitable to a family company. The legal form has been altered and annual reports are now published, but the principles governing succession planning and transfer of ownership – in other words the core components of the unique Pictet model – have been retained.

The second major change was that for the first time, in 2006, Pictet gave a select circle of top managers the opportunity to participate with a small share in the business. This step should primarily be seen in the context of the huge growth achieved in the last two decades. Whereas Pictet had 300 employees in 1980, it now employs more than 5,100 in 30 locations worldwide. The managerial tasks involved could no longer reasonably be undertaken

by a limited circle of owners, not least because the Partners are responsible for looking after selected client groups in addition to their managerial duties. Today, there are another 50 equity owners. Known as “equity partners”, they are unanimously selected by the Partners once they have proved themselves within the company. They thus relieve the Partners’ Committee of certain management tasks, both internal and external, and provide additional international expertise and perspectives. This development can also be observed at an individual level in many other businesses, including Oetker, Merck and Freudenberg. Family companies offer their management staff a share in the success of the business not just financially (which could be achieved using other types of bonus), but also emotionally, by giving them the chance to become equity owners. Pictet, however, has gone a step further. Now that roughly one percent of the workforce has a stake in the company, a second circle of partners has in a way been created. This regularly has meetings with the “first” circle of Partners and, in particular, helps determine the strategic guidelines.

The metaphor of “squaring the circle” can also be applied to recent changes. In the running of family businesses that reserve ownership solely for the descendants of the founder, there tends to be a dividing line between managers who are family members and those who joined as employees. It is also evidently very difficult to recruit, and above all to retain, dedicated senior managers from outside the family. Lastly, the top roles, like the opportunities to participate in the firm’s increase in value, are reserved for a restricted circle of family members. Pictet has found a way of maintaining high-quality, rapid decision-making in the Partners’ Committee while also involving other key personnel, to the benefit of all participants.

This expansion of executive roles has recently been complemented by the creation of a Group Executive Committee, in which the Partners collaborate with the heads of central business functions such as Finance, Risk, HR, Technology and Communications. When Renaud de Planta speaks of “healthy development” in this connection, it is evident that the company is striving to adapt a functioning model to changing regulatory requirements and to the challenges of digitalisation in an organic way. Pictet, like many family businesses, is faced with the question of how to demonstrate a credible commitment to sustainability and social responsibility while avoiding greenwashing. In order to emphasise its credibility, Pictet’s charitable foundation – the Pictet Group Foundation, which receives a significant portion of the Group’s profit each year – focuses principally on the themes of water and nutrition, thus drawing on its investment expertise and specialist knowledge. Again, both former and current

Partners are active in the Foundation, which thus benefits from intergenerational perspectives. In addition, the Foundation now holds some of the company's equity capital, which puts it on a doubly firm footing. "We see it as a virtuous circle," says Renaud de Planta, adding: "It's conceivable that in 10 to 20 years the Foundation may own a significantly larger stake in the Group."

## SUMMARY

This extraordinary example of a family-run firm that is not actually run by the family itself is based more on the bank's rich 220 years of history than on a carefully devised strategy – even if Ivan Pictet describes it as "ideal for the size of the company and the line of business we're in". Over all this time, the organisational structures have obviously evolved, with a greater understanding of the co-evolutionary unit of a family-like partnership and a business. The resulting model is one which almost perfectly resolves the paradox that arises from the different rules of play associated with a family and a business organisation, with their often contradictory demands.

In the interactions between the Partners, the cooperation with the equity partners and the links with committees, the most efficient aspects of family structures are combined with the most efficient aspects of business structures, thereby optimising the risks and opportunities of both types of social system. Unlike the "Extended Family as an Organisation" model, the interface between the Pictet family and the company does not need any complicated committees and official communication channels to resolve this paradox. Instead of having to manage an ever-increasing family, it simply has to manage and structure the composition of a group of owners who cooperate in the same way as a family in the Partners' Committee.

The Pictet Group cannot be definitively classified in our spectrum of nuclear-to-extended family models, as the company "goes off at a tangent" in combining aspects of both the extended and nuclear family models. For instance, in some respects the company recreates the nuclear family and yet, in other key points, is completely different, e.g. with no first or second-degree relations allowed in the "family" of Partners, and rules of access to the Partners' Committee similar to those of a business organisation. Moreover, the company's extended Pictet family draws on its members as a talent pool for prospective Partners. In all cases, however, it uses the mechanisms and rules outlined above to ensure that the company's survival always remains top priority.

In short, this company has found a means of constantly recreating and renewing its ideal nuclear family of owner managers – except that this "family" is not in fact a family at all.

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[www.pictet.com](http://www.pictet.com)



# The D'leteren Case Study

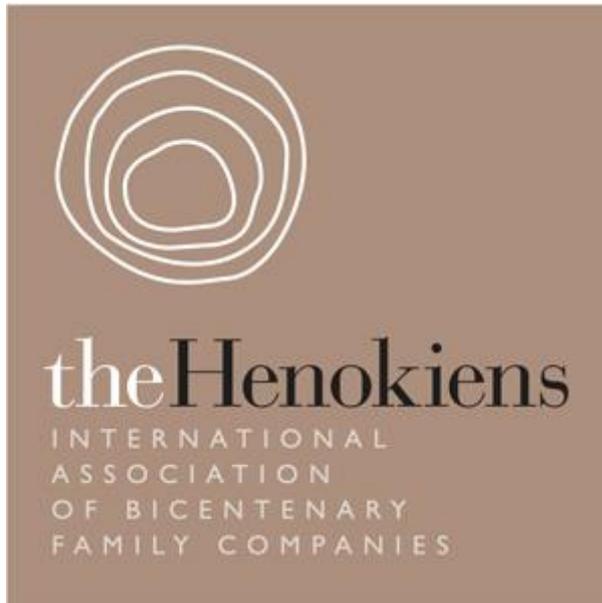
Author : Ellen Debackere

(PhD, Researcher Sustainable Family Firms

Odisee University-Brussels)

# D'IETEREN





# Odisee

DE CO-HOGESCHOOL



*About the author*

Ellen Debackere (PhD) is member of the Center for Sustainable Entrepreneurship (CenSE) at the Odisee University of Applied Sciences. CenSE carries out innovative and high-quality practice-oriented scientific research into how sustainable entrepreneurship can be put into practice at family businesses and SMEs.

E-mail: [ellen.debackere@odisee.be](mailto:ellen.debackere@odisee.be)

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## **1. Introduction**

It is an understatement to say that writing about the D'Ieteren case has been a unique and exciting experience. In the year 2005 this family business celebrated its 200<sup>th</sup> anniversary. This means D'Ieteren has survived more than two centuries of economic, social and political developments since its inception in 1805. Located in the city of Brussels, capital of Belgium, this family company's history clearly illustrates D'Ieteren is a real Hénokiens, the international association of family businesses and bicentenary companies. Moreover, next to its longevity, D'Ieteren constitutes a very interesting case to offer insights into the factors influencing success and longevity that are family firm specific. As such, this case study cannot only be an inspiring source of information for family businesses that want to safeguard the continuity of their firm, but also for scholars that attempt to uncover patterns of long-term survival in family firms and explain them in depth.

## **2. Main research questions**

To compose this case study, a number of research questions has been derived from previous research in the field of family business literature. The main research questions we approached, are listed below:

1. What are the characteristics of the company? What is the main sector of activity and how does it relate to the development and strategy of your family business?
2. What are the most important strategic and/or entrepreneurial events and initiatives in your history? To which extent have the past and tradition played an important role in D'Ieteren's longevity? Has D'Ieteren been guided by its history and did the company learn lessons from the past?
3. To which degree have environmental and cultural (regional, national) factors influenced the development of your company?
4. Innovation/expansion

- To what extent has the family and company been oriented towards innovation and the generation of new ideas, experiments and creative processes that have led to new strategic initiatives/actions, products or markets?
- Research on the success of sustainable enterprises cites diversification as one of the four most important elements. What was the importance of diversification for D'Ieteren?
- How does D'Ieteren feel about expansion? Has the company pursued a rather conservative financial policy or not?

## 5. Strategy

- Would you describe your strategy as rather cautious or is the company rather quick to respond to a changing market or other economic developments? Have you generally taken new strategic initiatives ahead of your competitors or do you prefer to wait and / or adopt the "new" later?
- What is D'Ieteren's position on internationalization?
- Family businesses that survive for a long time, often build lasting relationships with their immediate environment. What is the relationship between D'Ieteren and its immediate environment? How important was the capital of Brussels for D'Ieteren?

## 6. Family business

- How has your company's history evolved by emphasizing the role and participation of family members?
- In what way do you think the familial character of your company influences your business operations? What are the power relations between non-family members and family members in the company? What is D'Ieteren's position on this?
- According to research, a typical family business aspires a long-term existence for the company, rather than profit size. Does this apply to D'Ieteren?

## 7. Values

- What are the core values of your family that underpin your family business and how do they relate to growth and entrepreneurship?

- It is sometimes said "that there is no such thing as a company that cannot be destroyed by an individual". Do you think that the personality of a manager has been very important for the success of the company? And how did D'Ieteren manage its success?

- Is there a strong corporate culture in D'Ieteren?

- How important is family harmony for D'Ieteren?

## 8. Succession

- How have succession processes been managed in the past and how has the ownership, governance and management of your family business improved or limited your decision-making about growth and business opportunities?

- Family businesses that have passed the 100-year mark attribute this to forward-thinking behavior and by making and planning appointments on time. How important has it been for D'Ieteren to make timely family appointments?

- What is the importance of the simplicity of ownership/management for D'Ieteren? Has it been pruned at certain times in history?

9. Which role does the local environment play in your business, in your goals, in your strategy, in the corporate culture? How have family and individual family members (historical and current) played a role in (local) networks and initiatives and how did they influence the company?

## 3. Methodology

This case study is based on a combination of desk research on the one hand, and some qualitative semi-structured interviews on the other. Firstly, literature, websites and newspaper articles have been consulted to gain general knowledge of the family firm's industry. Secondly, two interviews have been conducted. The first interviewee was dr. Catherine Rommelaere, who has devoted her doctoral thesis to coachbuilding and bodywork in Belgium during the eighteenth and nineteenth centuries, and who is currently D'Ieteren's corporate historian. The second interviewee was Roland D'Ieteren, member of the sixth generation of the D'Ieteren family. Roland D'Ieteren was D'Ieteren's managing director for thirty years and chairman of the Board of Directors for 42 years. Roland D'Ieteren played a paramount role in the development of D'Ieteren as Belgium's

leading car importer. In 2017, his son Nicolas D'Ieteren succeeded his father as chairman of the Board of Directors. All the interviews were conducted in French in the period between January and June 2019, and subsequently transcribed. Once the case study was completed, both Roland D'Ieteren and Catherine Rommelaere were asked to read and comment on the text in order to approve the written statements.

#### 4. D'Ieteren and the automobile sector

This year, in 2020, the D'Ieteren company has existed for more than 200 years. Throughout that history, the company ventured into a multitude of activities, and underwent regular expansion. Nowadays, the group has three main activities built around the following brands:

- D'Ieteren Auto (100% owned): imports and distributes Volkswagen, Audi, SEAT, Škoda, Bentley, Lamborghini, Bugatti and Porsche vehicles in Belgium, as well as spare parts and accessories. In addition to vehicle distribution in Belgium, D'Ieteren Auto owns a group of dealers.
- Belron (54.85% owned): is the world leader in vehicle glass repair and replacement.
- Moleskine (100% owned): is a premium lifestyle brand. The company develops and sells notebooks and writing, travel and reading accessories.

Based on the 2018 annual accounts retrieved from the National Banc of Belgium's (NBB) public website, the following figures currently apply to the D'Ieteren Group (cfr. Table 1):<sup>1</sup>

Table 1 The D'Ieteren Group in numbers

	2018	2017	2016
<i>Equity Capital</i>	2655 million euros	1760 million euros	1683 million euros
<i>Turnover</i>	7418 million euros	6941 million euros	6472 million euros
<i>Net profit</i>	1048 million euros <sup>2</sup>	195 million euros	215 million euros
<i>Staff</i>	32.951	31.222	28.348

<sup>1</sup> Article *Trends*, [https://trends.knack.be/economie/bedrijven/de-generatiewissel-bij-d-ieteren-4-familielgen-en-1-miljard-om-te-investeren/article-longread-1505249.html?cookie\\_check=1581527866](https://trends.knack.be/economie/bedrijven/de-generatiewissel-bij-d-ieteren-4-familielgen-en-1-miljard-om-te-investeren/article-longread-1505249.html?cookie_check=1581527866) (consulted 12<sup>th</sup> of February 2020)

<sup>2</sup> The sale of a 40% stake in Belron yielded over € 1 billion.

The history of the Belgian automobile industry goes back to the end of the nineteenth century. Various factors contributed to the democratization of means of transport, which increased throughout the nineteenth century. As a luxury industry, the coachbuilding industry had always been closely dependent on the prosperity of the social classes it catered to. In the eighteenth century, it was the wealthy aristocracy that had made up the bulk of its clientele and enabled it to produce these prestigious objects of ostentatious luxury. Those who wished to buy a carriage at that time had always paid close attention to its construction, choosing the model on the basis of a drawing or sketch. In other words, just like for a piece of clothing, a piece of furniture of choice or a house, they wanted a personalized vehicle, unlike any other, bearing the mark of their taste, originality and birth.

However, in the first third of the 19th century, this nobility was challenged by the upper bourgeoisie, enriched by trade, industry and finance. This bourgeoisie, as well as those who held important public offices, in turn acquired carriages. However, many of these industrialists or merchants chose to abandon the large state coaches and chariots in favor of more modern, more practical or more sporty vehicles, more adapted in any case to their lifestyle and their spirit of new men.

But alongside these great men's fortunes, there appeared an infinitely larger mass of buyers with more modest incomes. Coming from a hard-working bourgeoisie, they quickly showed themselves eager to gain access to this prestigious object which materialized all their hopes of social success. However, their financial means did not allow them to afford the luxurious carriages whose fashion, imported from England, was beginning to reach the continent under the impetus of the greatest coachbuilders. It was equally impossible for them to maintain at great expense the many prize horses and staff required by these sumptuous crews. So they naturally turned to smaller, lighter and therefore cheaper carriages that they could harness to a single horse and drive themselves. Britain, once again, soon offered them an infinite number of models. This variety of types also responded to special needs that had also multiplied with the new lifestyles. Finally, the improvement and extension of the road network had not been unrelated to the impressive increase in the number of vehicles.<sup>3</sup>

But at a certain moment, the horses would get replaced by the automobile. The automobile was first invented and perfected in Germany and France in the late 1800s, though Americans quickly

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<sup>3</sup> ROMMELAERE (C.), *Voitures & Carrossiers aux XVIIIe et XIXe siècles. La Belgique face à la France et à l'Angleterre*, Bruxelles, Ed. Le Livre Timperman, 2004 pp. 183-184.

came to dominate the automotive industry in the first half of the twentieth century. Henry Ford innovated mass-production techniques that became standard, and Ford, General Motors and Chrysler emerged as the “Big Three” auto companies by the 1920s. Manufacturers funneled their resources to the military during World War II, and afterward automobile production in Europe and Japan soared to meet growing demand.

The most famous Belgian automobile brands at the end of the nineteenth century were Minerva and Imperia. From the 1920s on, foreign manufacturers, such as Ford, GM, Renault, Citroën and Chrysler set foot in Belgium.<sup>4</sup> In the motor car industry, which had barely emerged by the beginning of the twentieth century, yet the economics of which required sizeable production units, the significance of inheritance in relation to business and managerial development was crucial. Among the major mass producers of motor cars, survival of family ownership and management for a period longer than a single generation was exceptional.<sup>5</sup> That makes the D’Ieteren case a unique and very interesting case to study.

## 5. Early History

D’Ieteren’s origins go far back in time. In 1805, only one year after Napoleon Bonaparte crowned himself Emperor of France, Jean-Joseph D’Ieteren starts the work of wheelwright and manufacturer of wheels in Brussels. Despite years of political turbulence and economic hardship, the Brussels coachbuilding and bodywork still enjoyed a solid reputation in the region. Famous coachbuilders like Simons, Van Campenhout, Van Caudenberg, Van Kalck en Tilmont were distinguishing themselves and were even about to compete with their French and English counterparts in Paris or London.

Jean-Joseph D’Ieteren started his early career under rather difficult circumstances. Already at the age of fourteen, after losing his father and finding himself orphaned some years later, he worked as an apprentice and later as a wheelwright at coachbuilder Mommaerts’s workplace. After gaining sufficient experience and money, he decided to take over Joseph Chenu’s small workshop in the *Rue du Marais* in Brussels and started to work on his own account. The choice of location was excellent: his workshop was not only located close to the center of the city, but also close to the famous *Allée Verte*, where the most beautiful carriages were drawn by the finest

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<sup>4</sup> Clarysse (J.), *Analyse van de productieketting van de automobielsector in België*, unpublished Master’s Thesis, Ghent University, Gent, 2010, p. 2.

<sup>5</sup> Church (R.), “Family Firms and Managerial Capitalism: The Case of the International Motor Industry”, *Business History*, 1986, 28 (2), pp. 165-180, p. 165.

horses of the city. Moreover, his workshop was located only a few meters from the ancient and famous coachbuilder Simons's workshop. Presumably, the presence of such a well-known coachbuilder inspired the young wheelwright and stimulated him to distinguish himself in this profession.

That is most likely the reason why Jean Joseph started working – first with only one worker, and later with four of them – on a specific goal: to construct an exceptional carriage and to showcase it during the *Exposition générale des produits de l'Industrie* that would be held in Brussels in 1830. For this reason, he chose to build a Tilbury, a light, open, two-wheeled, one-horse carriage originally from England, and that had become popular on the continent after the Battle of Waterloo. Contemporary press was lyrical about Jean Joseph's masterpiece which showed true craftsmanship.

Unfortunately, Jean Joseph would not be able to enjoy his success for a long time. While the Exposition took place in July 1830, the Belgian revolution broke out only one month later, destroying the hope and months of efforts of several coachbuilders. Jean Joseph died only a couple of months later, in January 1831, and left a widow and four children.<sup>6</sup>

#### *First succession*

Fortunately, Jean Joseph had two sons, of which the eldest, Guillaume Adolphe, was twenty years old at the moment his father passed away, and the youngest, Alexandre François, fourteen years old. Both of them had learned the craftsmanship from their father and they continued the business in the *Rue du Marais*. During more than 25 years, Guillaume and Alexandre worked together to sustain the family, to share their knowledge and to obtain the title of master coachbuilder, which, despite the abolition of the guilds in 1791, was still something to be proud of. In 1849, the brothers named their business "*D'Ieteren Frères*". In the following period – and in the midst of an industrial boom – the brothers ran particularly well organized, modern workshops.<sup>7</sup>

While Guillaume D'Ieteren remained in his workshop until his retirement in 1883, Alexandre and his wife moved to the *Rue Neuve, numéro 106*, creating their own business, "*Alexandre D'Ieteren*", in 1857. There they set up a complete coachbuilding workshop, including a paint and trim section. From the middle of the century, the growing importance of French influence in

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<sup>6</sup> Rommelaere (C.), Oleffe (M.) & Kupelian (J. & Y.), *D'Ieteren 1805-2005, 200 ans d'histoire*, Brussels, Editions Racine et s.a. D'Ieteren n.v., 2005.

<sup>7</sup> Coupain (N.), *Histoire financière du groupe D'IETEREN (1805-2005)*, p. 1.

European coachbuilding was being felt, but Brussels craftsmen maintained their position against French competition. Alexandre D'Ieteren's workshops even acquired a solid reputation.

Alexandre's sons, Alfred and Emile, learnt the profession and - at the end of their training - were associated with the family business, which was named "*Alexandre D'Ieteren et Fils*" in 1872. The following year, following the Senne's sanitation plan, the workshops on the *rue Neuve* were expropriated and moved to Saint-Gilles, *chaussée de Charleroi*, where a model workshop was built, bringing together various trades and occupying several craftsmen.

#### *Supplier to the court*

Following Alexandre's retirement, the general partnership "*D'Ieteren frères*" was formed on February 1, 1878, by Alfred and Emile D'Ieteren. The firm's qualities were frequently recognized and rewarded with several medals, including a gold medal at the Amsterdam exhibition in 1883. During this period, the company took advantage of an era of unprecedented prosperity for the internationally renowned Brussels bodywork. Following the mission entrusted to it in 1887 to maintain the cars of the Court of Belgium, the firm was able to proclaim itself "Supplier to the Court".

In 1905, King Leopold II honored the House of D'Ieteren by ordering a gala carriage. However, at the end of the 19<sup>th</sup> century, the emergence of the automobile industry heralded a profound transformation in the bodywork sector. The bodybuilders that were observing this trend, were gradually turning to this new product and slowly abandoning the manufacture of coupled cars. From 1897, the D'Ieteren brothers therefore began the gradual conversion of their activities into a third profession: that of car bodywork.

Picture 1 The famous Transformable D'Ieteren Frères made around 1923. The whole upper part of the car is retractable. It is the ancestor of our convertible cars.



Source: *Le Groupe D'Ieteren. Cent soixante deux ans d'existence, cinq générations, une entreprise.* Unpublished folder, undated.

However, as the assembly of the chassis and bodies required more space, the workshops in the *chaussée de Charleroi* became too small. In 1906, the firm therefore started the construction of vast workshops located at 50, *rue du Mail* in Ixelles. This was the summum of the bodywork: bodybuilders turned to "car wrapping" and were experiencing a period of great prosperity. The period from 1895 to 1914 was marked by the rise, size and influence of the Belgian automobile, which was being exported all over the world.

The economic situation is favorable, exports and foreign trade are relatively free. The Brussels bodywork enjoys an international reputation for know-how and good taste that multiplies the number of orders. From the 1910s onwards, manufacturing methods were transformed, rationalized and technically improved. Mechanization is emerging. The different stages of bodywork manufacturing are concentrated within a single company, which shortens lead times. The average size of firms is increasing, sometimes to several hundred workers. The first

partnerships and joint stock companies appear. In the space of a generation, the bodywork trade has evolved from a strictly artisanal and family activity into a large capitalist industry. The D'Ieteren workshops had 125 workers in 1910 and 300 in 1913. The two sons of Alfred D'Ieteren, Lucien and Albert, meanwhile got interested in the family business, which has continued its activities without changing its name.

## 6. Family, firm and ownership

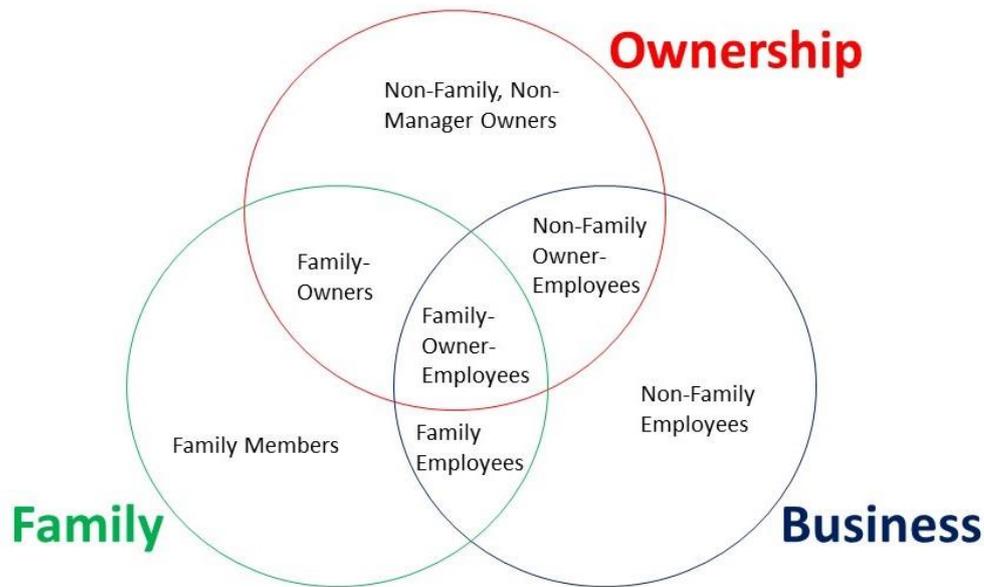
A relevant driver in explaining the longevity of family firms, is the way in which they are 'governed'. This consists of several elements: the way in which family firms collect resources with the goal of sustaining their activity; the way in which the power is distributed through ownership rights; and finally, the way in which decisions are taken.<sup>8</sup> As a result, research on family firms has been focusing on three areas: firm/business, ownership characteristics, and family, also known as the three circle model of family business.<sup>9</sup> This framework clarifies the three interdependent and overlapping groups that comprise the family business system: family, business and ownership. As a result of this overlap, there are seven interest groups present, each with its own legitimate perspectives, goals and dynamics. The long-term success of family business systems depends on the functioning and mutual support of each of these groups. In the following, we will try to analyze the longevity of D'Ieteren as a firm through these three aspects: the firm/business, ownership characteristics and the family.

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<sup>8</sup> Colli (A.) & Larsson (M.), "Family Business and Business History: An Example of Comparative Research", *Business History*, 2014, 56 (1), pp. 37-53.

<sup>9</sup> Gersick (K.), Davis (J.), Hampton (M.M.), & Lansberg (I.), *Generation to Generation: Life Cycles of the Family Business*. Boston, Harvard Business School, 1997.

Figure 1 The three circle model of family business



#### A. FIRM/BUSINESS

As to the firm, finance plays a major role. Raising capital in order to generate sustainable growth, but at the same time maintaining the ownership restricted within a limited number of relatives, has been seen as a question of paramount importance to family firms. Scholars have argued that financial conservatism, which implies that firms have low debts and/or are cash-rich, is an important firm level longevity factor. They underline that the majority of family firms are not focused primarily on profitability, but instead see financial strength as a priority.<sup>10</sup> Likewise, a tolerant management style and decentralized structure constitutes another firm-level longevity factor. Other researchers underlined the possible importance of internationalization with respect for the roots, diversification in line with the core activity, building on the past and showing respect for traditions and resisting overexpansion.<sup>11</sup> Some of these factors are clearly present in D'Ieteren's history, evolution and decisions. According to Roland D'Ieteren, a major factor of success for D'Ieteren's longevity is indeed the fact that his ancestors were always able to react adequately to the changing environment. At crucial moments – like when horses were

<sup>10</sup> Van Driel (H.) et al, "A Co-Evolutionary Analysis of Longevity: Pakhoed and its Predecessors", *Business History*, 2015 57:8, pp. 1277-1305.

<sup>11</sup> Barbera, (F.) & Hasso (T.), "Do we need to use an accountant?' The Sales Growth and Survival Benefits to Family SMEs", *Family Business Review*, 2013 26, pp. 271-292.

suddenly being replaced by motorized transport – D'Ieteren's leaders mostly always made successful decisions, history proved.

### *Building on the past*

A crucial step for the company in its early history has been when during the 1840s Alexandre decided to go to Paris in order to take courses on the art of line and descriptive geometry. In the French capital he was taught the bodywork design that would allow him to offer his future Brussels clients French-style cars. During this experience, Alexandre learnt a lot from his colleagues and he was able to add an original touch to his craftsmanship. During the time that Alexandre was leading the company, but also when Alfred and Emile were at the head, it is known that they proceeded step by step and that they have always kept their feet on the ground, without having unrealistic ideas. They studied theory, but also knew very well how things were done in practice. In this period, they start participating in international expositions, improving their bodywork design, but with continued respect for their roots.

It's only by the end of the nineteenth century that the horse was about to being replaced by the car. While continuing the production of horse-drawn vehicles, the D'Ieteren family was among the first to start building car bodies. On the 31<sup>st</sup> of December 1897 they delivered the first electric cart to Camille Jenatzy, a Belgian race car driver. Very quickly, the workshops on the *chaussée de Charleroi* became too small to meet all the orders and, in 1906, new buildings were erected at *50 rue du Mail* in Ixelles, less than one and a half kilometers from the old workshops. By the start of the twentieth century, a very important decision was made. Alfred D'Ieteren's sons, Lucien and Albert, took up the torch. They resolutely turned towards luxury car manufacturing, building bodies for many well-known brands, both Belgian and foreign. As for the Belle Epoque carriages, which had been the success of their workshops for more than a century, they disappeared for good in the turmoil of the First World War. It turned out that their decision – which was both risky, as with respect for tradition, built on the past and in line with the core activity - turned out to be of paramount importance for the future of the family business. The page was turned. A new era was dawning.

But it was not the only very important decision that was made. In this period, the Brussels bodywork enjoyed an international reputation for expertise and good taste, which resulted in a large number of orders. In one generation, the bodywork trade evolved from a strictly artisanal and family activity to a big capitalist industry. The D'Ieteren workshops had 125 workers in 1910, and 300 in 1913. But the First World War brought this expansion to a halt. Nevertheless, an important decision during this time will characterize the future of the family company. During

the war, Lucien D'Ieteren was appointed by the Belgian government to lead a department in Le Havre for the manufacture, repair and maintenance of military vehicles. In these workshops, many standardized and well-built American vehicles passed through, which astonished Lucien D'Ieteren and made him understand that the American car would be a formidable competitor for the European car in the aftermath of the conflict. From that moment on, he planned to take over the distribution of these cars, which would not materialize until the early 1930s with the Studebaker, Pierce-Arrow, Rockne and Auburn brands. But before this happened, another major decision was taken. In the aftermath of the conflict, the Belgian automotive industry was indeed experiencing difficulties: a difficult recovery in construction and new economic barriers restricting exports. But despite the difficulties faced by the bodywork sector, D'Ieteren continued to expand and generate profits. In terms of organization and management, an effort was made to increase productivity. The company also continued to expand geographically by buying out buildings adjacent to its premises on *rue du Mail*, where it set up new workshops in 1924-1925. With this decision, the family business proved to have clear insight into how to make circumstances right for the growth of the business. The surface area of the workshops was increased from 4,000 to 10,000 m<sup>2</sup> and the number of workers reached 700 at the end of the 1920s. On 17 June 1929, the shares are officially listed on the Brussels Stock Exchange. The majority of the voting rights are still held by the D'Ieteren family.

*Table 2 D'Ieteren's history: an overview of the first half of the 20th century*

<b>1919</b>	<i>Emile &amp; Lucien transform the D'Ieteren Frères company and set up the Société Anonyme Anciens Etablissements D'Ieteren Frères, a new company name that was to continue the work carried out in the rue du Mail</i>
<b>1928</b>	<i>65% of the production was intended for markets abroad (United States, Argentina, Egypt, Netherlands, Spain &amp; Portugal)</i>
<b>1929</b>	<i>On the eve of the Stock Market crash of 1929, the D'Ieteren company was employing nearly 500 workers and manufacturing 400 cars a year</i>
<b>1931</b>	<i>From this year on, the coachbuilding operations are gradually wound down. From then on, the Anciens Etablissements D'Ieteren Frères focus on importing American Studebaker, Pierce-Arrow and Auburn motor cars</i>
<b>1935</b>	<i>The business goes into the assembly of Studebakers. This activity was to be one of the firm's specialties for 35 years</i>
<b>1948</b>	<i>Pierre D'Ieteren concludes an importing contract with Volkswagen. A few months later, the famous Beetle was launched in Belgium. A new assembly factory was built in the Brussels suburbs, in Forest. The first Studebaker rolled off the line there in April 1949</i>
<b>1950</b>	<i>D'Ieteren becomes the exclusive importer for Porsche</i>

### *Diversification in line with the core activity*

When the crisis triggered by the Wall Street stock market crash of October 1929 affected all of Europe, another major decision will be taken. The crisis is being exported from one country to another. The Belgian car industry is being swept away, hit by price increases and a reduction in the number of buyers. The Belgian bodywork industry begins to decline, suffering the massive influx of better quality foreign complete cars on the Belgian market, depriving bodybuilders of a large part of their customers and outlets. The trade becomes less and less profitable and there is a shortage of specialized labor. The unenviable situation of the sector, combined with the effects of the international stock market crisis, is affecting D'Ieteren's results for the first time. From 1931 onwards, Lucien D'Ieteren decided consciously to give up the manufacture of the luxury bodywork that had made his company's reputation, and to move on to a fourth business: the import, distribution and repair of cars and trucks, which the company began to do by obtaining the general representation for Belgium for Studebaker, Pierce-Arrow, Auburn and Rockne vehicles. This was seen as an answer to compensate for the decline in exports, and is

considered as one of the most difficult and important decisions the D'Ieteren family has made in order to survive. The fact that Albert, Lucien's brother who started his own bodywork company from 1919 on, and his successor, were not able to make survive their company after the 1960s, shows that Lucien made a very important choice in that time. While one brother adapted its company and managed to survive, the other one made the choice to stick to the old business of the manufacturing of bodywork and was finally obliged to close his business during the '60s. However, the first half of the 1930s was one of the most difficult years for the company. It had to resolve to distribute no dividends between 1930 and 1935.

After the Second World War, Pierre – son of Lucien – will make some paramount decisions for the company's future. Pierre is a visionary entrepreneur and a man of decisions. Very quickly, he will seek to develop his business. This industrialist at heart has the intuition that the automobile sector was entering a new age and that other modes of mobility would impose themselves and spread. He sought to represent a brand that would be widely distributed and find its way to the broader public. Finally, in 1948, he concluded an agreement with Volkswagen. This decision was not at all without risk, but will turn out to be worth it. The significant increase in activity forced the company to make new arrangements for its premises. To carry out the program established to this effect, the company buys in Forest – a Brussels commune - , a plot adjacent to the railway on which it builds a factory intended for the assembly of Studebaker vehicles, initially. In 1952, the Belgian government resolved to oblige importers of motor vehicles to assemble them in Belgium. As a result of these decisions, the Forest plant prepared for the assembly of Volkswagen vehicles, which started in 1954.

Innovation however did not stop after these decisions. In 1956, D'Ieteren launches out into short-term car hire. D'Ieteren starts renting vehicles on a short term basis under the name "Dit'Rent-a-Car". The market is then embryonic, but Pierre D'Ieteren concludes an agreement with the Belgian railways: the *Coccinelle* cars will be available for rent in the main stations of the country under the name "*Train + Auto*". In 1958, Dit'Rent-a-Car concluded a partnership agreement with Avis. It was a major step towards diversification of the company, but also towards internationalization.

Table 3 D'Ieteren's history: an overview of the second half of the 20th century

<b>1954</b>	<i>The assembly of the Beetle begins in Forest</i>
<b>1956</b>	<i>D'Ieteren launches itself into short-term car hire. A contract was concluded with the Belgian railways: Beetles would be available for hire in the country's main railway stations</i>
<b>1958</b>	<i>Dit'Rent-a-Car, the hire division of D'Ieteren, concludes a partnership agreement with Avis</i>
<b>1972</b>	<i>Pierre's son, Roland D'Ieteren, becomes associate director of the company, which changes its former designation to that of s.a. D'Ieteren n.v. in 1975</i>
<b>1974</b>	<i>The company obtains the license to import the Audi, and launches the VW Golf, which went on to be Volkswagen's top-selling car</i>
<b>1975</b>	<i>Roland D'Ieteren succeeds his father. Over the next decade, the import of Yamaha motorbikes (1975), MBK mopeds (1984) and the motor car Seat (1984) take place</i>
<b>1989</b>	<i>Following a long period of partnership, D'Ieteren becomes the majority shareholder of Avis Europe</i>
<b>2011</b>	<i>D'Ieteren withdraws from short-term car hire, selling its 59,6% stake in Avis Europe to the Avis Budget Group, bringing 55 years of activity in this sector to an end</i>
<b>1999</b>	<i>In 1999, 2000, 2001 and 2006 D'Ieteren becomes in turn importer of Skoda, Bentley, Lamborghini and Bugatti, all part of the Volkswagen group</i>
<b>1999</b>	<i>D'Ieteren acquires Belron, world leader in vehicle glass repairs and replacement</i>
<b>2005</b>	<i>Breaking with a two hundred year-old tradition of family directors, Jean-Pierre Bizet was appointed General Manager and CEO of the Group</i>
<b>2013</b>	<i>Axel Miller succeeds Jean-Pierre Bizet as General Manager and CEO of the group.</i>
<b>2014</b>	<i>Nicolas D'Ieteren and his cousin Olivier Périer become vice-chairmen of the Board of Directors</i>
<b>2016</b>	<i>Acquisition of Moleskine, an Italian company best known for its notebooks</i>
<b>2017</b>	<i>Nicolas D'Ieteren (7<sup>th</sup> generation) becomes Chairman of the Board of Directors</i>
<b>2017</b>	<i>D'Ieteren sells a part of Belron, but keeps majority<sup>12</sup></i>
<b>2019</b>	<i>Francis Deprez becomes the new CEO of D'Ieteren</i>

#### *Internationalization with respect for the roots*

D'Ieteren's internationalization comes rather late, but is considered as one of the most important realizations that have been carried out during the leadership of the family's sixth generation. In January 1975, Pierre's son Roland takes over the company. Roland has been well prepared and his passion for cars is all-consuming. But the world is in crisis and Western

<sup>12</sup> Article *De Tijd*, <https://www.tijd.be/ondernemen/auto/d-ieteren-casht-ruim-1-miljard-euro-op-carglass/9954755.html> (consulted 12th of February 2020)

societies are wondering about the future of the automobile. In the meantime, Audi has joined the portfolio of brands represented and there's plenty of room for another best-seller: the Golf. The eighties will show the same pattern as the previous decades: a world in turmoil, none of the vicissitudes of which seem to disrupt the development of what has become a prosperous commercial and financial group, and a laboratory of the most modern management methods. More than ever, the company is seeking to grow. In 1989, it took a decision that would change its destiny and definitively mark the direction of D'Ieteren: the acquisition of a stake in Avis Europe. Not only the takeover of Avis Europe, but also the acquisition of Belron in 1999 testify to the willingness of the family shareholders to pursue the company's development by relying on its automotive experience. With Roland, the company will definitively establish itself on the international scene while masterfully diversifying its activities. These were clear examples of internationalization with respect for the roots, and diversification in line with the core activity.

In 2011, D'Ieteren withdrew from short-term car hire, selling its 59,6 % stake in Avis Europe to the Avis Budget Group, bringing 55 years of activity in this sector to an end. In 2015, the D'Ieteren Group – which has made a turnover of 5,5 billion euros, has a presence on five continents, in 34 countries. It employs some 28.360 people. In 2016, D'Ieteren announced the acquisition of Moleskine, an Italian company listed on the stock exchange and best known for its notebooks. Remarkably, this sector hardly has anything to do with the traditional activities. Currently, D'Ieteren is still looking for an additional activity to invest in. "It is always more stable to stand on three legs than on two," says Roland D'Ieteren. "In earlier times we have always tried to keep as much of the profits as possible within the company itself," showing a rather conservative financial policy in earlier decades. "But back in time, this concerned much smaller profits. Later on, they grew into much more interesting profits. This enabled us to conclude important agreements with several partners. And nowadays we are living at an important tipping point with a lot of evolutions, such as the growing importance of the electric car. So we are currently looking for the right track for the future." In a newspaper article from June 2019 it seemed that D'Ieteren is looking for another activity to invest in, but that the company will not spend its money on literally anything. To underscore this argument, D'Ieteren referred to the fact that it is a family business, and therefore pays close attention to what it gives its money to. "We are a family business. We don't spend our money on just anything, but only on a company we believe in," it sounded.<sup>13</sup>

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<sup>13</sup> Article *De Tijd*, <https://www.tijd.be/ondernemen/auto/d-ieteren-heeft-1-miljard-veil-voor-een-grote-europese-prooi/10134108> (consulted 19th of January 2020).

## *Innovation*

In the domain of the distribution of cars, D'Ieteren has also been at the forefront of innovation. They developed a number of ideas that were subsequently adopted by Volkswagen or other brands. One example is the creation of a "Contact Center" in 1986 in Erps-Kwerps. This idea was brand new at the time. It is a place where all potential customers can visit and where they can see all the vehicles in the range, and where they can also test the vehicles. This showroom, where not only all the vehicles were present, but where they could also test all the vehicles, was very innovative and was subsequently copied by different car distributors in various places around the world. The example of the Contact Center is believed to be one of the reasons – among others – why the D'Ieteren Group is strongly appreciated by for instance Volkswagen. "We do not only distribute their cars, but also generate new ideas for them," says Roland D'Ieteren.

Today the D'Ieteren Group is very active and looking for new opportunities in everything related to mobility, whether it is 'new mobility' or mobility of the future. Although lots of companies in this sector, like for instance some car sharing companies, are still rather loss-making, the D'Ieteren company has decided to invest in this sector to test which initiatives could be worth the investment, and to follow closely how this sector is developing. Therefore, the company has recently set up a small department with mostly young people with new ideas about this sector: D'Ieteren Mobility. Among others, they launched themselves into the car sharing and free-floating industry by means of Poppy. Poppy is a start-up in the car sharing sector which is the result of a corporate venture between two Antwerp-based entrepreneurs and D'Ieteren Auto.

## B. OWNERSHIP

Ownership characteristics and the possible influence these have on strategies of innovation and strategic vision, constitute another factor aiming to explain longevity in family businesses. Family firms are often criticized for acting too conservatively and for the fact that this type of ownership would not allow for innovative practices or quick technological change.<sup>14</sup> Related to this problem is the issue of the transfer of control over the family across generations. Other scholars underscore the importance of family continuity as a goal (more important than profit size), the urge for simplicity in the family tree and psychological ownership as important factors

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<sup>14</sup> Colli (A.) & Larsson (M.), "Family Business and Business History: An Example of Comparative Research", *Business History*, 2014, 56 (1), pp. 37-53.

for the longevity of family business. Some of these aspects can clearly be retrieved throughout D'Ieteren's history.

Today, the seventh generation within the D'Ieteren family is at the head of the company (see table 1). Succession within the D'Ieteren family has never really constituted a problem, since there was always a direct male line available. "It's always been very pure and simple by nature," says Roland D'Ieteren. "At this moment we have parallel families in the general assembly, namely me and my sister. My son and her son will be the rightful heirs."

Table 4 The seven generations of the D'Ieteren company

<i>Seven generations</i>	
1805	Jean-Joseph D'Ieteren
1832	Alexandre D'Ieteren
1878	Emile & Alfred D'Ieteren
1921	Lucien D'Ieteren
1945	Pierre D'Ieteren
1975	Roland D'Ieteren
2017	Nicolas D'Ieteren

In the past, too, the D'Ieteren family has always been lucky concerning succession issues. Even when Emile and Alfred were together at the head of the company, it accidentally turned out that only one of them – Alfred in this case – would get married and have children. As such, the family tree was clipped automatically and it resolved all possible problems concerning succession after Alfred's and Emile's death. Lucien himself had a brother, Albert. Although both brothers used to work for some time together, Albert decided to start his individual company – separate from his brother – after a disagreement. As a result, the original D'Ieteren company remained in the hands of Lucien, who finally passed it on to his son Pierre. Nowadays, there are barely four family shareholders: Nicolas and his father Roland D'Ieteren, and Olivier Périer and his mother Catheline D'Ieteren, Roland's sister. Roland and Catheline both have only one child. Nicolas and his father together own 31,99 percent of the shares. Catheline D'Ieteren and her son together

own 25,5 percent of the shares. 40,4 percent of D'Ieteren's shares are listed on Euronext Brussels. 1.93 percent is directly held by family members.<sup>15</sup>

According to researchers, a typical family business aspires to a long-term existence for the company, rather than the order of magnitude of profit. Owner families are said to be concerned not only about financial returns, but also and above all about their socio-affective capacities, which are in turn linked to long-term focus and the willingness to give society and the next generation an improved form of the enterprise. This clearly applies to the D'Ieteren company, too, which has always been sparse with and reserved about giving information about dividends with the aim to keep as much as possible within the company in order to reinvest. More than profit, the survival and longevity of the company have always been the most important priority. Roland D'Ieteren admits that this specific perspective on the future is nowadays not always popular. "It has gotten a bit out of fashion since the Stock Exchange wants quarterly results, but we think in the longer term. We think in terms of 5 to 10 years. With our family business we want to create a vision for the next generation. That is something we got from our predecessors: the value for family and for the company."

#### *Psychological ownership*

This also results in strong ties between the employees and the company, says Roland D'Ieteren. A factor that proved to be very important for the company, and which started long time ago, is the strong link between the company and the people working for it. The people working for the organization have always showed the wish and the urge to develop the company, which creates a positive work atmosphere. Employees of the D'Ieteren Group don't work for an anonymous company, but they know they work for mr. D'Ieteren, which is different, says Roland D'Ieteren.

This strong emotional connection to the company sometimes resulted in the fact that even among some directors, there was a form of dynasty in which the sons took over from their fathers, or in other situations where family and external managers were strongly intertwined. When the new company was formed in 1919, one of the directors, Edmond Odry, and one of the auditors, Eugène Van Meerbeke, were closely related to the D'Ieteren family. Eugène Van Meerbeke had married Anna Julie Gérard, sister of Gabrielle Gérard who was the wife of Lucien D'Ieteren. As for Edmond Odry, he knew both Gabrielle Gérard and Eugène Van Meerbeke, having organized with them, during the war, a correspondence service between occupied

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<sup>15</sup> Article *Trends*, [https://trends.knack.be/economie/bedrijven/de-generatiewissel-bij-d-ieteren-4-familietelgen-en-1-miljard-om-te-investeren/article-longread-1505249.html?cookie\\_check=1581527866](https://trends.knack.be/economie/bedrijven/de-generatiewissel-bij-d-ieteren-4-familietelgen-en-1-miljard-om-te-investeren/article-longread-1505249.html?cookie_check=1581527866) (consulted 12<sup>th</sup> of February 2020).

Belgium and the Belgian front. Another example of this strong connection can be found during later years. Under the governance of Pierre D'Ieteren, then his son Roland, it was Jean-Louis and then his son Gilbert van Marcke de Lummen who both held important positions as directors.

### C. FAMILY

The focus on values has a direct link with the third aspect in the three circle model, namely 'Family'. A third area related to the survival of family firms is indeed constituted by the family itself and, among others, the cohesion within these families and/or family businesses. When large family firms have gone through long phases of growth, it is not exceptional that ownership and control over the company are shared across various members of the family. As a consequence, different strategic visions and interests might cause problems within the family. There are numerous examples of family firms splitting up because of differences in opinion on how to run the company.<sup>16</sup> One of the 'best practices' that repeatedly recurs in the literature is therefore the emphasis on family unity, culture, values, shared vision and mission, in combination with family meetings and independent boards of directors. The latter ones are considered to be the pillars of family business communication.<sup>17</sup> Other scholars underscore the importance of making timely arrangements within the family and dealing with the success of an individual family member. Several of these aspects apply to the D'Ieteren company.

#### *Dealing with the success of an individual family member*

During the nineteenth century, it was not unusual that one brother in a way 'sacrificed' himself to be of help for the other brother, and it seemed this also holds true for the D'Ieteren brothers of the second generation, company historian dr. Rommelaere believes. When Jean Joseph D'Ieteren died in 1831, his eldest son Guillaume first took over the workshop in the *Rue du Marais*, while his younger brother got the opportunity to follow courses in Paris. Eventually, it was Alexandre who took over the business, supported by his brother Guillaume. It is a good example of how family unity was being preserved, and how family members were able to deal with the success of another family member.

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<sup>16</sup> Colli (A.) & Larsson (M.), "Family Business and Business History: An Example of Comparative Research", *Business History*, 2014, 56 (1), pp. 37-53.

<sup>17</sup> Dana (L.E.) & Smyrnios (K.X.) "Family business best practices: Where from and where to?", *Journal of Family Business Strategy*, 2010, 1, pp. 40-53.

Less proof of family unity was visible when a disagreement came up between the D'Ieteren brothers Lucien and Albert. Fortunately, Albert took the decision to erect his own company, not inflicting harm onto the original D'Ieteren company by splitting it up or by causing extra conflicts within the family. Eventually, Albert's son Daniel had to close his own company after several years, as stated before.

According to Roland D'Ieteren, it is important for a company to realise that nothing is permanent, and one should always fight for its success. "It is as such important to stay humble."

#### *Relation between non-family members and family members in the company*

A proactive practice in long-established family businesses is to hire external managers. The timely recovery of external or non-family managers is considered to be the ultimate sign of the family's willingness to put aside their ego in the company's interest. The D'Ieteren Group has always hired external employees, some of them at high levels, but only in 2005 they decided to appoint an external director. Indeed, the D'Ieteren group broke with a two hundred year-old tradition of family directors for the first time in 2005, when Roland D'Ieteren appointed Jean-Pierre Bizet as the General Manager and CEO of the Group. Since this moment, the company decided that they wanted an independent CEO. "This decision was also made during a time and context in which the demand for more transparency was formulated," says Roland D'Ieteren. In this time, the Code Lippens – which formulates corporate governance guidelines – was born. The Code saw a separation between the roles of chairman of the board of directors and CEO. Before, the leadership had always been in hands of the family, but taking into account that only one member of the family could be part of the active directorate of the company. This is part of an unwritten rule that already exists since long time. Today the company has a directorate which does not consist out of family members, but the family – which consists of Nicolas D'Ieteren and his cousin Olivier Périer - is present in the board and some important committees. They are the only family members on the board of directors, although there are also several advisors for the family.

#### *Values and shared mission*

Throughout the D'Ieteren company's history, values have always played a pivotal role. During the nineteenth century, the family was regularly described as being "intellectual", and was being

praised for standing close to its employees and others. Their morality was also seen as an important part of their product, as the family opened its own coachbuilding school during the nineteenth century and formed part of an important network. When Lucien was at the head of the company, the family increasingly entered networks that functioned as strong lobby groups for the automobile sector. His son Pierre was known for standing very close to his employees. He was very much present on the shop floor and thought the value of being close to his employees very important. In this period, celebrations of employees' birthdays took a start, too.

According to Roland D'Ieteren, the D'Ieteren family has always been very supportive towards the company, and the family has always been ready to grant full support to the company, creating the ideal circumstances for the company to survive successfully. The fact that the family ownership has barely been fragmented, has contributed to the family harmony.

## **7. Conclusion: The D'Ieteren company on the tides of history**

The D'Ieteren company is over 200 years old, and that has only been possible thanks to a series of talented entrepreneurs and a family that has always supported the company. Both the company and the family have demonstrated innovation, resilience and daring throughout history. Changing social dynamics meant that the company regularly had to change tack. D'Ieteren has always successfully adapted, without renouncing its own history or traditions. Strong values played an important role in this. But despite the fact that D'Ieteren could count on very gifted entrepreneurs who had a strong feeling with their company and with society, they obviously could not predict the future, and were helped here and there by fate. For example, it was positive for the company that there was always a male successor available, and that the family structure was almost always clipped naturally. As a result, throughout its history D'Ieteren has not suffered from very complicated family structures, or internal conflicts. Decisions made by the government - for example, when it was encouraged to import pieces - sometimes turned out to be very positive for the company. The biggest decisions in the company's history were therefore a combination of visionary craftsmanship on the one hand, and a society that happened to be developing in the right direction on the other hand. Decisions such as betting on the car instead of the horse-drawn carriages, choices such as betting on the import of pieces and no longer on the construction of cars, or a decision to diversify and internationalize the activities: they demonstrate not only a perfect sense of the social developments in society, but also the knowledge of traditions and strengths on which D'Ieteren has been built over the years.

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# The Beretta Case Study

Authors : Marta Widz & John Ward  
(IMD)



Celebratory card commemorating Beretta's 490th anniversary illustrating a successful combination of tradition and innovation.<sup>1</sup>

By Dr **Marta Widz** and  
Professor **John Ward**

## How can a business build its competitive advantage on the seemingly conflicting qualities of tradition and innovation?

Beretta (Fabbrica D'Armi Pietro Beretta SpA) traces its roots back to 1526 when its enterprising founder, Bartolomeo Beretta (1490-1568) delivered 185 gun barrels to the Republic of Venice. Almost 500 years later, Beretta is still thriving as one of the most well-known producers of armaments globally. Its product line ranges from hunting, through sports and practical shooting to tactical military shooting guns and related equipment, with brands such as Beretta, Benelli, Franchi, Uberti, Stoeger, Sako, Steiner, Tikka, Burris, BDT and Chapuis Armes.

During its long history, Beretta underwent a major transformation from a sole local producer of guns to a global company active in the market segments of hunting, sports, clothing and accessories, electro-optics, as well as defense and law enforcement. Driven by the founding father's motto: "Prudence and Audacity," each of the 15th consecutive generations of the Beretta family has continuously experimented with innovation, while building on their legacy of tradition. As the second-oldest member of the Henokiens, International Association of Bicentenary Family Companies, Beretta serves as an inspiration of the utmost resilience and longevity, stemming from seamlessly encompassing the apparent paradox of innovation and tradition.

### At a glance

- » Beretta has successfully transformed itself from a local Italian manufacturer of guns into a global company offering a full range of portable arms and related equipment.
- » Beretta's long history of almost 500 years has taught it how to combine tradition and innovation and turn it into its core competitive advantage.
- » At the heart of the company's successful pivot has been its ability to embrace the paradox of seemingly conflicting qualities such as robots vs. craftsmanship, devotion to small town roots vs. global outlook, evolutionary vs. revolutionary growth.



Beretta hunting gun with engraving<sup>2</sup>

## THE BROADER ISSUE

The world is changing at a rapid pace; whole industries are emerging and others are disappearing. Yet long-lived family businesses have developed a strong resilience to the shocks by embracing paradoxes that are inherent to their nature. Family businesses have the unconscious ability to navigate the dichotomies, such as:

- » Stability and agility
- » Entrepreneurialism and legacy
- » Innovation and tradition
- » Financial goals vs. socio-emotional wealth
- » Heart and hands.

It is because family businesses are engaged in a non-stop balancing act of the goals of the owning family and the business. Some family businesses adopt the “family first,” paradigm, for others it is

“business first,” and others try to equally harmonize the two powers. The balancing process emerges naturally from family shareholders who, on a daily basis, face the dichotomy of how one simultaneously functions in the family (with the main values of love, inclusion, dependence and emotions) and in the business (with the main values of success, competition, growth, returns and money).

What may seem to be an oxymoron – innovation via tradition – could be a source of resilience, longevity and a competitive advantage for many family businesses.

## EMBRACING PARADOXES AT BERETTA: TRADITION AND INNOVATION

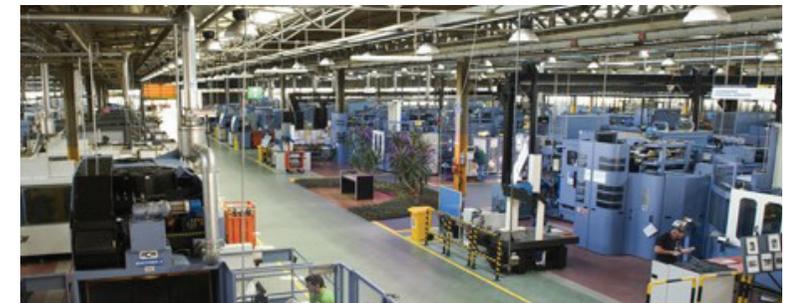
From the beginning, Beretta has developed an unusual profile, full of dichotomies.

### Love of craftsmanship and cutting-edge technology

The company’s core value “quality without compromise” can be traced back to its beginnings. Beretta’s source of quality has always been the craftsmanship skills that have been passed on through the centuries from father – a gun master – to son, as well as the commitment to relay the latest technology. There is concrete evidence

from the 18th and 19th centuries when the 10th and 11th generation of Beretta family leaders (Pietro Antonio Beretta and Giuseppe Antonio Beretta) put strong emphasis on the latest technology, expanding the range of production skills and inaugurating a new sales approach first in Italy and then internationally.

Currently, Beretta employs 3,000 people, operates in 17 countries and has a manufacturing capability of 700,000 firearms per year. And it still cultivates a love of craftsmanship. Great care is taken in selecting and treating the wood and metal that forms the core of each gun. Then, long-apprenticed craftsmen shape these elements and add the intricate carvings and engravings that make them unique. These craftsmen work side by side with robots in cutting-edge technology production facilities to produce the highest quality firearms.



Beretta’s cutting-edge technology production facilities<sup>3</sup>



Our technical equipment and our level of manufacturing expertise have always remained at the forefront of our industry. At the same time, we have never abandoned traditional craftsmanship and artistry. Our firm remains one of the few in the world to have both time-honored handwork alongside the most advanced computer-assisted manufacturing processes.<sup>4</sup>

**Ugo Gussalli Beretta** | 14th generation family owner and ex-president of Beretta Holding

### Legacy of Gardone Val Trompia and Global Expansion

The Beretta family has always been devoted to the small town of Gardone Val Trompia, where the company has its origins. Surrounded by hilly forests, far away from the distractions of city life, they grew

to love the outdoors, wildlife and hunting. The family house, Casa Natale Beretta, and the Beretta Museum are eternal symbols of the family dynasty and the company. The small size of the company and close contact with the local population of the town, which speaks a distinctive local dialect, has



Beretta Museum (left) hosting over 1,200 collectors' items, and the fireplace with the Beretta Logo at Casa Natale Beretta (right), the birthplace of Pietro Beretta, now also a museum open to public visitors<sup>5&6</sup>

always contributed to the intimate, family-like corporate culture.

At the same time, Beretta's love for gun making and its devotion to continuous innovation, made Gardone Val Trompia "the original Silicon Valley of arms technology."<sup>7</sup> The family always successfully

embraced the latest expertise, driven by its philosophy of investing in new technology every year as well as continuing the tradition of craftsmanship by educating new gun masters in the Beretta School of Arms Engraving.

Having strong roots in Gardone Val Trompia, the Berettas also "grew" the wings of explorers. Building on the forefathers' legacy of geographical expansion, the 14th generation family leader – Ugo Gussalli Beretta – took the company into international waters, establishing a presence in the US in 1980s. Since then Beretta has equipped millions of members of the US armed services with the M-9 semiautomatic pistol. It has established itself as a leader in the hunting and firearms segments, leading to the American market constituting 50% of Beretta's overall sales.

## Evolutionary Growth and Acquisition-based Diversification

Investing in innovation is, according to the family, the best way to ensure the survival of the company. Over the generations, its growth strategy has evolved from progressive, incremental changes to an ambitious acquisition strategy of innovative companies up and across the value chain.

Under the helm of Ugo Gussalli Beretta and the current 15th generation leaders – Pietro Gussalli Beretta and Franco Gussalli Beretta – the firm has acquired over 30 companies, significantly broadening its portfolio.

“Through its prestigious brands, Beretta, Benelli, Franchi, Sako, Tikka, Stoeger, Chapuis, Steiner and Burris, the group has become a reference point for hunting enthusiasts the world over, who are constantly looking for high quality and reliable products, characterized by strong tradition and continuous innovation to fulfill their passion.”<sup>8</sup>

Entering the sporting weapons segment, Beretta stretched its brands toward a complete range of weapons with various characteristics and prices varying from \$300 to over \$100,000. Currently, sporting firearms constitute 75% of sales, 90% of which are generated in foreign markets.

Beretta has further diversified its portfolio by adding complementary products such as a collection of sports clothing and accessories tailored to the world of hunting, shooting and outdoor activities. These premium products enjoy a fitting showcase in a chain of Beretta Gallery boutiques in Milan, London, Paris, New York, Dallas, Buenos Aires, Memphis, Moscow and Abu Dhabi.<sup>9</sup>

With a series of acquisitions in the new millennium, including Burris and Steiner,<sup>10</sup> Beretta entered the field of optics, scopes, binoculars, laser aiming devices and tactical flashlights, as well as the high-end night vision and beacons market.



Beretta competition gun<sup>11</sup>

### DID IT WORK?

Beretta successfully transformed itself from a local Italian manufacturer of guns into a global company offering a full range of armaments and related equipment (from hunting, through sports and practical shooting to tactical military shooting),

with 50% of its revenues from the US market. The transformation has been possible because the company’s almost 500-year-long history has taught it how to combine tradition and innovation – an apparent oxymoron – and turn it into its core competitive advantage. At the heart of the company’s successful pivot has been its ability to embrace the paradox of seemingly conflicting qualities reflecting tradition and innovation, such as its love for craftsmanship and cutting-edge technology, the legacy of Gardone Val Trompia and global expansion, evolutionary growth and acquisition-based diversification.

In fact, Beretta’s tradition is innovation. By simultaneously looking into the past and into the future, the leaders of every consecutive generation have gracefully embraced the apparent paradox. Their entrepreneurial acting and thinking have been guided by the legacy core value of “quality without compromise,” which has translated into cutting-edge technology and turning Gardone Val Trompia into “the original Silicon Valley of arms technology.” At the same time, the family has long adopted an innovation-based survival strategy, which led first to evolutionary growth and then revolutionary growth in the era of globalization. Beretta seems to be continuously on the outlook for new ideas, new geographies, new market segments, leveraging their current position in their core products.

By embracing tradition and innovation, the company has emerged as a vital, adaptive organization that stays true to its geographical roots and products – a quality that has taken this ancient firm to the zenith of modern gun production. Beretta's forefathers' motto "Prudence and Audacity" will serve it well in the future.

## TAKEAWAYS

Insights from Beretta's tactics of embracing an apparent "tradition-innovation" dichotomy include:

» **The balancing act of apparent dichotomies could be a source of resilience and competitive advantage.**

In its almost 500-year history, Beretta has learned how to navigate the dichotomies of seemingly conflicting qualities. It has proved that what may seem to be an oxymoron – innovation via tradition – could be a source of resilience and longevity (Beretta is the second-oldest member of the Henokiens, International Association of Bicentenary Family Companies).

» **For many family businesses, a long history of dexterity – the ability to simultaneously handle internal integration and external adaptation**

– **translates into a cutting-edge competitive advantage.**

Beretta has successfully transformed itself from a local Italian gun manufacturer into a global company offering a full range of armaments and related equipment. By simultaneously cultivating traditional values (love of craftsmanship, roots in Gardone Val Trompia and devotion to quality) and embracing innovation (cutting-edge manufacturing technology, global expansion, acquisition-based diversification), Beretta has emerged as a long-standing, vital and adaptive organization.

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Lausanne

Chemin de Bellerive 23  
P.O. Box 915  
CH-1001 Lausanne  
Switzerland

Central tel: +41 21 618 01 11  
Central fax: +41 21 618 07 07  
[info@imd.org](mailto:info@imd.org)

Singapore

IMD SE Asia Pte. Ltd  
South Beach Tower  
38 Beach Road  
#17-11  
Singapore 189767

Tel: +65 6715 9988  
Fax: +65 6715 9999

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# The Yamamotoyama Case Study

Author : Tetsuya Ohara

(University of St Andrews American Foundation,  
Board of Trustee)

# LES HENOKIENS CASE COLLECTION

June 20, 2020

TETSUYA OHARA



Sharing the finest green tea with the world

*YAMAMOTOYAMA motto*

“Can you draw illustrations?” asked Kahei Yamamoto as he gently broke the silence. He was the 6th owner of Yamamotoyama, a green tea company founded in 1690. In the early spring of 1854, as cherry blossoms were blooming outside, the conversation happened at the Yamamotoyama headquarters in Nihonbashi of Edo. The person, whom the owner spoke to, was Hiroshige Utagawa in his later years, and Kahei was making a cup of spring tea for him. Hiroshige is one of the best woodblock print (ukiyo-e) artists from the Edo period, and has often been admired alongside Katsushika Hokusai. Their drawing techniques are said to have had a great influence on the painters of impressionism, such as Van Gogh and Monet, from the late 19th century. Kahei told Hiroshige that the spring tea he just made for him was *gyokuro*, which was a new kind of tea that he had invented himself. After finishing the general greetings, he told Hiroshige that he had a plan to publish a book, "Kyoka Chakizai Syu (Tea Ceremony Utensils, a Kyoka collection)". It was a collection of Japanese poems related to tea, and throughout the book he wanted to introduce tea to the world as a representative culture of Japan. He passionately talked about the idea of creating a masterpiece collection that could be handed down to future generations. For that reason, Kahei told Hiroshige that he would like to put his illustrations in the book. These two people, who were proud of creating a Japanese culture in different fields of tea and *ukiyo-e*, were tied together in a solid relationship of trust. Hiroshige willingly accepted Kahei's request. Hiroshige had created his ukiyo-e masterpiece called "Fifty-three Stations of the Tokaido" in 1833. Considering that he was one of the best ukiyo-e artists at the time, one can see

the significance of Hiroshige's acceptance of Kahei's request, the wide range of Kahei's perspective, and the strong relationship between Hiroshige and Kahei.

For a long time, Nihonbashi had been well known as the starting checkpoint of the largest road, Tokaido, which connected Edo and Kyoto, the Japanese capital at that time. Nihonbashi also had often become a starting place for new culture as it was developed with full and free open minds.<sup>1</sup> In order to discuss the history and the corporate culture of Yamamotoyama, one cannot miss the fact that the main store had been in the center of Nihonbashi since its establishment.

The total domestic production of green tea, which has been a core product since the establishment of Yamamotoyama, was more than 80,000 tons in 2001, but in 2003, it increased to 100,000 tons due to the demand for green tea beverages in PET bottles and cans. Although it temporarily increased, it has maintained its production of 90,000 tons since then. The number of tea farmers in Japan had decreased from 53,000 in 2000 to 20,000 in 2015. While the number of tea farmers have decreased, the cultivated acreage per farmer has increased. The total annual expenditure of green tea leaves and green tea beverages per household has been around 10,000 yen, but the consumption ratio of green tea leaves and green tea beverages has been reversed, and the consumption has been shifted to the convenient beverages. In the meantime, demand from overseas shows that the exports have tripled in 10 years due to the Japanese food boom in foreign countries. The US accounts for about 40% of total amount of the exports. According to FAO (United Nations Food and Agriculture Organization), the amount of the worldwide green tea trade is expected to increase further.

The business environment in Japan has been tough. Originally, Yamamotoyama's main product was the green tea leaves, but due to a change of the way of drinking tea, from putting tea leaves into a pot to using tea bags, the sales of its main product, green tea leaves, have declined. Although they also sell tea bags, the competition with other low-priced products is fierce, and the challenge continues. Yamamotoyama has been selling most of their high-quality green tea leaves and nori (dried seaweed) for gifts at department stores, but the gift market shrank and diversified. In addition, the slump in the department store itself is giving a big impact on Yamamotoyama's performance in Japan.<sup>2</sup> In addition, the decrease of young people's consumption of green tea and nori has also spurred a poor performance rate. Meanwhile, in the US market, business sales of

green tea and nori (B to B) are expanding due to the Japanese food boom. The subsidiary, Stash Tea, is also expanding its B to C business with gaining popularity of herbal teas and is being boosted by people's consideration on their health and environment.

The 10th generation owner, President and CEO of Yamamotoyama, Kaichiro Yamamoto is dealing with the circumstances in Yamamotoyama Japan by himself, while he appointed his daughter, EVP Nami Yamamoto, as CEO of Yamamotoyama U.S.A. to steer the US market, which is expected to grow significantly in the future.

## **History of Yamamotoyama**

Yamamotoyama was founded in the year 1690. The first generation, Kahei Yamamoto, left Uji Yamamoto, a village in Kyoto, to move to Edo, and set up a tea store in Nihonbashi. In 1738, Soichirou Nagatani (the ancestor of the founder of Nagatanien) succeeded in refining green tea into *sencha* that has a high-quality in characteristics including aroma, taste and its beautiful yellow green color, which was different from the traditional brown tea, *dancha*. The second generation of Kahei, who paid attention to the taste of the sencha tea, started selling the tea naming it "Tenkaichi (world number one)". It gained popularity and became widespread throughout Edo. The 6th generation Kahei was respected as a restorer of the tea business by inventing *gyokuro* (high-grade green tea) in 1835. The mellow flavor of gyokuro attracted great popularity from Hatamoto (direct retainers of the Tokugawa Shogun) and Daimyo (regional military loads).

In 1947, the current chairman, the 9th generation Kahei, started producing and selling nori by applying the technology of Japanese paper manufacturing, which has been a side business since the Edo period. Until then, they had had sold only tea in the spring, but had added seaweed products in the winter, and the business model was changed. His achievement on securing sales throughout the year was significant. The sales of nori increased during the period of high economic growth in Japan (1960s to 1970s), mainly as gifts at department stores, and it made Yamamotoyama take a big leap forward. The 9th generation Kahei also actively invested overseas. He established a subsidiary company in the state of San Paulo, Brazil in 1970, and

established a subsidiary company in the suburbs of Los Angeles in the United States in 1975. He created a base for expansion into North and South America. In 1993, they acquired Stash Tea, which is a herbal tea company headquartered in Oregon, USA.

In 2008, Kaichiro Yamamoto was appointed as President and CEO of Yamamotoyama, and became the 10th owner. Kaichiro has been adapting a management method of delegating the authority, which is unique for the head of long-lived companies in Japan. He has been trying to incorporate creative ideas to stimulate young employee's potential. In 2018, he carried out a package renewal in order to deliver a unified message of the Yamamotoyama brand. The project's team were employees, mainly young people who were authorized by Kaichiro, collaborating with NOSIGNER, a prominent young industrial designer. They completely redesigned the product package, which showed the Japanese spirit linked with a westernized sense. This new product packaging design had been well received and won the prestigious Red Dot Design Award. In 2018, a modern Japanese style café, "Yamamotoyama Fuji-e Tea House" was opened at the site in Nihonbashi where the company was originally founded, and provides the best green tea, nori, and original Japanese sweets.

## **Yamamotoyama Management Philosophy**

Yamamotoyama was founded and based on the thought of "This finest Uji green tea is so delicious that it must be shared with everyone". Its management philosophy is based on "altruistic mind (compassion)" in Buddhism, in other words, to give priority to others' benefits. Yamamotoyama has been saying that they want to contribute to people's health through tea and nori and share the Japanese culture with foreign countries. This "altruistic mind" can be seen at its approach where they distinguish between management and business. Kaichiro clarifies this by saying, "Thinking about sales and profits belongs to "management" not to "business", and on the other hand, a store is not a place for "management" but a place for "business". Therefore, the mission of the store is to raise the customer's satisfaction and to see their smile. Without chasing sales directly, if the customer's satisfaction can be raised and if the number of Yamamotoyama's loyal customers increases, the sales will automatically follow. The most important thing for the

staff in the “management” department of the head office, manufacturing, and people in charge of logistics is to help the stores do the “business”. ”<sup>3</sup>

While at the forefront of the era in all retail industries, the movement to pursue efficiency such as an automatic cash register is becoming remarkable, Yamamotoyama is pursuing and implementing an ‘altruistic mind’ and putting values on trust and credibility, which is a unique idea for a long-established company. According to the Buddhist interpretation, the two Chinese characters “經營” (management) means ‘to keep pursuing philosophy and truth throughout life’, and Yamamotoyama has been practicing it for over three centuries.

## **Yamamotoyama’s Management Strategy**

“Providing new value that has never existed” is one of management strategies that has been and will remain unchanged. For more than three centuries the company has focused on “innovation” of its tangible products and properties. Innovating products such as sencha, gyokuro, and nori, and building new manufacturing and sales bases overseas for globalization, and acquiring a company, Stash Tea, were linked directly to financial statements, and those were tangible.

On the other hand, as strategies for the future, the company put its effort into ‘intangible innovation’ such as human resources development, wellness and sustainability, and provision of experience. It is the balancing of tangible and intangible elements.

### **<Human Resource Development>**

In addition to the problems of green tea sales in Japan, which is described earlier, Yamamotoyama Japan is currently at a major crossroads because of the awareness of employees. Since the nori for gifts had been flying off the shelves during its high growth period and the company had grown larger, “the common people’s sense and the customer-first principle among the employees are fading, and the employees are becoming bureaucratic,” the 10th generation Kaichiro was worried, and sent a message to them;

“Do you have a perception of ‘*noren* (goodwill) of Yamamotoyama’, and think instantly ‘Yamamotoyama’ equals ‘a long-established luxury store’? We do not have such ‘noren’. Being obsessed with that kind of perception would have no benefits and only cause a lot of problems.”

Due to such concerns, as one of its management strategies, the company is striving on developing their employee’s talents by giving them some practical education. Their goal is for everyone to have well balanced skills of thinking, being able to speak out independently, listening to and cooperating with others, practicing sincerity, and communicating with each other. This approach comes from the thought that strong individuals form a strong team. The project of renewing the packages that many young employees have done is an example of this. Another prominent example is a group called ‘guerrilla team’ directly under the president, and the team members are young employees who are selected from the sales department, manufacturing department, marketing department, and management department. The team creates new products through a deep understanding of the history and management philosophy of Yamamotoyama and analyzes the customer’s tastes and market trends. They consider new products without being bound within the old framework. This is a human resource development project with the president’s sponsorship, and at the same time the members are assigned to practical duties.

### **<Wellness and Sustainability>**

There is a great trend towards health and environment, and especially in the United States there is a rapidly increasing demand for unconventional foods that are healthy and environmentally friendly such as organic foods, vegan foods, and super foods. Since ancient times in Japan it has been said that “if you enjoy seasonal foods, you will live longer.” As Yamamotoyama has been providing spring tea in the spring and fresh nori in winter, there is an opportunity to bring them out to the world as seasonal super foods. Especially in the case of spring tea, it only takes one week from the time the green tea leaves are picked until the packages of green tea are displayed in stores, allowing people to freshly enjoy the season. As a health and environment-oriented strategic product, the company is also working on organic and non-GMO teas. Furthermore, there is a great deal of attention from overseas regarding the tea and nori, as Japanese people with the longest life expectancy in the world have eaten them for

many years. These aspects are clearly pointing out the direction of the company. Providing scientific proof of the relationship between health / longevity and foods is also an issue to the study.

As the CEO of Yamamotoyama U.S.A., Nami Yamamoto currently is selling the Yamamotoyama brand tea and nori in the United States and Europe, at the same time she is managing Stash Tea, which was acquired in 1993. It is noteworthy that Stash Tea is a member of Certified B Corporations. Certified B Corporations is a certification system operated by B Lab, a non-profit organization based in Pennsylvania, USA, and promotes the organization's social and environmental performances. B Certification is a private certification given to companies that meet the standards set by B Lab such as accountability and transparency. "B" stands for "Benefit" and refers to the benefit to stakeholders such as the environment, community, employees, and customers. The purpose of Certified B Corporations is to "redefine success in business." As the whole world has many social problems and the government and NPOs are no longer capable to deal with the problems, social expectations for business companies has been gradually changing. It is expected that companies will generate profits to other stakeholders through business activities, rather than focusing the sole purpose of maximizing the shareholders' profits. Certified B Corporations is attempting to transform the social role of business companies by enhancing the companies' capability to solve social problems and defining the success of the companies as equally beneficial to stakeholders as well as shareholders. Today, the numbers of Certified B Corporations are over 3,000 companies in 150 industries in 71 countries and becoming a member is one of the major trends in the world. Patagonia, a major US outdoor sportswear company, and Ben & Jerry's, a major US ice cream company, are among the earliest members. Nami Yamamoto, who found a common factor between the mission of Certified B Corporations and the direction of Yamamotoyama Global, considers Stash Tea as a strategic position of Yamamotoyama Global with the consensus of Kaichiro. They are trying to make Stash Tea a major pillar of Yamamotoyama in this century.

On the other hand, Yamamotoyama Japan is still in a difficult situation. It has not entered the green tea beverage business using PET bottles. The use of antioxidants is essential for maintaining the quality of PET bottle green tea beverages. However, that would entail that they

would no longer be able to provide authentic and delicious green tea, thus going against Yamamotoyama's philosophy of strictly committing to quality. In addition, the problem of ocean bound plastics caused by discarded plastic bottles has become a major concern worldwide, and from the perspective of sustainability, this is the one of the reasons of hesitation to start manufacturing green tea beverages.<sup>4</sup>

### **<Providing experience>**

Nami Yamamoto says, “I’m in the midst of the millennial generation, and the people of the generation often spend money on experiences rather than things. I am deeply understanding of their sense on valuing the story and originality rather than the brand. It seems that Yamamotoyama is only selling products, but we are playing our role to provide the best experience of enjoying tea and nori. It is my duty to create a platform to continue implementing our traditional missions by making the missions fit to the next generation. Not only selling the products, I want to express the excitement that could be obtained from these things in various ways.”<sup>5</sup>

Whereas many of other herbal tea brands are fully committed to health benefits and environmental concerns, Stash Tea additionally introduces totally new flavors that are made mixing several leaves from around the world. By introducing those new flavors, we are also able to be a catalyst that connects different cultures and be a community where people can share new experiences together. This is an interesting trial that takes millennials into consideration of marketing, and the results are sent to Yamamotoyama Japan.

Some new plans to experience innovative products are also in progress. A new category of drinks called nitro beverages is emerging in the beverage industry, and Stash Tea is exploring a prospect of developing nitro tea beverages and entering the packaged drink business in the future.<sup>6</sup> It will be a great opportunity to provide a new experience.

Nami Yamamoto was appointed as the CEO of Yamamotoyama USA for preparatory step before becoming the owner of Yamamotoyama. It appears she is taking advantage of this opportunity to explore a redefinition of success that does not appear in their financial statements.

She may be creating a compass (management strategy) for the Yamamotoyama Global Group to utilize in the future.

At Yamamotoyama Japan, "Yamamotoyama Fuji-e Tea House" is offering an 'exciting experience' in the historical town, Nihonbashi, where customers can enjoy delicious and innovative foods, for instance nori for dessert and matcha shaved ice with nori syrup. In the future, it will be possible to use the tea house as a place to examine the new expertise gained from Yamamotoyama USA.

## **Innovation every 100 years**

Overviewing the 330-year history of Yamamotoyama, one can see the large-scale products with great innovation were launched every 100 years. After its founding in 1690, it launched sencha under the name of "Tenkaichi" in 1738, invented gyokuro in 1835, released nori in 1947, and entered the herb tea market acquiring Stash Tea in 1993. The company has products that have continued existing in the market even after 100 years, such as sencha and gyokuro, that has led to the customers' trust, and has created a strong Yamamotoyama-brand loyalty.

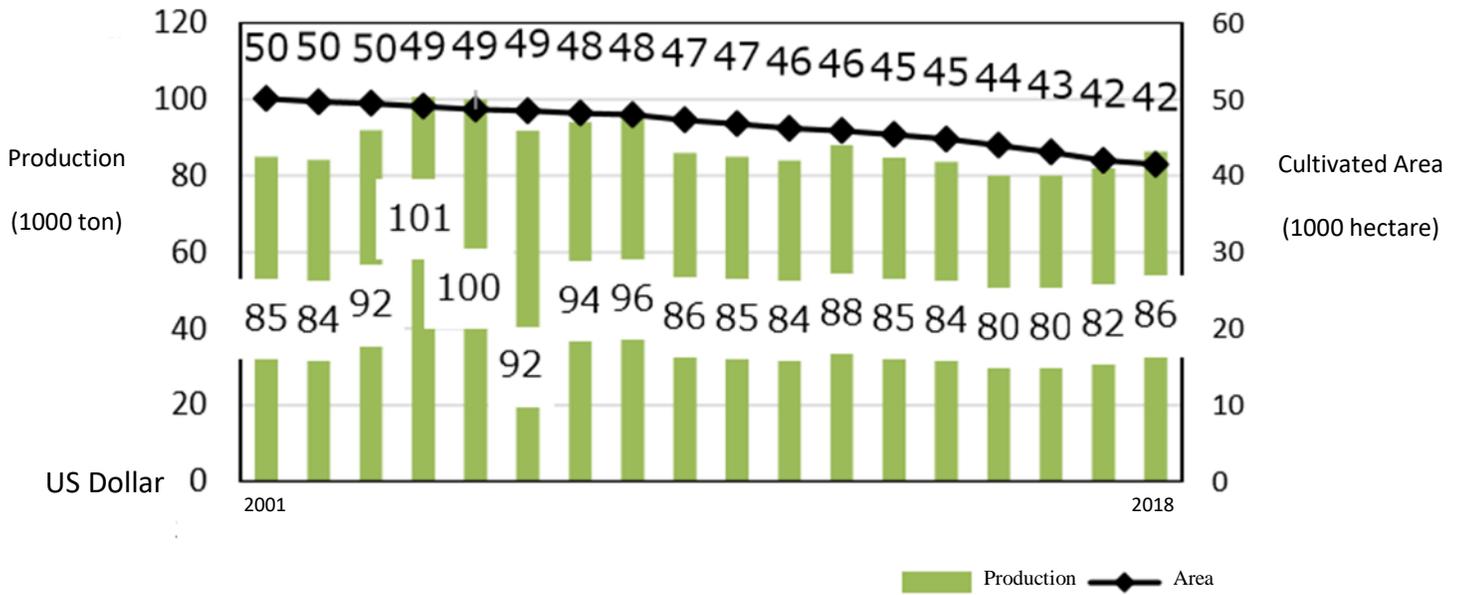
Kaichiro Yamamoto, the 10th generation owner says, "Stash tea business might be the key for the next 100 years. It takes time to be a "milestone" product, and it is said that it will take three generations for the thoughts to take shape. I think all I can do is entrusting the thoughts to the younger generation."<sup>7</sup>

Kaichiro's hobby is to interact with new technologies. They can be tools that make us understand the present time that is constantly changing by increasing acceleration. One of his hobbies is taking photos with the latest iPhone model. Kaichiro, who does not forget the sense of the common people, often walks around the Nihonbashi neighborhood with sandals and wooden clogs, greets his neighbors, and enjoys the changing seasons. One Friday evening, remembering the busy week's events, and looking at the beautiful sunset that Utagawa Hiroshige would have been seen from here, he could not help feeling how fast the times changes. He happened to find an airplane and its contrails in sunset sky on the photos that he took with his iPhone. Kaichiro,

who constantly asks himself questions about tradition and innovation, felt that the contrail is like a tradition. “Contrails are only visible to people looking up at the sky. They cannot be seen from inside of the airplane. An airplane (innovations) just moves forward. In other words, it is a tradition that is born only as a result of dedication to innovation.”<sup>8</sup>

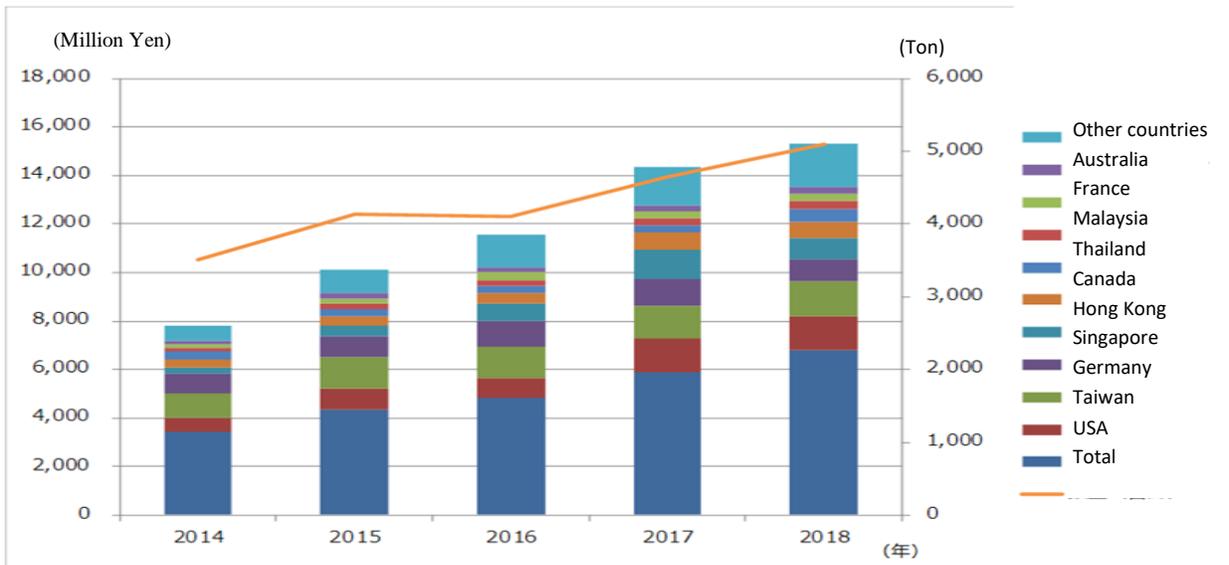
Kaichiro Yamamoto says, “Yamamotoyama started with the idea of wanting to share Uji tea with other people because it is so delicious. I want to give this delicious tea to people around the world. I want many people around the world to like and enjoy tea through Japanese food culture.”<sup>9</sup> For Kaichiro Yamamoto, the succession of the family business is to pass the intention (dream) to the next era, and to keep innovating to "provide unconventional values." In order to reflect the new demand of tea, which is increasing due to the awareness on health and environmental issues, in business results and to make Kaichiro’s vision happen, Nami Yamamoto, the current CEO of Yamamotoyama USA, who will be the eleventh generation owner in the future, has begun drawing blueprints for Yamamotoyama for the next 100 years with the full support of Kaichiro.

**Exhibit 1 Green Tea Production and Cultivated Area in Japan**



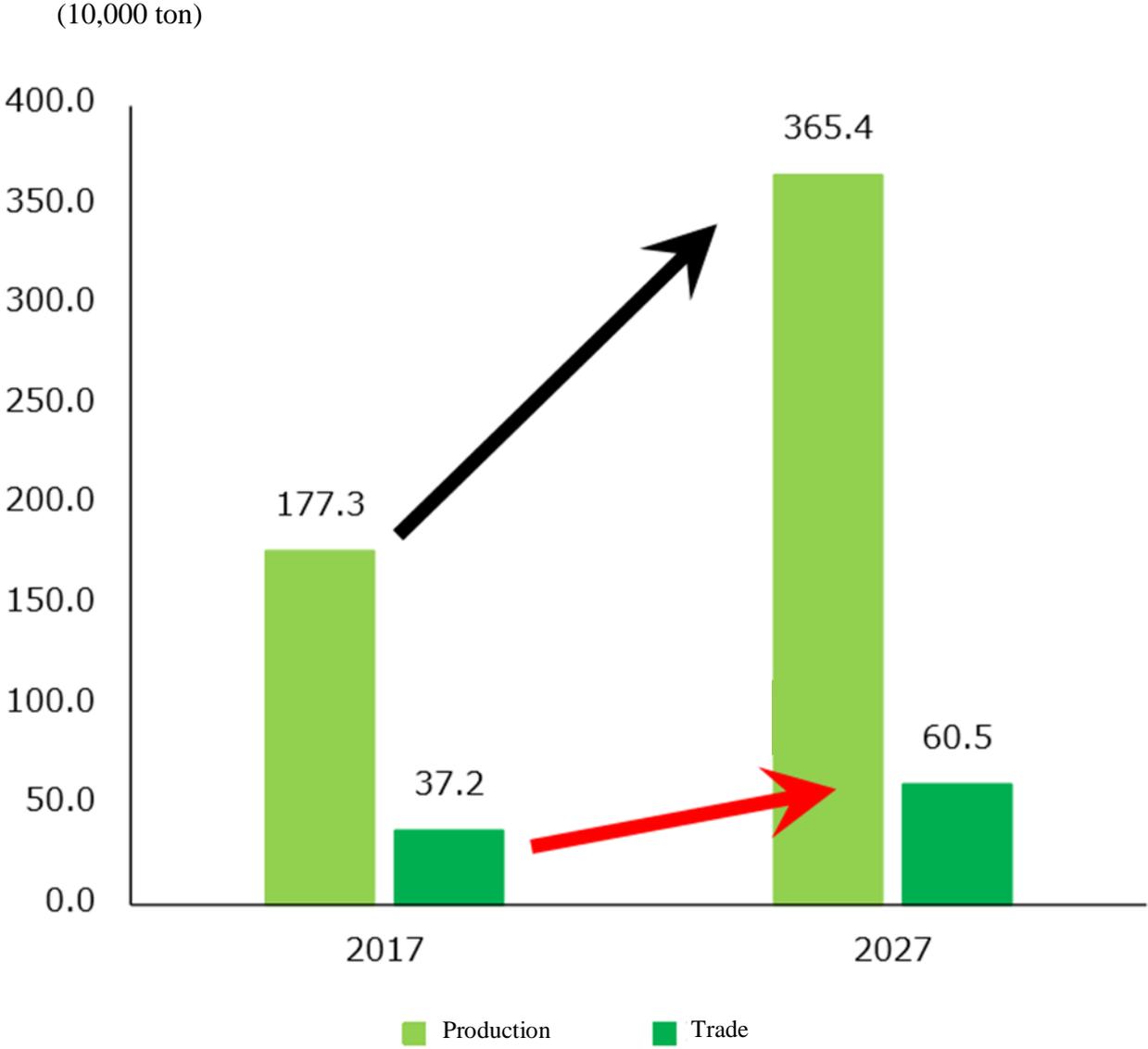
Source: Ministry of Agriculture, Forestry and Fisheries *Crop Statistics*

**Exhibit 2 Green Tea Export from Japan**



Source: Japan External Trade Organization, August 2019

**Exhibit 3 Forecast of Green Tea Trade and Production in the World**



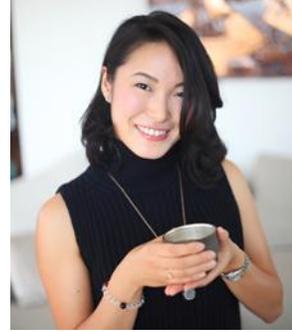
Source: Food and Agriculture Organization of the United Nations

## Exhibit 4 Yamamotoyama Official Photos

10<sup>th</sup> Generation Owner and President  
Kaichiro Yamamoto



11<sup>th</sup> Generation and Executive Vice President  
Nami Yamamoto



Headquarters in Tokyo, Japan



Yamamotoyama Fuji-e Teahouse in Tokyo, Japan



US Headquarters in California, USA



Tea Farm in Sao Paulo, Brazil



Source: Yamamotoyama internal company documents

## Exhibit 5 Yamamotoyama product package

New Package launched in 2018



Old Package used in 1961



Source: Yamamotoyama internal company documents

Exhibit 6 Yamamotoyama New Logo



Y A M A

M O T O

Y A M A

Source: Yamamotoyama internal company documents

## Exhibit 7 Yamamotoyama Historical Photos

6<sup>th</sup> Generation  
Kahei Yamamoto



Kyoka Chakizai Syu (Hiroshige illustrated)  
Published in 1855



Yamamotoyama  
Main Store  
Nihonbashi, Tokyo

in 1887

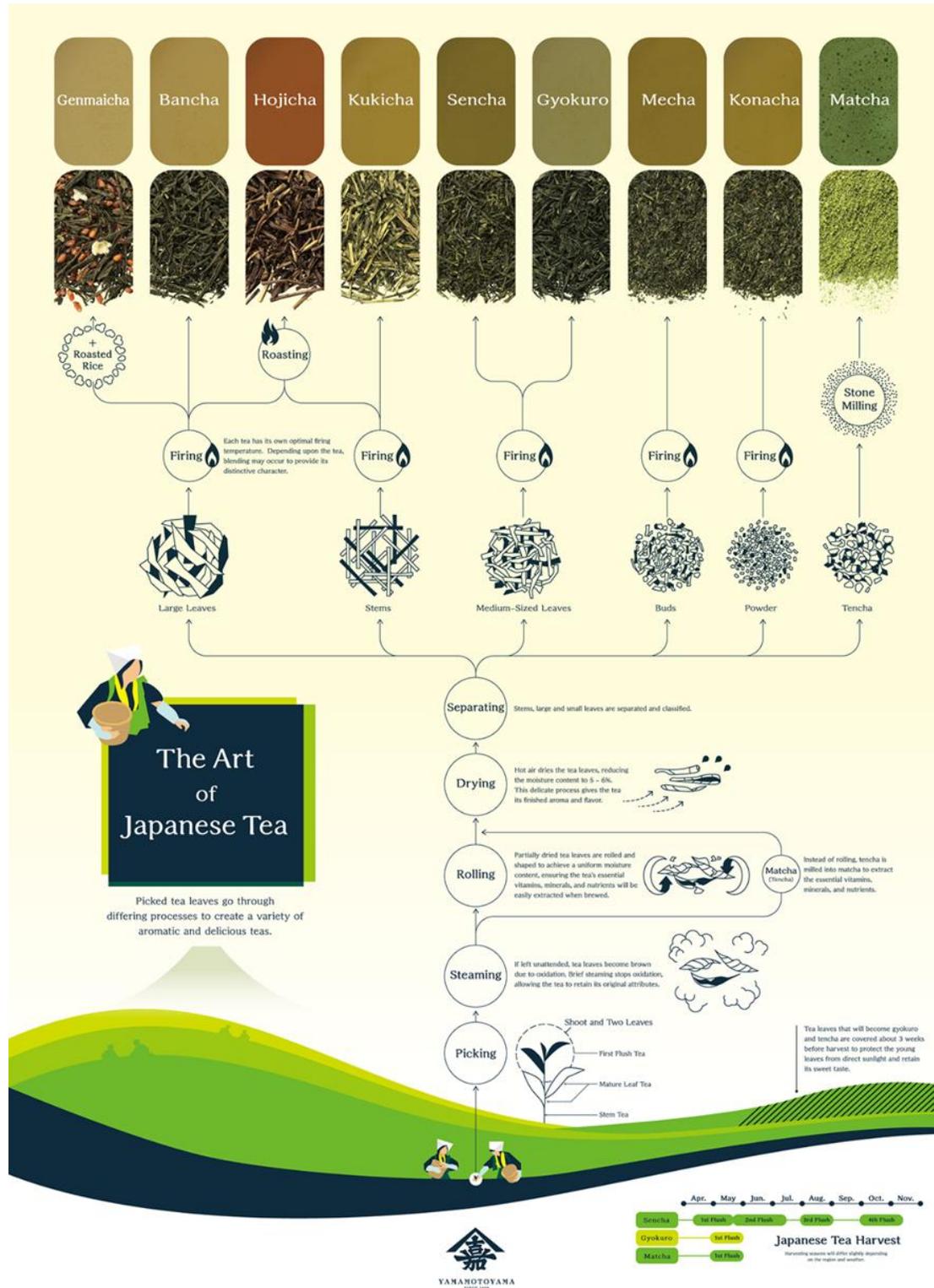


in 1940



Source: Yamamotoyama internal company documents

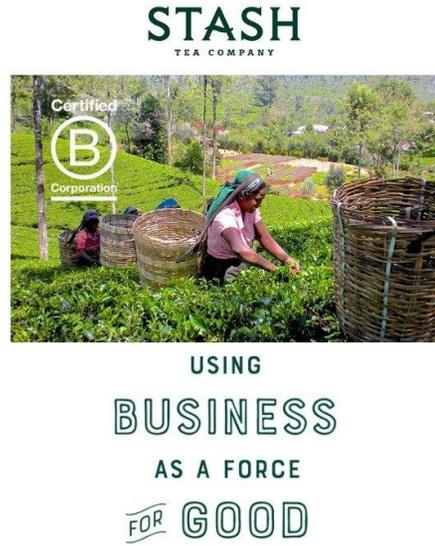
# Exhibit 8 Tea Production Process



**Exhibit 9 Stash Tea Products**



GMO Free



Stash Tea is celebrating one year as a Certified B Corporation! We're grateful to be part of a global community of companies that are leading with purpose to build a better world. B Corp certification

Certified B Corporation



Organic



Cross Cultural Flavour

Source: Yamamotoyama internal company documents

## Appendix

### About Certified B Corporations

Certified B Corporations are businesses that meet the highest standards of verified social and environmental performance, public transparency, and legal accountability to balance profit and purpose. B Corps are accelerating a global culture shift to redefine success in business and build a more inclusive and sustainable economy.

Society's most challenging problems cannot be solved by government and nonprofits alone. The B Corp community works toward reduced inequality, lower levels of poverty, a healthier environment, stronger communities, and the creation of more high quality jobs with dignity and purpose. By harnessing the power of business, B Corps use profits and growth as a means to a greater end: positive impact for their employees, communities, and the environment.

B Corps form a community of leaders and drive a global movement of people using business as a force for good. The values and aspirations of the B Corp community are embedded in the B Corp Declaration of Interdependence.

### B Corp Certification

B Corp Certification doesn't just evaluate a product or service; it assesses the overall positive impact of the company that stands behind it. And increasingly that's what people care most about.

Certified B Corporations achieve a minimum verified score on the B Impact Assessment—a rigorous assessment of a company's impact on its workers, customers, community, and environment—and make their B Impact Report transparent on [bcorporation.net](https://bcorporation.net). Certified B Corporations also amend their legal governing documents to require their board of directors to balance profit and purpose.

The combination of third-party validation, public transparency, and legal accountability help Certified B Corps build trust and value. B Corp Certification is administered by the non-profit B Lab.

Source: <https://bcorporation.net/about-b-corps>

## **Endnotes**

- <sup>1</sup> Kaichiro Yamamoto, President, interview, April 27, 2020
- <sup>2</sup> Kaichiro Yamamoto, President, interview, April 27, 2020
- <sup>3</sup> Kaichiro Yamamoto, President, interview, April 27, 2020
- <sup>4</sup> Kaichiro Yamamoto, President, interview, April 27, 2020
- <sup>5</sup> Nami Yamamoto, Executive Vice President, interview, April 27, 2020
- <sup>6</sup> Nami Yamamoto, Executive Vice President, interview, April 27, 2020
- <sup>7</sup> Kaichiro Yamamoto, President, interview, April 27, 2020
- <sup>8</sup> Kaichiro Yamamoto, President, interview, April 27, 2020
- <sup>9</sup> Kaichiro Yamamoto, President, interview, April 27, 2020

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- Yamamotoyama Corporate Website <https://www.yamamotoyama.co.jp/index.html>
- Yamamotoyama USA Corporate Website <https://yamamotoyama.com/>
- Stash Tea Corporate Website <https://www.stashtea.com/>
- Nihonbashi Journal <https://www.nihonbashi-tokyo.jp/enjoy/people/201412/>
- Bridgine <https://www.bridgine.com/2019/12/25/yamamotoyama/>
- Certified B Corporations <https://bcorporation.net/about-b-corps>



# The Augustea Case Study

Author : Salvatore Tomaselli  
(Palermo University)

# LES HENOKIENS CASE COLLECTION



## AUGUSTEA

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\* This case was prepared by Prof. Salvatore Tomaselli Ph.D. as the basis for class discussion, rather than than to illustrate an effective or uneffective handling of an administrative situation.  
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## Introduction and Motivation: Objectives of the case study and key questions

There are many exciting things to find in the Augustea and Cafiero-Zagari Family story, especially the topics students interested in Family Businesses can learn from: link with the history and culture of the region, strategy, and never-ending innovation, values passed from generation to generation.

*The main research questions, which we approach, are listed below:*

- *How have the family and the firm evolved, especially during the 10th, 11th, and 10th generation (relating also to industry and market developments)?*
- *How has the structure of the group evolved, and why?*
- *In what do the business and the family show their resilience and anti-fragility*
- *How has the family coped with the many changes and challenges characterizing the industry's evolution?*
- *How have the family, ownership, and governance structures, as well as mechanisms, evolved over the last decades?*
- *How have the succession processes in ownership and management been managed?*
- *What is the vision and strategy for successfully and sustainably managing family-related and business-related goals to survive for so long and across different generations?*
- *How does the international outlook of the firm look like? What are the plans for the future?*



## 1. Augustea: sailing the waves of the oceans for centuries

Meta di Sorrento is a small, wonderful marine city facing the Gulf and the City of Naples, with the Vesuvio Vulcan Mountain on its right. The Augustea's origins are rooted in this magnificent area and embedded in its maritime tradition and culture. Augustea is a Family Business, controlling companies mainly operating in the segments of dry bulk shipping, deep sea towing services, and transportation with oceanic barges. The group continues the tradition of a family whose navigation activity has developed for centuries in Meta di Sorrento and Barletta, in Southern Italy.

The activism and solidarity of the Cafiero in the Meta area are preponderant, as demonstrated by the “Monte Cafiero” (1629), the “Monte dei Marinai Schiavi” (1719), the “Società dei Padroni di Bastimenti” (1798), the First and the Second “Compagnia Metese di Assicurazioni e di Cambi Marittimi” (founded between 1825 and 1831), the “Mutua Sorrentina” (1863).

Under the control of the Cafiero-Zagari families, over the decades, Augustea Group has grown to become a leading and reputable player in the shipping industry, with offices/operating branches in Naples and Augusta (Italy), London, Singapore, Malta, Buenos Aires, Philippines, and Colombia.

### 1.1. The origins and historical perspective

The branch of the family that gave birth to the current Augustea Group descends from Pietrantonio Cafiero, shipowner from Meta di Sorrento, who carried out the traffic of goods on behalf of the Royal Court, extending its fleets to Spain and France.

His father, Costantino Cafiero, in 1759, when Charles of Bourbon left Naples to take the crown of Spain, transported the luggage of the royal family to Barcelona and then to Alicante.

In 1629 Pietrantonio Cafiero set up a charity fund to pay ransoms to pirates who kidnapped sailors in the Mediterranean Sea.



A century and a half ahead of Lloyd's, the most famous insurers in the world - who will inaugurate something similar only at the end of the eighteenth century - Pietrantonio Cafiero decided that a shipowner, an activity that his father and grandfather already practiced for decades, can combine business and philanthropy. He thought of hubs, helmspersons, boatswains, sutlers, all the people who struggle on board their sailing giants and often pay for the ferocity of the sea or pirates. It gives life to the "Monte della S.S. Annunziata", later known as Monte dei Cafiero. To those unnecessarily waiting for a husband or a sailor father, the fund guaranteed some resources to live off. To save the lives of those who are hostages of the marauders, the fund paid a ransom.

Pietrantonio's entrepreneurial and solidarity spirit found continuity in his son Salvatore Cafiero (1778). Married to Teresa Cafiero (1793), daughter of Antonio Cafiero, he was the first Director and the main shareholder of the First Insurance Company and Maritime Exchanges of the Sorrento Plan, founded in 1825 to protect the members from the risks of navigation and finance the maritime activity through maritime exchange loans, guaranteed by the ship's body and tools. Among the members were sailors, shipowners, and captains but also people not related to maritime activities, such as priests and doctors.

Also, at the beginning of the nineteenth century, Salvatore Cafiero founded the local "Società Mutua Marinai" aiming to share the risks faced by sailors during long navigation and, subsequently, became Director of the Shipping Company of the Steamers of the Sorrento Peninsula.

Salvatore's son, Salvatore Michele Cafiero (1833-1905), known as o' luongo 'e Masano, is the best known figure of this family. From his marriage to Maria Laura Lauro (1841), a member of another large shipowning family originally from Piano di Sorrento, he had eight children: Pietrantonio Cafiero (1873-1930), Leopoldo Cafiero (1875), Raffaele Cafiero (1876-1957), Oreste Cafiero (1877), Lauretta Cafiero (1879), Teresa Cafiero (1880), Rosa Cafiero (1881) and Adele Cafiero (1883).

At his death, his sons continued to carry out the family ship-owning activity, arming the inherited ships.

It was a period of great changes in the maritime and ship-owning sectors. With the sunset of sailing and wooden shipbuilding, the Cafiero, like many other shipping companies, had to reinvent their business and try their hand at steam navigation.

The successes achieved by the family had such notoriety that, in 1850, the maritime interests of the Cafiero were registered in Lloyd's Register of Shipping, established to improve the safety of life, property, and the environment, promote the quality of construction and activity of ships and ports.

Pietrantonio Cafiero (1873-1930), married to Maria Laura Lauro (1880-1918), had five children: Maria Cafiero (1908-2004), Salvatore Cafiero (1909-1982), Rosa Cafiero (1910-2004), Raffaele Cafiero (1912-1978) and Leopoldo Cafiero (1915-2006). Two of the representatives of this generation, Leopoldo (1915-2006) and Salvatore (1909-1982), employed their skills in the service of the Lauro family: Leopoldo as commander of an ocean liner of the Lauro Fleet and Salvatore as manager and collaborator of Achille Lauro.

Salvatore Cafiero (1909-1982), from his marriage to Giuseppina Esposito (1910-1994), had four daughters: Maria Laura (1941-2008), Paola, Sandra and Bruna. Leaving the Lauro group, in the fifties of the XXI century Salvatore became the owner of his own fleet and acquired the fleet of Angelo Scinnicariello, operating already in 1880 with cargo ships and tankers.

In the post-war boom, the Augustea fleet of sturdy tug boats operated amongst the fast-growing petrochemical ports of Augusta and Syracuse on the east coast of Sicily, the largest refining hub in

the Mediterranean. In 1964, Salvatore Cafiero diversified into the deep-sea shipping and continued to develop both businesses until the end of his long and productive life, in 1982.

Salvatore led the growth of the Group until his death, with great resourcefulness, developing the activity of offshore towing, deep seas towing, and salvage ships, initially carried out in the port of Augusta.

The purchase of new ships and the stipulation of alliances for the concession of towing services in ports of high strategic importance such as Milazzo, Syracuse, Catania, La Spezia, and Civitavecchia have allowed increasing turnover and, above all, to acquire new skills.

When Salvatore died, the control of the group passed into the hands of his daughters Maria Laura, Paola, Sandra, and Bruna. Diversity of views led the four sisters to the group's division, through a series of corporate splits between 1982 and 1997.

In the division, Paola - the second daughter, married to Lucio Zagari - acquired control of the part of the group headed by the "Augustea Imprese Marittime e di Salvaggi" – or, simply, "Augustea".

In 1987, Lucio Zagari became CEO of Augustea Group, and indeed, the Zagari family now own and control the Augustea Group.

The original nucleus of the group headed by Augustea was established in 1955 by Salvatore Cafiero. In the beginning, its main activity was the port trailer. Later, the group's activity was diversified, extending to the transport of dry bulk and transport by ocean barges.

Over the decades, the Group has grown so much to become one of the most important international and world players in the shipping sector, reaching 15 operating branches (Augustea Atlantica S.p.A., ABM Two Ltd, Augustea Grancolumbia S.a.s., Augustea Bunge Maritime Ltd, Augustea Tecnoservice S.r.l., Augustea Technoservices Ltd, Augustea Manning Philippines inc, Augustea Shipping Services Ltd, Augustea Holding S.p.a., Augustea Maritime Transportation Ltd, Augustea Med Ltd, Augustea Marifran S.a., Augustea Ship Management S.r.l., Augustea Maritime Transportation Ltd, Augustea Pacific pte Ltd, Augustea Oceanbulk Maritime Malta), with a fleet of about fifty ships of different types.

The growing international competitiveness and the deep and consistent process of concentration in the shipping sector put a strain on the survival, especially of family businesses, often too small and not financially equipped enough to support the comparison with leading competitors from all over the world, then an increasingly dynamic and competitive market environment, which pushes companies to review and renew their entrepreneurial formulas.

In 2010 Augustea Holding was established, whose main activity consists of providing accounting, finance, treasury, management control and internal audit, IT, and human resources services to the Group's operating branches. The company's president was Lucio Zagari.

## 1.2. The 12<sup>th</sup> generation: surviving in difficult times, through industry restructuring, repeated economic crises and much more

Raffaele Zagari, 53 years old, a member of the twelfth generation and nephew of Salvatore Cafiero (son of Lucio Zagari and Paola Cafiero), took over the role of CEO of Augustea Holding S.p.A. in 2015.

Raffaele's relationship with the family business goes back to 1993, when he went to Japan as a junior supervisory team member at the shipyards where the group's ships were built. Then he went to London, where he worked in the commercial area in the company operating dry bulk carriers and

oil tankers. Later, he left the group and worked for Zodiac Maritime, a shipping company owned by the Ofer, an Israeli family. Zodiac was probably the most prominent private group in the maritime sector worldwide. Raffaele's position was in the post-fixing, a back office activity.

Between 1996 and 1997, at the time of the final separation between Salvatore's descendants, Raffaele joined again the family business, based in Italy for some time. Under the supervision of a senior manager, he worked in the shipping division. In these years, Raffaele started a new business area in freight trading.

In those years, derivative contracts entered the industry. Derivatives – mainly in the Over the counter (OTC) form - had an enormous development until 2008, when the financial crisis caused tremendous trauma, with many bankruptcies and substantial financial losses. Nowadays, contracts are almost all Cleared.

After a few years in Italy, Raffaele moved again to London, his favorite place and elective homeland. From there, he managed the shipping branch's commercial, operations, and execution areas; he also started a rich sequence of collaborations and joint ventures, often with more prominent and better-organized groups. Participating in these networks fomented a modern, richer, and more accurate risk management culture, allowing the Augustea Group to perform better than many other competitors during the 2008 crisis.

In 2015, amid dramatic changes in the sector, Raffaele took over the role of CEO of Augustea Holding S.p.A. He is the protagonist of a consistent and ambitious reorganization project of the Group, aimed at ensuring its continuity, abandoning the business areas in which the processes of concentration on a global scale make it impossible for small or medium-sized companies to survive. At the same time, it consolidates the Group's presence in the sectors in which it can best express its presence through strategic alliances with other first-level operators in the markets covered by the group. Finally, it develops the brokerage activity on freight, leveraging the group's broad experience.

## 2. The Marine Transportation Industry in Campania

### 2.1. Introduction

The Augustea Group originates in Meta di Sorrento, in Campania.



Image from Google earth

Campania is a Southern Italian region with a strong maritime culture, which has been consolidated over thousands of years between historical, economic, political and geopolitical events. Sorrento has been home to one of the oldest communities of sailors in the world, as the area has always been

an important shipping centre from ancient Greek civilization to Roman times to today. (Bennedsen & Henry, 2019).

Large maritime, ship-owning, and shipbuilding business realities have concentrated in the coastal territories of the region, exploiting their infrastructures and thus contributing to the creation of the so-called "maritime clusters", basins of knowledge and technological innovation. Also, highly specialized workers have supported local companies in consolidating international relations, which, in turn, fed the same cluster of further and new knowledge.

## 2.2. Maritime activities in the economy of Campania

Campania, the first region in the South of Italy for income produced, with a GDP of over 100 billion, is characterized by a robust maritime identity, evidenced by the many entrepreneurial families of ancient and historical maritime tradition in the area.

At the end of the eighteenth century, the communities of the Gulf of Naples were intensely engaged in maritime activities. They played a leading role in resuming trade in the Mediterranean on the routes that connected the Adriatic and the Ionian to the Tyrrhenian Sea to transport agricultural products from Southern Italy and the Levant to the ports of Western Europe. The Campania fleet competed with the major and established European navies.

Even in the nineteenth century, the Neapolitan Gulf stood out for its high competitiveness. In fact, the operators of the Neapolitan navies' option for deep-sea vessels allowed them to enter the prosperous Mediterranean and oceanic routes, unlike the other provinces of the South, mainly dedicated to fishing and cabotage vessels.

The fundamental role that maritime activities still have today in the economy of Campania is documented by the position occupied by the region in the national ranking of the index of intensity of maritime activities. (Camerano et al., 2020, p. 15)

Campania ranks in the first position for the weight of the ship-owning fleet. Of the 471 ship-owning companies registered in Italy, 115 are based in Campania, and they own about 34.2% of the ships in the country for the transportation of both goods and passengers. Campania ranks second, after Liguria, for the weight of maritime activities in the Italian economy, with an index of 73, and is in third place regarding ports and maritime transport. (Censis 2011)

## 2.3. The Marine Sector in Sorrento

The Sorrento Peninsula is one of the Campania resorts with a rich maritime tradition whose birth and flourishing were fomented by necessity. Since ancient times, local populations have felt the need to overcome physical isolation. The orographic characteristics of the peninsula made it almost impossible to exchange by land until Joachim Murat built the first communication routes during his reign (1806-1815). Murat's interest in better communication in the area descended by the assignment he received to reconquer Capri, under the control of the English navy. The best observation point from the coast to this aim is on the extreme lip of the peninsula, where Murat built a wonderful manor. The routes allowed to speed up the connections and communication between the villa and Murat's headquarter.

The isolation that lasted for centuries and the absence of the services of a large organized city, such as London, led the Sorrentine populations to create their institutions (banks, insurance companies) firmly rooted in the territory.

During the eighteenth century, the Sorrento navy stood out for the countless successes in commercial navigation achieved by the exponents of the bourgeoisie of the maritime centers of the peninsula.

It was precisely in this period that the Sorrento navy entered the maritime trade in the Mediterranean, specializing in the trade of wheat from Puglia and Sicily. (Maresca & Passaro, 2011)

In the Napoleonic era, close contact with the most modern French construction techniques favored the construction of new types of boats, such as brigantines and schooners, more suitable for Atlantic navigation, on the routes that connected the Mediterranean to Northern Europe and the American continent.

Since the age of the Restoration, the Sorrento merchant navy acquired considerable vitality: between 1818 and 1850 the number of boats tripled and in 1833 the Sorrento shipowners (of Meta and Piano) owned over half of the offshore vessels.

The nineteenth century was the period of the great iron and steel sailing ships, whose supply took place on the European market, preferred for their greater load capacity and lower cost.

The period before the First World War was the last moment of glory for sailing; the Germans sunk many sailing ships during the conflict.

Meanwhile, the wooden shipbuilding of the Sorrento Peninsula began to have marginal uses, increasingly replaced by naval mechanics (feluccas, goiters, motorboats); the development of the tourism sector pushed a growing demand for the internal navy specialized in inland navigation in the Gulf.

The crisis of wooden constructions and the emergence of steam navigation had their most disastrous effects in Meta, where the maritime professions were more concentrated, particularly the officers, which in Meta were more numerous than in other areas. This situation represented the opportunity for creating a mutual aid association, called "Sorrento Association of Mutual Aid between Captains and Machinists", aiming to ensure its members subsidies in case of illness, loss of work, or "kit" in case of shipwreck.

The evolution of boats primarily affected the growing demand for experienced subjects with consolidated technical knowledge. In fact, since the nineteenth century, the methods of design and navigation were no longer the exclusive heritage of the maritime families, handed down from generation to generation, since for the use of the construction plan, for the delineation of the sail plans and the execution and use of stability calculations, technical-scientific knowledge was required that only professional figures of shipbuilding could possess.

However, the transition from sailing to steam caused a profound restructuring of the sector, and only a few of the oldest ship-owning families successfully embraced the transition. Among these, the Lauro, the Cafiero-Scinicariello, the Montella, the Longobardo, the Romano, the Bottiglieri. New actors joined these.

### 3. The Marine Transportation Industry, evolution and economic trends

The evolution of marine transports and the ship-owning sector has been largely influenced by the progress of the boats as a result of the processes of development and innovation of on-board technologies and instruments that have determined the transition to more efficient and safe boats also depending on the type of navigation.

Activities and specializations within the sector range from passengers to goods of the most various nature, and the vitalism of the different sub-sectors is largely influenced by global economic trends.

Augustea is active the transport of dry bulk and transport by ocean barges and in towing.

The current section of the case covers the evolution of boats, and the economic trends of the sector, with a focus on the sub-sectors in which Augustea concentrates its activities.

### 3.1. The evolution of boats

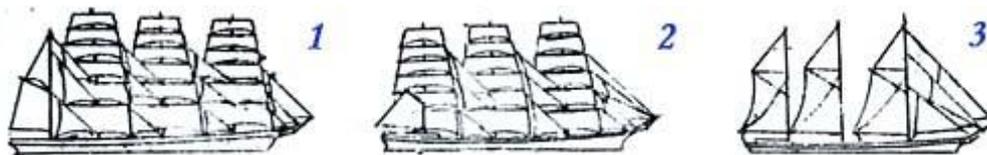
The ship and its history are closely linked to the need to transport goods and persons on the water. In the beginning, human beings straddled a tree trunk to move to the other bank of the river. So they created the ancestor of the raft. Later on, they dug the trunk internally, and the dugout was born. A branch used to push the pirogue inspired the design of the first oar. Finally, the sail was added.

Since then, almost any civilization has used ships with different propulsion systems, shapes, and sizes.

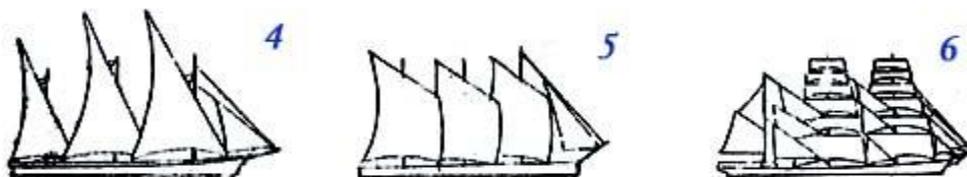
Sailing is one of the oldest propulsion systems in the water of ships and boats. Also, it has been dominant for long-range transport for many centuries.

Over the centuries, different types of sailing ships have been experimented:

1. Pole ship: vessel with four vertical masts; the first three with square sails and the use, that of stern, with auric sails, armed with mainsail, counter-bow and bowsprit;
2. Ship: three-masted vessel with square sails and bowsprit, small mainsail with a half-mast and bow bows;
3. Pole schooner: vessel with three masts slightly inclined at the stern, all with auric sails, and with some square sails at the first two and bowsprit, armed with mainsails, counter-arches and bows at the bow;



4. Xebec: ship with three trees inclined slightly in the bow; the mast of trench and maestra with Latin sails, that of mezzana with mainsail;
5. Lugger: vessel with two masts carrying sails to the third and trabaccolo, and sometimes one of the two a mainsail; it has a bow rod with polish and counter-polish;
6. Pole brigantine: three-masted vessel with square sails to the trench and the master, mainsail and counter-branch to the half-mast, and bows to the bow;



7. Schooner ship: vessel with three masts: that of trinchetto with square sails, the other two, that of maestra and mezzana with auric sails, with bows at the bow;
8. Sailboat: ship with three masts: that of trinchetto with square sails and those of maestra and mezzana with Latin sails, with bows at the bow;

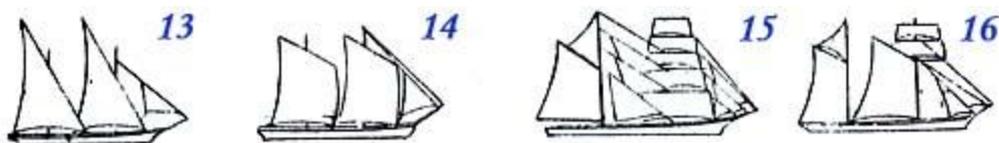
9. Mystical: three-masted ship with square sails to the trench, with Latin sail to the master mast and mainsail to the mezzana mast and with bows;



10. Brigantine: two-masted vessel with square sails and bowsprit;  
 11. Schooner: vessel with two slightly inclined masts at the stern, with auric sails, except for the trinchetto one which may have some square and bowsprit sails;  
 12. Pole cutter: vessel with a large mainsail with a trench mast and a small mainsail at the stern and with bows;



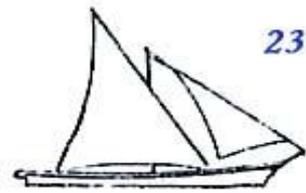
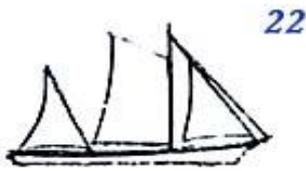
13. Felucca: two-masted ship with Latin and Polish sails in the bow and a few bows;  
 14. Lugger: two-masted vessel with sails on the third or fourth and with bow bows;  
 15. Schooner brigantine: ship with two masts; the mast of trinchetto with square sails, that of master with auric sails and mainsail and counter-bow and bows;  
 16. Gabbiola schooner: similar to the schooner, but with the addition of two square cage sails to the trench mast;



17. Bombarda (Vinacciere): similar to the Schooner Brigantine, but with the masts moved towards the stern and a greater number of jibs in the bow;  
 18. Bovo: ship with Latin sail with trench mast and small mainsail at the extreme stern;  
 19. Spacecraft (Navicello): vessel with the trench mast inclined towards the bow; it has a Latin sail and a large mainsail to the master mast and a trapezoidal sail between the two masts;  
 20. Cutter: one-mast ship with mainsail and counter-bow and with bow bows;  
 21. Tartana: ship with a Latin sail and bow bows;



22. Bovo: Latin sail at the extreme stern and mainsail at the trench mast;  
 23. Bilancella: ship with a Latin and Polish sail in the bow.



Source: [http://www.ammiraglia88.it/sezione\\_normale/pagine\\_sito/navistoria.html](http://www.ammiraglia88.it/sezione_normale/pagine_sito/navistoria.html)

The ships in use since ancient times adopted square sails, mounted on flagpoles perpendicular to the longitudinal axis suitable for load-bearing gaits but not suitable for rising the wind. Square in shape, they are characteristic of large sailing ships.

The typical sailing ships of the eighteenth century were the tartane and the three-masted peaks with Latin sail. The tartanas, in particular, were ships with a single mast with a large Latin sail. They had a bow rod with several bows, hoisted in the bow on the bowsprit, or with polish and counter-bow. The Latin sails are characterized by the triangular shape and are kept taut by an antenna that is diagonally hoisted on the mast.

The most experienced ship-owners also distinguished themselves for the construction of the Polacca, also known as Pollacca or Polacra). This was an evolution of the Xebec, with a more refined hull and without rowing. It had full shapes, with a wide mirror stern, armed with three masts with square sails to the master and Latin sails to the foremast and the mizzen.

Only later did the armament began using square sails, with single-piece masts, cheaper and easier to maneuver, but inadequate for long-term navigation.

The beginning of the nineteenth century saw the seas and major rivers crossed by ships moved by an innovative technology: steam propulsion. Steam imposed a new shipbuilding development, new techniques of boat construction, and a particular attention to the training of crews. The knowledge and training of professionals in this new technology, involved an economic and administrative effort to the various European navies, both merchant and military.



In the first half of the nineteenth century, however, sailing continued to play an important role, and Sorrento shipyards and ship-owners continued to use it extensively. The shipyards from Marina di Cassano in Piano experimented with the brigantine with two coffa armed masts. It was composed of three elements, mast, cage, and sail, with their respective square sails plus the auric mainsail. Such equipment was revealed to be safer and more versatile for offshore navigation.

In the second half of the nineteenth century, following the Unification of Italy, when the shipbuilding in Piano reached its maximum prosperity, the pole brigantine was adopted. It is a vessel with three vertical masts: the trench and master mast with square sails, the mizzen with auric sails, and bowsprit. In essence, the pole was a mizzen mast added to the armament of the brigantine. Whereas the English Clippers were armed with square sails, the pole had a large auric mainsail with counter-round, adding sails of rag and bows. This structure allowed a small crew and great adaptability to wind conditions.

At the end of the nineteenth century, the Sorrento ship-owners began to replace the existing ships with iron and steel hulls. Armed with a powerful sail, they were equipped with a greater load capacity, and their cost was low. They were giants of the sea, up to a hundred meters long, with a capacity between 1,000 and 3,000 tons of gross tonnage. All the space was used for loading since, unlike steamers, they did not have to hold engine apparatus, boilers, and fuel storage. However, this period coincides with the last moment of glory of sailing. In the last decades of the nineteenth century, steam propulsion (internal combustion engines) replaced wind propulsion.

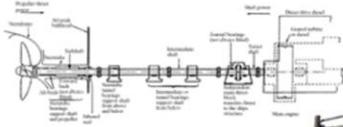


Since the first decades of the twentieth century, wooden shipbuilding has declined, dedicating itself to ships of minor importance. The first naval mechanic workshops were born, and the shipyards shifted to the construction of feluccas, goiters, and motorboats, used for inland navigation in the Gulf.

In the first half of the 1900s, maritime transport experienced other radical innovations:

1. naphtha in steam propulsion;
2. the heavy oil marine diesel engines and low rpm;
3. high rpm internal combustion engines and, subsequently, gas turbines.

**CONVENTIONAL DIESEL PROPULSION**



Mship.no



Andrea Doria affondata 1956 - sidney sostituita da achille ed angelina lauro



Non vista

Navi da trasporto passeggeri che in seguito sono state sostituite dalle navi da crociera



**PORTACONTAINERS 24000 TEU**



**AFRAMAX**



ULCC





### 3.2. Recent economic trends in the Dry Bulk and Towing Services

Over the last decade, “the global shipping industry has lost some of its lustre as the global demand for fossil fuels is falling. Ship owners and those companies like Augustea Holding that provide shipping services are watching their market shrink. According to Maritime Strategies, a shipping industry research group, total seaborne trade in oil, coal and liquefied natural gas will tumble from a peak of about 5.5 billion tonnes in the early 2020s to about 3.7 billion tonnes by 2045”. (Bennedsen & Henry, 2019).

#### 3.2.1. Dry Bulk Cargo

Sea transport accounts for 90% of world trade. The main dry load raw materials are iron ore and coal (over 50% cumulatively), followed by grains and other minor ones, such as timber, cement, various minerals, and agricultural products.

Volumes, however, represent only one component of demand; an equal role has the so-called "Ton-mile", ie the distance traveled by a load unit: eg. the transport of coal from Brazil to China weighs on the demand for ships approx. 3 times longer than the Australia-China route, considering that the distance is respectively 11,000 and 3,500 miles.

The sector is highly competitive, an aspect that exposes operators to a series of specific risks.

The dry cargo market is highly fragmented, with more than 1,250 registered ship owners (public, private, and state-owned or controlled legal entities).

Low barriers to entry characterize the sector since anyone with sufficient capital can buy a ship and operate it through the numerous ship management companies on the market. Consequently, in recent years numerous new entities have entered the competitive arena. In many cases, they are supported by private equity funds and financial sponsors, favoring joint ventures with one or more existing owners.

The dry cargo transport sector is characterized by its cyclical nature and the volatility of freight rates, with wide variations for the different types of ships. This volatility results from variations (even seasonal) in demand and supply of tonnage (ie, transport capacity) and commodities to be transported internationally by sea.

The factors that determine demand are many: the market for energy, commodities, semi-finished products, and finished products; changes in the exploration or production of energy sources, raw materials, semi-finished and finished products; the location of supply and outlet markets; the globalization of industrial and manufacturing production; regional and global economic conditions, including armed conflicts and terrorist activities; the development of international trade; the development of environmental and regulatory standards; changes in exchange rates; climatic conditions.

Equally numerous are the variables that affect the supply of tonnage: the number of new orders to be delivered, the dismantling of old ships, accidents and the number of ships "out of service", failure to adapt the logistical structures, and consequent phenomena of congestion in ports.

The demand for ships will depend in the future on economic growth, seasonal and geographical variations in demand itself, the interrelationship between the different economies, changes in fleet capacity, and the availability of a dry cargo to be transported by sea.

Variations are not predeterminable in nature, timing, direction, and grade. Consequently, businesses' strategies must consider this.

For example, the demand for coal transport is typically more sustained in autumn and winter, especially in the northern hemisphere. However, in such periods, the weather and sea conditions could also be particularly adverse, affecting the execution of transport. Operating results and cash flows could be particularly volatile if the fleet were used on the spot market. Certainly, to a greater extent than would be the case using the means with time charter contracts.

Similarly, the possibility of (re)chartering ships because of the expiry or termination of relevant contracts and the installments payable at each renewal or replacement is conditioned, among other things, by the market contingency. For example, an economic depression at the time of expiry of the contracts could condition their renegotiation due to the reduction of the installments, with consequent repercussions on profits' volatility.

The freight market is characterized by hyper volatility, which depends on the interaction of many factors. Among them, the trend of the economies of Western Countries, China, and Emerging Countries, the prices of raw materials, the evolution of the persistent financial crisis, the effects of the COVID-19 pandemic, and, most recently, the war in Ukraine. The war between Russia and Ukraine has had and will have consequences on economic activity, trust and trade, and caused increased tensions between Western Countries, Russia, and China.

Dry Cargo freight rates started 2022 with optimism on the back of a solid 2021 performance and a positive outlook for global trade. However, expectations changed following the Russian invasion of Ukraine in late February. Since then, all forecasts have been revised downwards, but the spot freight market has remained relatively strong for small loads.

The market value of ships has generally experienced high volatility related to several factors, including the level of freight rates, economic and market conditions, the type and size of ships, demand and supply of tonnage, availability and cost of alternative modes of transport, the cost of new construction, rules and regulations, technological development.

An oversupply of available tonnage could lead to a reduction in installments and profitability. In addition, the sale of a ship at a time when prices are low could take place below the balance sheet value, with a loss and a reduction in profits. An unfavorable change in freight rates could affect the companies' profitability, cash flows, liquidity, and compliance with the covenants included in the loan contracts.

### 3.2.2. Towing and Special Transport Services

Traditionally, the oil market is the main driver of the demand for offshore towing services, and the oil price influences the demand for specialized vehicles to support the offshore industry and represents one of the activities' main cost items. Different and sometimes "immaterial" variables intervene in the tendency of the oil market, such as the socio-political conditions of the regions in which the exploration and drilling projects are located, situations of conflict, including armed conflicts, strikes, embargoes, and changes in laws and regulations.

Recently, the sharp increase in the number of jobs related to wind power has meant that the price of oil is no longer the only element capable of influencing the demand for means to support the offshore industry.

A reduction in investments in the oil sector could lead to a reduction in the demand for services related to the offshore industry, with a consequent negative impact on the economic dynamics of the shipping companies in the sector.

Therefore, the demand for services related to the offshore industry depends on investment decisions. Such decisions are a function of the oil price on world markets: thus, the price per barrel that must cover the forecast extraction costs is the key variable on which the future projections within each company that intends to start an exploration and production project, whose cycle is between 10 and 20 years on average, are based. On the other hand, oil prices have less influence when projects are already underway and in the production phase; the potential impact remains limited to the exploration phases, which may be delayed or even canceled.

Since 2015, the transport sector has been affected by the crisis in the oil sector. As a result of the oil price collapse, the oil majors have sharply reduced investments in research and drilling of new fields, as well as closed plants that are no longer profitable. The crisis has led to a sharp decline in both freight rates and the degree of utilization of vehicles.

An increase in the supply of tugs due to higher orders placed in the previous boom in demand and delivered in 2015 resulted in an oversized fleet compared to the real needs of operators. The crisis in demand, combined with the decrease in oil price, has led to a sharp decline in tugboat freight rates.

The market crisis has affected equally all the operators who almost entirely had agreed with the lenders to restructure the debt.

As a result of the debt restructuring with the introduction of "grace periods" in the repayment of the capital, the companies could offer lower rental rates than the other operators in international tenders, such as covering only the OPEX and the interest on the debt.

In addition to the reported problems, in recent years, the global spread of the COVID-19 pandemic resulted in a slowdown in port operations and a reduction in contractual times for hiring tugs due to the excess of offers compared to the demand. This involves short rentals with consequent difficulties in using the tugs on the days off between one rental contract and the next.

## 4. The Augustea Group's strategy over the last decade and the challenges for the future

Augustea's strategy can be synthesized in strengthening its reputation as a world-class innovation leader in the shipping sector. It is HSQE certified (Health, Safety, Quality, Environment), one of the first shipping companies in Italy to have earned this prestigious certification. Moreover, the company continues renewed its fleet on a regular basis so that the average age of its vessels is only six years old (Bennedsen & Henry, 2019).

### 4.1. From 2010 to 2021

Over the last decade, the Group has been the subject of a deep and articulated restructuring project, aiming at a strategic reorientation of the Group through a sequence of corporate operations (demergers, disposals, acquisitions, transformations, and constitutions of new companies). As a result, while the Group is still engaged in maritime transport, ship charters, and related activities, on the one hand, and in off-shore towing services, on the other hand, its composition and size and its geographical positioning changed significantly.<sup>1</sup>

In Raffaele Zagari's vision the risk associated with the high volatility in the industry exceeded the capacity of the Group. To lower the risk, and secure the future of the business, he decided to abandon the port towing activities a sector characterized by excessive bureaucracy.

In April 2016, Raffaele Zagari sold the company's fleet of 16 harbor tugs, which specialized in serving oil tankers, to Rimorchiatori Riuniti, a larger Italian towage company. Following the acquisition of Augustea, Rimorchiatori Riuniti confirmed its leadership as the most prominent Italian tug operator in the Mediterranean with a fleet of about 82 harbor tug boats, ranging in power from 1.100 to 8.200 BHP. Said Raffaele Zagari, "we believe the Rimorchiatori Riuniti group represents, for Augustea shareholders, the best opportunity for an organic growth in the national towage market." (Bennedsen & Bryan, 2019).

The group's presence and efforts remained concentrated in the Dry Bulk Cargo and off-shore towing services. Both business units underwent major transformations.

These operations allowed the Group to exit - or redesign through alliances - the business areas where it was weak due to the consequences of the deep crisis affecting the industry. At the same time, it strengthened the Group's position in the business areas where the group board and top management saw space for supporting business continuity. Last but not least, it also allowed a

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<sup>1</sup> Exhibit #1 shows the structure of the group and its changes for corporate transactions during the period 2012-2021; Exhibit #2 report the workforce in the group, and its evolution.

separation and clearer identification of towing services and barge transport and created a specific subsidiary managing support services.

In 2010 the Augustea Holding Group managed its activities through two subsidiaries:

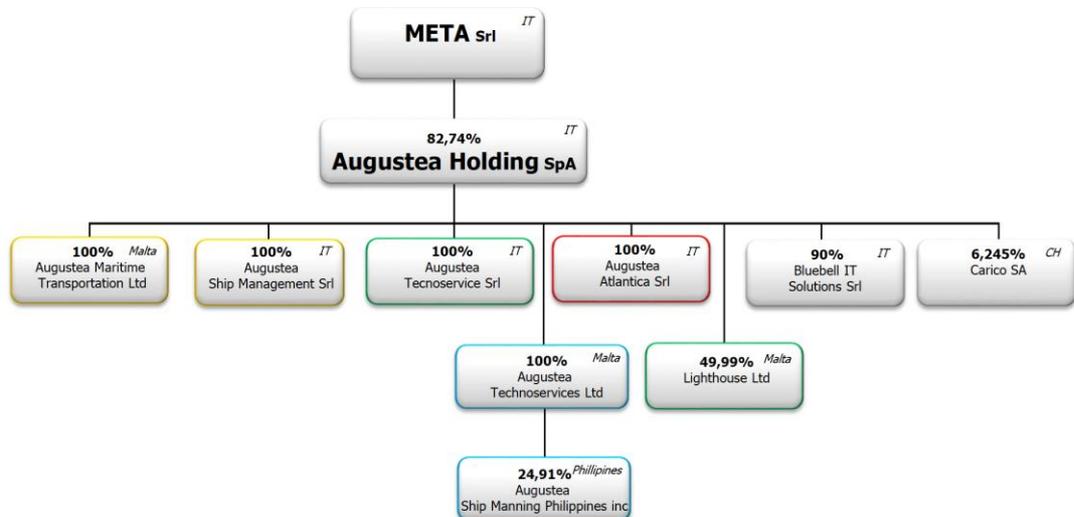
- Augustea Atlantica Spa, based in Naples, managed maritime transport, ship charters, and related activities, either directly or through its subsidiaries;
- Augustea Spa, based in Augusta (Syracuse), managed towing services in the port and off-shore areas.

After the restructuring, the composition of the Group resulted as follows:

- Augustea Atlantica Srl, based in Milan, manages dry bulk cargo, both directly (on a residual basis) and (primarily) through its subsidiaries Augustea Marifran SA and Augustea Shipping Services Ltd;
- Augustea Ship Management Srl, based in Milan, manages towing services;
- Augustea Maritime Transportation Ltd, based in Floriana (Malta), manages maritime transport with barges;
- Augustea Technoservices Ltd, based in Floriana (Malta), manages assistance services for technical purchasing, safety, quality systems, and crew management;
- Bluebell IT Solutions Srl, based in Naples, of which Augustea Holding owns 90% of the share capital, manages consulting services, and develops technologies in the IT field.

The following chart synthesizes the structure of the group at the present day.

#### AUGUSTEA GROUP

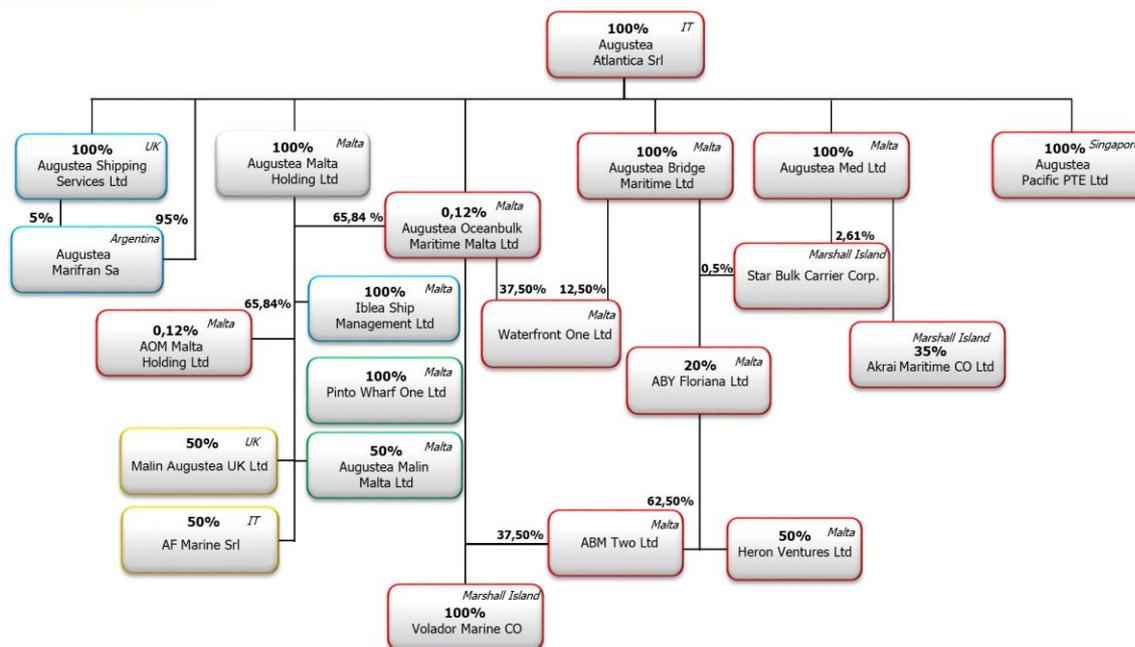


Dry Bulk Shipping activities  
 Oceangoing Tugs and barges activities  
 Management and Operation activities  
 Companies in Liquidation/In dissolution

Last update: 10/08/2022

The following chart reports the articulated structure of the Augustea Atlantic sub-holding.

## AUGUSTEA GROUP



Dry Bulk Shipping activities  
 Oceangoing Tugs and barges activities  
 Management and Operation activities  
 Companies in Liquidation/In dissolution

Last update: 10/08/2022

### 4.1.1. Dry Bulk Cargo

The commercial management of the subsidiary Augustea Atlantica Srl and its subsidiaries is traditionally based on a prudent balance between supply potential (represented by owned vessels and those chartered by other operators with time charter agreements) and transport demand (given by “out” rental contracts and contracts for the transport of raw materials).

In 2018, to strengthen the Group’s position in a sector where a concentration process is ongoing, Raffaele Zagari decided to join a larger company. He conferred the Group’s fleet of 16 dry bulk carriers into Star Bulk Carriers Corp., a large marine company listed at the New York Stock Exchange, holding a fleet of 150 ships. In change of the fleet, Augustea Atlantica acquired 11.3% of Star Bulks common shares, Star Bulk assumed debt of approximately \$309.0 million, and Raffaele Zagari was named as a director of the Star Bulk board. (Bennedsen and Henry, 2019). The positive trend in demand for maritime transport services in 2021 had positive effects on the value of the shares of the company Star Bulk held by the group through the companies Augustea Med Ltd and Augustea Bridge Maritime Ltd.

After the restructuring of the Group, Augustea Atlantica Srl continues running the market at a lower risk rate, renting ships from Japanese ship-owning companies at convenient fares. Augustea Atlantica develops its business mainly through the holding of shares in companies described below, operating in the same sector or in sectors complementary to shipping:

Augustea Malta Holding Ltd, a company based in Malta, which in turn holds 100% of the capital of Pinto Wharf One Ltd, 65.84% of Augustea Oceanbulk Maritime Malta Ltd, 50% of AF Marine Srl, 50% of Malin Augustea UK Ltd and 50% of Augustea Malin Malta Ltd.

Augustea Med Ltd, a company based in Malta, holds a share capital of the company Star Bulk Carriers Corp equal, as at December 31 2020, to 3.1%.

The Augustea Marifran SA company, based in Buenos Aires, provides the group with the many years of experience acquired in the operational management of bulk carriers.

Augustea Shipping Services Ltd, based in London and operating in the maritime brokerage market, is entrusted with the brokerage activity, the analysis of risk profiles, and the management of legal issues for the fleets managed by the Group.

Augustea Pacific Pte Ltd, based in Singapore, as of December 31, 2020 no longer owns vessels, either chartered or owned.

Augustea Bunge Maritime Ltd (ABML), based in Malta, is 50.85% owned and the residual share capital is owned by the shareholder Bunge Investment Management Ltd (49.15%). The company provides commercial services and charters vessels for the bulk transport of dry cargo. ABML in turn holds 20% of the sub-holding ABY Floriana Ltd, a company based in Malta that holds stakes in other companies (three at December 31 2020), all incorporated in Malta and controlled by the sub-holding; these companies are currently inoperative. ABML also holds 12.50% of the company Waterfront One Ltd, and a stake in the share capital of the company Star Bulk Carriers Corp equal, as of December 31, 2020, to 1.4%.

Augustea Oceanbulk Maritime Malta Ltd operates a fleet of time charter vessels under long term contracts. The company holds 37.50% of the company Waterfront One Ltd described above and 100% of the company Volador Marine CO, owner of a ship for the transport of dry cargo.

#### 4.1.2. Towing and off-shore transport

In the special transport sector, the Augustea Group operates with a fleet of AHT type tugs in the power range between 8,000 bhp (2 units) and 12,000 bhp (2 units), as well as non-self-propelled, semi-submersible, and non-self-propelled barges, of dimensions in-line with industrial standards and lengths between 300 feet (1 unit) and 400 feet (4 units), hiring barges and tugs to assist and support projects in the Oil & Gas and Renewables sector, but above all operating in the long-haul transport market providing tugs and barges to support infrastructure projects.

In recent years, in support of both the offshore oil market and pure transport, the highest market segment has developed with the presence of special self-propelled vehicles (so-called Deck Carriers, or Semisubmersible Heavy Lift Vessels), driven by demand for platform modules ready for use built mainly in the Far East (South Korea and Singapore), in the presence of high oil prices.

In the barges sector the Augustea Group manages the fleet through its subsidiary Augustea Maritime Transportation Limited (AMTL), of which it controls 100% of the share capital, and through the joint ventures Malin Augustea UK Limited (MAUL) and AF Marine Srl, of which it controls 50% of the share capital.

In 2022, the increase in requests in the renewable energy sector allowed a recovery from the problems of the previous years, despite the persistence of some difficulties related to the Covid-19 pandemic.

## 4.2. Foreseeable evolution

The evolution of the Group depends directly on the performance of the markets in which the subsidiaries operate.

Concerning the market for the maritime transport of dry bulk cargo and ship chartering, in previous years, the Group implemented a reorganization process that led to the disposal of almost all the ships held against the acquisition of significant shares in one of the largest listed shipping companies and the increase in technical management activities towards third parties not belonging to the Group.

The plans for the future are to better manage the presence in the sector through shareholdings, also evaluating the possibility of enhancement in light of the significant increase in the prices of securities on the markets, and to diversify the provision of technical management services.

The Augustea Group operates in the energy industry through the "Special Transports" Division, which includes Augustea Ship Management Srl, Augustea Maritime Transportation Ltd, and Malin Augustea UK Ltd. The oil industry's performance is no longer the main driver of demand for offshore towing services, although it remains a key component.

The substantial increase in gas, wind, and renewable sources projects has expanded the possibilities of commercial choices and strategic investments in the sector.

The problems of use of the means encountered during the previous years have attenuated during 2021 and 2022: the favorable trend is expected to be confirmed also in the following years.

To face the financial challenges caused by the pandemic, the Group signed with its bank counterparties to restructure the company's financial debt with all bank counterparties without any debt cancellation. As a result, the investee company has cash flows estimated for the near future in line with the disbursements provided for by the sworn plan.

Thanks to the market recovery in 2021 and 2022 Augustea Holding SpA and the whole Group have a high degree of liquidity making them able to meet their commitments.

The leadership team at Augustea has also turned its attention to innovations in the boardroom. Although not publicly listed on the stock exchange, Augustea rendered its own corporate governance system compliant with the principles set out in the Self-Regulatory Code for listed companies prescribed by the Italian Stock Exchange. Based on international best practices, the company's governance structure has put rules and regulations into place. Family shareholders are now assured that their company has a long-term plan in place. In fact, the leadership team have published corporate governance reports since 2012. Raffaele Zagari is convinced that the Augustea model can be used by many family-owned firms seeking to learn from his company's difficult experiences. (Bennedsen and Henry, 2019).

## 5. Conclusions

### 5.1. The virtue of antifragility

While businesses may not choose to avoid uncertainty, unpredictability, complexity, ambiguity, and volatility, how they frame and deal with events can affect their ultimate impact.

What makes the difference is the ability to seize opportunities in difficulties and transform obstacles into stimuli. Hence the virtue of antifragility.

Antifragility denotes the characteristic of a system not only to resist the action of an external agent without breaking, absorbing it, flexing, and reacting with a certain degree of flexibility but to adapt to external stressors to change and improve (Ruisi, 2019, p. 18-19).

An "antifragile" enterprise transforms the headwind into a favorable wind, embraces the unexpected and uncertainty, suffers the traumatic event, makes it its own, positively assumes the risk and exploits it to improve. Being an antifragile enterprise requires an extraordinary capacity for ingenuity and the ability to constantly improve. At the base of the concept of anti-fragility, in fact, there is the very conception of improvement.

Antifragility requires a new corporate philosophy, a new way of understanding and seeing things. Antifragility, therefore, induces companies to shift their focus from risk management to readiness to respond to tense factors, developing skills and competences that allow to improve performance in the presence of uncertainty.

## 5.2. Augustea as an example of antifragile family business

As part of its operational activity, Augustea has shown resilience and improvement, seeking, in times of most significant difficulty, effective solutions to become more solid.

The Cafieros, as an entrepreneurial family, have been able to impose quality standards, undertaking plans and strategies to improve their services and consolidate their competitive position. These strategies were conceived mainly as a response to changes in the sector and economic crisis, during which the company's ability to continue to operate on the market was put to the test.

Augustea has not only been able to adapt to changes but has reinvented itself, anticipating structural changes and contributing, with a view to collaboration with its competitors and giving an evolution to the market.

The numerous investments in the construction of strategic alliances and the innovation of boats and technologies have had as their primary purpose to improve the quality of its services, putting the needs and requirements of customers first, more attentive to the quality and eco-sustainability of their activities and their collaborators.

Augustea, over time, has shown an excellent aptitude for dynamism and renewal, becoming a spokesman and witness of a path aimed at economic, social, and cultural progress. The promotion of employment and the particular attention paid to workers' rights and their financial and professional needs testifies to the commitment made to issues of social and political importance.

The growth and development experienced by Augustea since 1629 is the result of the resistance opposed to adverse phenomena and the propensity to thrive in a context characterized by uncertainty and randomness, the same uncertainty and randomness that accompanied sailors during navigation but that with dexterity they were able to tame, thanks to the considerable maritime knowledge and the ability to use the appropriate tools, driven by the desire to return to dry land and embrace loved ones again.

Exactly like its ships, Augustea has faced and in the current context, continues to face storms and thunderstorms, showing great ability to ride the wave, embarking on unexplored areas (blue ocean strategies), and landing in new ports, to discover new cultures and new knowledge to be

internalized and elaborated at an organizational level, starting processes of innovation and improvement. Augustea was able to glimpse opportunities for growth in what seemed to be obstacles and difficulties, looking beyond and transforming seemingly useless things into useful things (Ruisi, 2019, p. 73).

## 6. Acknowledgement

I want to express all my gratefulness to Mr Lucio Zagari, Mr. Raffaele Zagari and to Commander Pierantonio Cafiero, for opening so much of their family and business history, and for the assistance and support they provided during the meetings and interviews we had to prepare the case.

I also want to thank Ms. Ilaria Ballatore, a master student at the course on Entrepreneurship and Management, at the university of Palermo, who helped in collecting and analyzing the information.

## Questions for class discussion

The main question that comes to mind when reading a story like this is what made it possible for a small family business, disadvantaged by the isolation and lack of adequate infrastructure in Calabria, to resist wars and destruction, fights for the hoarding of raw materials and competitive pressures, time and fashions, as to passing down the business for fourteen generations?

To look for an answer to this question and prepare for class discussion, please follow the following guiding questions

1. What are the main transformations in the competitive environment faced by Augustea over time and generations?
2. What are the main strategy drivers followed in different periods by the business, in the aim to answer the challenges?
3. Can you find a way to classify the different periods that characterize those changes and strategies?
4. What has been the contribution of each generation to the survival and development of the business?
5. How did the relationship between the Cafiero-Zagari Family and the Business change over time and generations?
6. What role did women play in the history of the business and the family?
7. What role did in-laws play?
8. How do you see the balance between the family and the business, in the present and for the future?
9. What challenges do you see for the mid and long term for this family business?

## Exhibits

### Exhibit #1 – Evolution in the structure of the Group between 2010 and 2022

Enterprises	Activity	Registered office	Owner	SHARE PERTAINING TO THE GROUP											
				2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>INTRAGROUP SERVICES</b>															
Augustea Technoservices Ltd	Technical services	MALTA	Augustea Holding SpA	---	---	---	---	---	---	---	100	100	100	100	100
<b>SHIPPING</b>															
Augustea Atlantica SpA	Shipping	AUGUSTA (ITALY)	Augustea Holding SpA	100	100	100	100	100	100	100	100	100	100	100	
Augustea Marifran Internacional SA	Bulk Carriers	BUENOS AIRES (ARGENTINA)	Augustea Atlantica SpA Augustea Shipping Services	100	100	100	100	100	100	100	100	100	100	100	
Augustea Malta Holding Ltd	Sub-Holding	MALTA	Augustea Atlantica SpA											100	100
Lighthouse Ltd	Tanker and Bulk Carriers	MALTA	Augustea Holding SpA									49.99	49.99	49.99	49.99
AF Marine Srl	Dry Cargo	MILAN (ITALY)	Augustea Malta Holding Ltd (50%)											50	50
Augustea Navigation Srl	Bulk Carrier	MILAN (ITALY)	Augustea Holding SpA										100	100	100
Augustea Shipping Services Ltd	Brokerage, risk analysis,	LONDON (UK)	Augustea Atlantica SpA	100	100	100	100	100	100	100	100	100	100	100	100

	legal issues															
Augustea Pacific Pte Ltd	Dry Cargo	SINGAPORE	Augustea Atlantica SpA		100	100	100	100	100						100	
Augustea Bunge Maritime Limited (ABML)	Ship ownership and renting	MALTA	Augustea Atlantica SpA	--	50.85	50.85	50.85	50.85	50.85						100	
ABY Group Holding Limited	Holding – Dry Cargo companies	MALTA	Augustea Bunge Maritime Ltd (20%)				10.17	10.17	10.17	10.17	10.17	<b>Sold</b>				
ABY Floriana Limited	Holding – Dry Cargo companies	MALTA	Augustea Bunge Maritime Ltd (20%)									10.17	10.17	10.17		
Waterfront One Ltd	Ship ownership and renting	MALTA	Augustea Bunge Maritime Ltd (12.5%)							6.36	31.09	31.09	31.09	31.09		
Augustea Oceanbulk Maritime Malta Ltd  Before 2018 Augustea Oceanbulk Maritime Lda	Time charter and other shipping activities	MALTA since 2018  Before MADEIRA (PORTUGAL)	Augustea Atlantica SpA (0.12%)  Augustea MED Ltd (65.84)	50	50	50	50	50	50	50	50	65.96	65.96	65.96		
Augustea Bulk Carrier  Before 2016 AOM Shipping Malta Ltd	Shipping	MALTA	Augustea MED Ltd  Previously Augustea Oceanbulk Maritime			50	50	50	50	100	100	<b>Sold</b>				

			Lda												
Volador Marine Co	Dry Cargo	MALTA	Augustea Ocean Maritime Malta Ltd (100)											65.96	
ABM Two Ltd		MALTA	ABY Floriana Ltd (62.5%) Augustea Oceanbulk Maritime Lda (37.5%)				25,11	25.11	25.11	25.11	31.09	31.09	31.09	31.09	
CBC Holding Ltd	Dry Cargo	MALTA	ABY Group Holding.  Until 2018 Augustea Atlantica SpA	--	12.93	12.93	12.93	12.93	12.93	12.93	12.93	12.93	12.93	<b>sold</b>	
Augustea Logistics Ltd	Sub-Holding	MALTA	Augustea Holding SpA								100	100	100	<b>sold</b>	
Augustea Transshipment Ltd	Dry Cargo	MALTA	Augustea Logistics Ltd								100	100	100	<b>sold</b>	
Augustea Coal Management Ltd	Dry Cargo	MALTA	Augustea Logistics Ltd								100	100	100	<b>sold</b>	
Red Queen Navigation Transportes Maritimos Lda		MADEIRA (PORTUGAL)	Augustea Atlantica SpA	40	Merged in CBC Holding Ltd	---	---	---	---	---	---	---	---	---	---
Red Gardenia Transportes Maritimos		MADEIRA (PORTUGAL)	Augustea Atlantica SpA	25	Merged in CBC	---	---	---	---	---	---	---	---	---	---

Lda					Holdin g Ltd											
Bulk Japan Shipping Corporation		PANAMA	Augustea Atlantica SpA	25	Merge d in CBC Holdin g Ltd	---	---	---	---	---	---	---	---	---	---	---
Red Lotus Shipping Corporation		PANAMA	Augustea Atlantica SpA	15	Merge d in CBC Holdin g Ltd	---	---	---	---	---	---	---	---	---	---	---
Augustea Atlantica Trading Lda		MADEIRA (PORTUGAL)	Augustea Atlantica SpA	100	100 Sold	---	---	---	---	---	---	---	---	---	---	---
Bulk Indonesia Ltd		MALTA	Augustea Atlantica SpA	--	50	Sold	---	---	---	---	---	---	---	---	---	---
Augustea Med Ltd Già Bulk Philippines Ltd		MALTA	Augustea Atlantica SpA	--	50	100	100	100	100	100	100	100	100	100	100	
Red Iris Shipping Corporation		PANAMA	Augustea Atlantica Spa	30	30	30	30	30	30	30 Liquidate d						
Jasmine Transportes Maritimos Lda		MADEIRA (PORTUGAL)	Augustea Atlantica SpA	25	Merge d in CBC Holdin g Ltd	---	---	---	---	---	---	---	---	---	---	---
Red Lily Shipping Corporation		PANAMA	Augustea Atlantica SpA	25	Merge d in CBC Holdin g Ltd	---	---	---	---	---	---	---	---	---	---	---
Bluebell IT Solutions Srl	Intragroup IT and business intelligenc e services	Naples	Augustea Holding Spa		---	---	---	---	90	90	90	90	90	90	90	

<b>Offshore transport towing activities</b>															
Augustea Ship Management Srl	offshore maritime services	AUGUSTA (ITALY)	Augustea Holding SpA	Owned by MET A	100	100	100	100	100	100	100	100	100	100	
Augustea Maritime Transportation Limited	Barges for special transports	MALTA	Augustea Ship Management Srl (99.99%)  Augustea Holding SpA (0.01%)					100	100	100	100	100	100	100	
Augustea Maritime Transportation Ltd	Barges	MALTA	Augustea Holding SpA (100% since 2015; before 0.01)  Augustea Ship Management Srl (99.99% until 2015)	--	100	100	100	100	100	100	100	100	100	100	
<b>Port towing activities</b>															
Augustea Imprese Marittime e di Salvataggi Spa (Also known as Augustea Spa)	Port Towing Activities	AUGUSTA (ITALY)	Augustea Holding SpA	100	100	100	100	100	100	100	SOLD				
Augustea Terminal Srl			Augustea Imprese	---	---	---	---	---	100	100	SOLD				

			Marittime e di Salvataggi SpA												
Augustea Grancolombiana SA	Offshore trailer	BARRANQUILA (COLOMBIA)	Augustea Terminal srl (since 2015)  Before 2015 Augustea Imprese Marittime e di Salvataggi SpA	92	92	92	97.59	98.51	98,51	98,51	38.582	38.582	38.582	38.582	
Kiana Unipessoal Lda (Previously Sundrive Ltd)	Offshore trailer	MADEIRA (PORTUGAL)	Augustea Terminal srl (since 2015)  Before 2015 Augustea Imprese Marittime e di Salvataggi SpA	100	100	100	100	100	100	100	40	40	40	40	
Augustea Tecnoservice Srl	Technical support	AUGUSTA (ITALY)	Augustea Imprese Marittime e di Salvataggi SpA	99.99	99.99	99.99	100	100	100	100	100	100 liquidated			
Augustea Rigenoil Srl	collection, transport, treatment, delivery and / or	AUGUSTA (ITALY)	Augustea Imprese Marittime e di Salvataggi	--	50	50	50	50	50	Sold					

	disposal of waste produced by ships		SpA												
Augustea Anchor Marine Transportation Ltd		FURNHAM (UK)	Augustea Imprese Marittime e di Salvataggi SpA	100	100	100 Terminated	---	---	---	---	---	---	---	---	---
Compagnia di Navigazione Rimorchi e Salvataggi S.r.l.	sea and river transport of goods and passengers	ROME (ITALY)	Augustea Imprese Marittime e di Salvataggi SpA	11.11	11.11	11.11	11.11	11.11	11.11	11.11	11.11	11.11	11.11	11.11	11.11
Augustea Freight Management G.e.i.e. in liquidazione		MILAN (ITALY)	Augustea Holding SpA	100	100	100	terminated								
Augustea Pacific Srl		NAPLES (ITALY)	Augustea Holding Srl	100	100	liquidated	---	---	---	---	---	---	---	---	---

Exhibit #2 – Workforce variation from 2010 to 2021

average number of employees in companies included in consolidation by the integral method, divided by category.

Category	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Executives	9	10	10	10	10	11	9	9	8	7	7	
Employees	106	114	114	110	119	112	88	81	42	63	60	
Workers	7	6	7	6	7	6	6	6	-	-	-	
Seafarers in tugs	150	222	212	210	215	196	47	47	25	40	40	
Seafarers in Ships	46	49	30	29	23	7	6	6	1	36	12	
Total	318	401	373	364	339	367	156	149	76	146	119	

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# The A.E.KÖCHERT Case Study

Author : Michael Hirt  
(Hirt & Friends)



HIRT&FRIENDS

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Michael Hirt

## **A.E. Köchert: Developing a Growth Strategy to Successfully Integrate a New Family Member into the Firm**

Founded in 1814, A.E. Köchert Juweliers is a distinguished jeweler with company headquarters in Vienna and a dependence in Salzburg (Austria). The House of Köchert („La Maison Köchert“) is internationally known as the “Jeweler of Emperors and Kings” and is famed for its sumptuous jewelry in the unmistakable Köchert style. Today, it is managed by Christoph, Wolfgang and Florian Köchert, the sixth generation of the family (Exhibit 2).

Since 2014, the firm is a member of the Association les Hénokiens, a global organization of family-owned businesses, that have been in majority family-owned for more than 200 years and are still managed by descendants of the founders.

### **La Maison Köchert**

In 1814, during the Congress of Vienna, the Frenchman Emmanuel Pioté founded a goldsmith shop in Vienna, that immediately attracted a lot of attention due to its refined and innovative designs. In 1819, Jakob Heinrich Köchert (1795 Riga-1869 Vienna) joined the firm and married Pioté’s sister-in-law. In 1831 the firm was appointed the official jeweler to the Austrian Emperor (“k.u.k. Hof- und Kammerjuwelier“) and remained the personal jeweler of the Austrian Emperor and his court, and the keeper of the Austro-Hungarian Crown Jewels, until the end of the Austro-Hungarian Empire in 1918. In 1873 the company headquarters moved to their current location in Vienna on Neuer Markt 15 in a shop designed by Theophil Hansen, a leading architect of his time, who played a pivotal role in the redesign of Vienna in its hallmark “Ringstraßen-Stil” (Exhibit 1).

In 2005 Florian Köchert joined the firm and a dependance at Alter Markt 15 in Salzburg was opened under his management, and subsequently enlarged in 2022 (Exhibit 1).

Please refer to Exhibit 3 for a more detailed history of La Maison Köchert, set in the historical context and with typical examples of Köchert jewelry of the respective period.

In the 20th and 21st centuries La Maison Köchert confirmed its reputation for refined and innovative designs, executed under the highest standards of craftsmanship, by creating iconic and stylistically unmistakable jewelry and by working together with innovative and often avant-garde artists and designers. Please refer to Exhibit 5 for an overview of the current product range of La Maison Köchert, including pictures of representative pieces.

La Maison Köchert has client relationships which often span over generations and has succeeded to stay relevant and attractive to each new generation of clients by carefully reinventing itself and developing around a strong foundation of the highest standards of craftsmanship and of artistic, personal and family values. Please refer to Exhibit 4 for an extract from the list of illustrious clients of La Maison Köchert.

## The Family

La Maison Köchert has been exclusively under family ownership and family management since its inception in 1814. For La Maison Köchert this has a depth of meaning that is best described by extracts from a statement on its website:

The House of Köchert has been a family-owned business ever since its founding in 1814. It reflects the typically Austrian “esprit” – that of a family settled in the arc of tension between tradition and modernity. This tradition includes our high quality-consciousness, just as it does a certain playfulness. ... Over the generations, our company has developed a long tradition of championing a sustainable attitude to our work. After over two centuries in business, all our actions are designed to ensure that attitude continues to exist for centuries yet to come. ... The people we work with perceive us as reliable partners. Whether these be our customers, traders or family members: they all know they can rely on us. ... Family ties don't stop at our cousins, however: for us, members of staff, neighbors, friends, associations, the local community, advocacy groups and social projects are all part of our extended family, and can rely upon us.<sup>1</sup>

Please refer to Exhibit 4 for a complete overview of the genealogy, ownership and management of La Maison Köchert from 1814 to the present day.

## The Challenge (I)

Already in the mid 19th century a family rule was established, that only two heirs of the same generation could own and manage the family business at any given time. But, not long after the untimely passing of Gotfrid Köchert in 1986, Dieter and Wolfgang in 1990 renegotiated the partnership agreement, which from this point on allowed two heirs per family line, therefore expanding the company to a maximum of four heirs of the same generation to own and manage the family business at the same time, instead of two.

In 2004, the business was managed, for more than a decade, by the cousins Wolfgang Köchert (son of Gotfrid) and Christoph Köchert (son of Dieter) as managing directors. Management of the business was centered at the headquarters in Vienna, from which also all regional and international activities were managed by Wolfgang and Christoph.

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<sup>1</sup> <https://www.koechert.com/la-maison/?lang=en> (retrieved on: 01.08.2022)

At this time, Wolfgang held a 50% ownership share in the company, whilst his cousin Christoph held a 25% ownership share in the company. The remaining 25% were held by Florian, Christoph's younger brother, further to Dieter's inheritance.

After training as a goldsmith and gaining experience in different fields of the arts and applied arts world, Florian, who so far only was a shareholder, but not actively involved in the business, registered his interest with Christoph and Wolfgang in joining the firm in an active role in 2004.

For generations, it had been the tradition and family rule, that a maximum of two heirs per generation could own and manage the family business at any given time. Also, Wolfgang and Christoph had in over a decade developed and fine-tuned, in a gradual and iterative process, a productive division of labor and management tasks between them, that had led to a very successful development of the firm.

## Teaching Notes: Questions for Class Discussion and Reflection (I)

After reading the case up to this point, please reflect upon the following questions and discuss them in class with your colleagues and your professor:

- If you put yourself in Florian's shoes, how would you think about this entire situation?
- What could be your thoughts on your self-interests and objectives?
- What could be your thoughts on your best tactics to achieve your-self interests and objectives?
- What kind of undesirable situations would you like to avoid? What can you do to avoid these undesirable situations?
- And what can you do to positively influence the situation to your advantage?
- What do you think would be general behaviors (focus more on the style of your behavior and less on the content), that would be beneficial to finding a productive solution?
- What do you think would be general behaviors (focus more on the style of your behavior and less on the content), that would be detrimental to finding a productive solution?
- What would you concretely do in this situation?

Now, make the same exercise, but putting yourself separately in Christoph's shoes and then in Wolfgang's shoes and asking yourself the same questions as above.

## The Challenge (II)

It was clear for Wolfgang and Christoph, that the current business in Vienna would not offer a suitable commercial and financial platform for three Managing Directors. Also, they were concerned, that Florian entering the business actively, would upset the careful balance of their bilateral cooperation and could eventually negatively impact the success of the entire firm.

On the other hand, Florian was a 25% shareholder and, with his training as a goldsmith and experience made a credible and insistent case, that he could make, and wants to make, a meaningful and profitable contribution to the business.

Eventually it became clear, that the way forward was, that a clearly delineated and defined business field for Florian would have to be found.

This field would have to satisfy several conditions. It would have to have the potential for profitable growth and for justifying the remuneration that Florian would get for his active role in the firm. It would have to fit with the overall and long-term strategy and positioning of the firm. It would have to fit with the talents and preferences of Florian. And finally, it should be, as much as possible a standalone strategic expansion of the current business, on the one hand, building on the resources

and capabilities of the firm, whilst on the other hand, not upsetting the careful balance that Wolfgang and Christoph had found in successfully managing the firm.

So, in summary, Wolfgang and Christoph were prepared to welcome Florian into the business and to help him with the resources and capabilities of the firm and their support, but a clear business field and positioning for Florian had to be found within the firm, and eventually Florian would have to prove his case by establishing a commercially viable business field of his own within the firm.

## The Path to the Solution

In July 2004, independent management consultant Michael Hirt was brought in to structure and facilitate a strategy project with the owners of the firm, that would review and refine the overall strategy of the firm and select the profitable growth field for an eventual integration of Florian into the firm. It was considered by the shareholders that it would be beneficial to bring in an independent consultant into this decision making process, to be an impartial moderator between the different interests, to bring structure and analytical rigor and an independent, outside view.

Christoph Köchert knew Michael Hirt already from his role as a management trainer and executive coach. Also, Michael Hirt was already privately acquainted with Wolfgang and was able to quickly establish trust with Florian.

It is crucial for a consultant brought in in such a situation, especially in the context of a family-owned company, not only to be technically competent in his field of consulting, but also to be able to gain and maintain the trust of all involved key decision makers and key players, in order to be seen as an “honest broker”, who really makes his best effort and has the diplomatic skills, to find and facilitate a solution that takes the best interests of the firm and all involved parties into consideration.

A joint consulting project was defined along the following lines:

- Objective of the project: Developing and implementing a growth strategy for the firm to successfully integrate a new family member into the firm in 2005. This also required a review, and if necessary, refinement of the current strategy and vision of the firm.
- The project involved all three family shareholders of the firm, and was carried out with three main work steps, which culminated in three joint workshops moderated by the consultant Michael Hirt.
  - Workshop 1: Creation of the factual basis and preparation
  - Workshop 2: Discussion of the factual basis and brainstorming of strategic options
  - Workshop 3: Consideration and decision on option(s) to be implemented and development of the corresponding action plan

## Excursus: Some Important Considerations, When Developing Strategies for Family-Owned Companies

Family-owned and -managed companies are very complex entities and in fact, very few of them are able to last for many generations. The main reason is, beyond the challenges of business success in themselves, that each family member can take up to three roles in the context of a family-owned company, often with overlaps which add another level of complexity, and this can create a number of conflicts, that have the potential to undermine and eventually destroy an otherwise commercially successful company. These three roles are, the role of a shareholder, the role of a manager and the role of a family member.

An additional level of complexity is brought in by the fact, that everything related to family is, for most people, a highly emotional topic, but that business enterprises should mostly be run on the basis of rational precepts.

The key reason for failure of family-owned companies, at the institutional level, is that conflicts and problems which are to be reasonably expected (because they are bound to happen and have happened in the past in similar environments), are not foreseen, and no appropriate mechanisms are proactively put in place, before the situation actually happens, to ensure proper succession planning, conflict management and leadership of the family-owned company.

Just a couple of examples of typical conflicts that can arise in family-owned companies: Father-Son-Conflicts (or similar conflicts, independent of gender, between a matriarch or patriarch and their children); Rivalry between siblings; Fractioning into different competing family groups; Alienation, the common purpose is lost and the different and competing self-interests of different family members and of different family groups, pull the company apart.

From the observation of the writer of this case, the following success factors make a very positive contribution to the probability of a family-owned company to last for several generations:

- A healthy pragmatism and business orientation that understands that a profitable business with clear competitive advantages and a strong market position is the basis of everything else and that the considerations of the business have to take priority over the interests of the family, and especially the interests of individual family members. (“Don’t kill the goose that lays the golden eggs.” On the contrary, treat the goose and eggs well so that they become many more great geese.)
- An understanding that family interests have priority over the interests of individual family members.
- A constant and proactive effort to make sure that potential conflicts between company interests, family interests and individual interests are recognized as early as possible and appropriately addressed, so that key members of the family keep supporting the success of the company, not only at a rational level, because it suits their self-interests, but also at an emotional level.
- A constant and proactive effort to make sure that all key family members are sufficiently in agreement about values, traditions to be maintained, objectives and roles, so that they continue to support the company.
- Governance structures and rules which help to foster and develop the family company and keep the family together, but which can be flexibly adjusted to accommodate a changing environment, and new situations and challenges. Structures and rules should be seen as pragmatic tools, to achieve the ultimate goal of the success of the family company and the family. They should be tools that can be adjusted or changed, if the necessities require it and should not be tyrants, but servants.
- Good manners, courtesy, tact, and diplomacy.

It is clear, that this is a tough brief, that requires strong personalities with a lot of wisdom, and exceptional emotional intelligence and interpersonal capabilities, ideally at least one such person in every generation. This is not easily realized.

From the practical standpoint of a consulting project that is aiming to develop a strategy for a family-owned business, together with the family owners and managers, clear precepts can be derived from the above considerations:

- Business Strategy first. In a first step, the business must be analyzed in a most rational and business-oriented way and its market position and strategic potential and options need to be clearly understood. In this first step, family interests and individual interests of family members have to step into the background, so that a proper analysis and basis for the next step can be established.
- Family Strategy second. In this second step, a family strategy needs to be taken into consideration, which evolves around five key considerations, listed here in a rough order of priority, which have to be carefully balanced:
  - Securing the long-term prosperity and existence of the company (“the goose”).
  - Further developing the company, increasing its value and strength.

- Keeping the family together to make sure, that key family members continue supporting the company.
- Providing personal fulfillment to individual family members, e.g. interesting positions in the company, or via other means, in- or outside the company.
- Providing adequate financial security and financial means and possibilities to family groups and individual family members.

A good old Austrian proverb cautions “not to put the cart in front of the horse” (“Man soll den Karren nicht vors Pferd spannen.“) and this is also sound advice in the context of strategy development for family-owned and -managed companies. So, business strategy first, family strategy second.

Of course, when the business strategy is analyzed with the family members, it is not totally possible in practice to exclude considerations of family interests and individual interests of family members to “creep in”, at least “between the lines”, or in some sort of “camouflage”. It is one of the key roles of a good consultant to recognize this, and to make sure, with appropriate interventions and diplomacy, that the analysis stays on a rational and fair course, to provide a good basis for the discussions and decisions of the three family owners.

## Making it happen

### Workshop 1: Creation of the factual basis and preparation - July 2004

In July 2004 a Preparatory Workshop (Workshop 1) was held between the three family owners Wolfgang, Christoph, Florian and the consultant Michael Hirt. Prior to this Preparatory Workshop, Michael Hirt held individual interviews with each of the three owners, to better understand their personal priorities and objectives and to deepen the personal rapport with them. The main objective of the Preparatory Workshop was to jointly agree on a research and analysis agenda and workplan in preparation of Workshop 2.

One of the key concepts that needs to be carefully evaluated in the context of developing a strategy, especially a growth strategy, for a company, is the concept of “Strategic Room for Maneuver” (“Strategischer Spielraum”). Strategic Room for Maneuver is a concept developed by Michael Hirt, from his experience that many companies and organizations are not very good at objectively assessing their own strengths and weaknesses, and somehow work under the conscious or unconscious assumption, that they have all the resources and capabilities to implement any given strategy.

But experience shows that this is not the case. A strategy which, for example promises fantastic growth, may be very suitable to company A, but highly unsuitable for company B, although these companies are in the same industry, and maybe from the outside, even look fairly similar. But if one takes a closer look and compares the Strategic Room for Maneuver of the two companies, maybe only one of them has the resources and capabilities to make the strategy happen in reality.

Therefore, at the beginning of a strategy project, it has proven to be a good analytical step to make a high-level analysis of the Strategic Room for Maneuver of the client company in two key areas: financing capability for a growth strategy and management & team motivation and capability for a growth strategy. The key question is whether the Strategic Room for Maneuver is already large enough or whether it is necessary to improve the financial, team and management capabilities, before the company engages in a growth strategy.

Further points of analysis which were agreed in the preparatory meeting: (1) An analysis of the trends and competitive forces in the jewelry and luxury goods business, in Austria, Europe and internationally. (2) A customer analysis of the relevant existing and potential customers of/for La Maison Köchert, both in Austria and internationally. (3) An in-depth analysis of La Maison Köchert resulting in a clear perspective and evaluation of its strengths, weaknesses, threats and opportunities. (4) A competitive analysis of the relevant existing and potential competitors of La Maison Köchert, both in Austria and internationally.

The research included both desk research and putting together of external and internal information and data, but also practical research and gathering of intelligence, such as with physical store checks of competitors and interesting companies, also outside of Austria. On that basis were created brief written research reports, which then formed the basis for discussion in the Workshops.

Most of the research, including the writing of the reports, was done by the owners themselves, based on agreed-upon structures and research approaches jointly developed with the consultant Michael Hirt. This not only had the major advantage, to make sure that the owners and final decision makers really take ownership of the research results and decisions based on these results (“self discovered logic”), but also had the additional advantage, of being cost-effective from the perspective of the financial investment in the consulting process.

## **Workshop 2: Discussion of the factual basis and brainstorming of strategic options - October 2004**

Workshop 2 was centered around two key activities. Firstly, to review the results from the research agreed in the Preparatory Workshop and to jointly draw conclusions from the research results for the possible strategy and available strategic options. Secondly, to jointly brainstorm strategic options, make a first prioritization and agree on the next steps to analyze the high priority options.

It was concluded in the Workshop that the Strategic Room for Maneuver for a growth strategy was available in principle, but that a number of precautions and measures would have to be taken to protect and enlarge it. These action points were immediately integrated into the regular management agenda of the company.

With the overall objective of the project in mind, i.e. to develop and implement a growth strategy to successfully integrate Florian into the firm, roughly 20 high level options for a strategy were jointly developed in the Workshop.

These options were roughly described and jointly prioritized according to a pre-agreed list of high-level criteria, including:

- Strategic fit: How well does the strategy fit to the competitive and customer environment and trends? Is there an opportunity to achieve uniqueness and competitive advantages for La Maison Köchert?
- Cultural fit: How well does the strategy fit with the culture and vision of La Maison Köchert?
- Ease of implementation: To what extent does La Maison Köchert have the capabilities and resources to implement this strategy?
- Growth potential: What is the growth potential of this strategy?
- Risk: What are the risks of this strategy?
- Investment: What is the investment required for this strategy?
- Payback: How quickly can the required investment be recovered?
- Flexibility: How flexible is the strategy? How easy is it to change course or readjust the strategy?
- Contribution to the family strategy (short and medium term): What is the contribution of the strategy to the Family strategy in the short medium term? Is the strategy promising and robust enough to support the well-being and financial requirements of three family branches (Wolfgang, Christoph, Florian)?
- Contribution to the family strategy (long term): Is the strategy creating and/or improving the future development and growth platform of the company?

The result of Workshop 2 were 2 main strategic options, which looked, from a first level discussion, very promising, because they appeared to rank very high according to the criteria listed above (“main strategic options”). One of these 2 main strategic options, was the option to open a dependance in another Austrian town. Two towns, Salzburg and Linz, were identified as high priority locations to be further investigated. The other strategic option focused on the further development of the well-known and popular Sisi stars as a standalone business division.

A further 5 strategic options were identified, which could potentially also be attractive, but in the first level discussion, there were more open questions, whether these strategic options would provide enough potential on a standalone basis (“parallel strategies”).

A further 4 strategic options were identified, which appeared to be supporting options, which looked to provide interesting business opportunities, but most likely did not have enough potential on a standalone basis (“additional strategies”).

For a further 9 strategic options, it was decided, already in Workshop 2, that at this stage, they would not be further pursued.

It was then discussed in the Workshop what further analysis of the main strategic options and parallel strategies, in total 7 options, had to be done, including market inquiries and research, to generate a solid decision-making basis for the owners, to decide on the option to be implemented.

Again, most of the research and inquiries, was done by the owners themselves, based on agreed-upon questions, structures and approaches jointly developed with the consultant Michael Hirt. The research work on the 7 options concerned was roughly equally divided between the three owners.

Concerning the main strategic option to open a dependance in another Austrian town, Salzburg was seen as the most promising option. The following key questions were defined for further research and inquiry about this option:

- Are suitable locations for rental available?
- What would be the real cost for a new location, including capital expenditures and operating costs?
- How long would it take from taking over the location to the first sales revenues?
- What would be a break-even sales volume?
- What would be a rough marketing plan, especially the target group, product range, price positioning, set up of the place, and promotion strategy?
- Who would form the team of the new location?
- What are the key challenges for the implementation?
- What are potential showstoppers, i.e. events or information that would stop us from pursuing that strategy?

For each of the remaining 6 strategic options, similar questions and inquiries were defined, to be researched until Workshop 3.

### **Workshop 3: Consideration and decision on option(s) to be implemented and development of the corresponding action plan - April 2005**

“Chance favors the prepared mind.” said Louis Pasteur, and this also applied in our case.

When Wolfgang, who was responsible for researching the strategic option to open a dependance in Salzburg, made his inquiries, it came to his attention through his network, that on Alter Markt 15 in Salzburg, there was a jewelry store with an owner who wanted to retire, but did not have a successor. There had been some loose contacts in the past with this owner, who had been somewhat reluctant to engage in more substantive discussions, but now it appeared that there was an increased sense of urgency with the current owner of the store.

Interesting luxury retail locations with reasonable prices and investment requirements are extremely rare to be available in the center (Altstadt) of Salzburg. When the result of the research and inquiries on the 7 strategic options (main and parallel strategies) was presented in Workshop 3, the option to open up a dependance in Salzburg was clearly favored vs. the second main strategic option, and next steps, including the development of a more detailed business plan and the opening of more concrete discussions with the current owner of the lease, were decided. The project

“Salzburg” was defined as a high priority project and the work on it was now a joint effort of Wolfgang, Christoph and Florian.

Most of the other 9 remaining strategic options (parallel and additional strategies), which were presented and discussed in Workshop 3, were further developed and market-tested with different timetable priorities over the next couple of years, and a handful of those resulted in very nice additions or even new business fields or product lines of La Maison Köchert.

Eventually, La Maison Köchert was able to secure the lease on Alter Markt 15 in Salzburg starting in 2005. Florian became the general manager of the store and moved to Salzburg. The store was refurbished and opened for business in new splendor in 2005.

## The Results

Under the leadership of Florian, Köchert Salzburg has been very successfully established among the local and international clientele in Salzburg and has established itself as a successful unit of La Maison Köchert. In 2022, it was possible to further expand the location in Salzburg and to enlarge and refurbish the store, to take it to the next level.

Through their strong local network and reputation in the Austrian business community, the Köchert’s were able to get privileged access to this opportunity in Salzburg. Through their preparation and thinking ahead in the strategy project, they could then move very fast to capture this, probably, unique opportunity.

Due to the structure of the strategy process, which clearly separated the requirements of the business strategy from the requirements of the family strategy, to allow for a structured discussion and finding of a mutually suitable solution, the strategy enabled the interests of the different owners to be adequately taken into account.

## Looking Ahead: The Next Generation

Christoph has four children, Wolfgang has three children, Florian has two children. What follows are brief biographies of the two eldest of the children from this group of eight children, that are of the age and professional development that their joining La Maison Köchert becomes a serious consideration.

Emanuel Köchert, born in 1986, is the eldest of Wolfgang’s three children. After graduating from high school in Vienna, including with an additional goldsmith apprenticeship, he gained a BA in Industrial Design & Technology at the Brunel University London. Since then, Emanuel has gained substantial international work experience (Finland, UK, Austria, Vietnam, Germany, Switzerland) working in leadership positions in entrepreneurial companies in the new economy, including Smartly.io, Rocket Internet, Lazada Group and CupoNation.

Constantin Köchert, born in 2001, is the eldest of Christoph’s four children. He graduated from high school in Vienna with an additional goldsmith apprenticeship. Constantin is currently studying business administration at the University of St Gallen in Switzerland. He has already gained professional experience in the jewelry sector by absolving two internships with jewelers outside La Maison Köchert and three internships at La Maison Köchert. He also recently gained experience in social media marketing with an international business network dedicated to the promotion of the performing arts.

## Teaching Notes: Questions for Class Discussion and Reflexion (II)

After reading the entire case, please reflect upon the following questions and discuss them in class with your colleagues and your professor:

- What do you think about the path to the solution? Was it an appropriate path? What ideas for improvements do you have for this path? How would you approach the solution of such a problem as an external consultant?
- If you put yourself into the shoes of a family member that would like to join the family business, what did you learn from the case?
  - What would be helpful strategies, tactics and behaviors for achieving your goal?
  - What would be detrimental strategies, tactics and behaviors for achieving your goal?
  - Do you think you should let the concerns of Wolfgang and Christoph, discourage you from proceeding to achieve your goal?
  - What kind of personal characteristics and personal and professional competencies, experience and achievements would be helpful for you to have for achieving your goal?
  - Under which circumstances should you insist and continue to pursue your goal and under which circumstances should you desist, stop to pursue your goal, and pursue a further development of your career outside the family company?
- After reviewing the biographies of the two featured members of the next generation, what do you think is the prima facie likelihood of them eventually joining La Maison Köchert?
- If you put yourself in the shoes of Wolfgang, Christoph and Florian, what could you do to increase the likelihood of the two featured members to eventually join La Maison Köchert? What could you do to decrease the likelihood of the two featured members to eventually join La Maison Köchert?
- What would therefore be a good action plan and tactics, for Wolfgang, Christoph and Florian, if their aim is that Emmanuel and Constantin join La Maison Köchert?

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Dr. Michael Hirt prepared this case. Funding for the development of this case was provided by the Association les Hénokiens. This case was developed solely as the basis for class discussion. The case is not intended to serve as endorsement, source of primary data, or illustration of effective or ineffective management.

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## **Exhibits**

Exhibit 1: The A.E. Köchert Stores in Vienna and Salzburg

Exhibit 2: The three Köcherts currently running the firm

Exhibit 3: Timeline – Development of La Maison Köchert 1814 - Today

Exhibit 4: Genealogy, Ownership and Management of La Maison Köchert

Exhibit 5: Product Range of La Maison Köchert

Exhibit 6: Illustrious Clients of La Maison Köchert

Acknowledgements

**Exhibit 1: The A.E. Köchert Stores in Vienna and Salzburg**



**Figure 1 A.E. Köchert Store at Neuer Markt 15 in Vienna.<sup>2</sup>**



**Figure 2 A.E. Köchert Store at Alter Markt 15 in Salzburg.<sup>3</sup>**

<sup>2</sup>Source: <https://www.koechert.com>

<sup>3</sup>Source: <https://www.koechert.com>

**Exhibit 2: The three Köcherts currently running the firm**



**Figure 3 Christoph, Florian and Wolfgang Köchert in front of their main store in Vienna.<sup>4</sup>**

<sup>4</sup>Source: Juwelier A. E. Köchert: 200 Jahre alt und "ganz leise" (<https://www.derstandard.at/story/2000007442787/juwelier-a-e-koechert-200-jahre-alt-und-ganz-leise>)

### **Wolfgang Köchert**

Wolfgang Köchert is Managing Director of A.E. Köchert Juweliere. After finishing school in Bad Ischl, Austria, he started his goldsmith apprenticeship in the family firm in 1984. Next to successfully finishing his master craftsman's examination in goldsmith, silversmith, and jeweler trade, he also holds a diploma as a European gemmologist. After his apprenticeship he deepened his knowledge in his field of work by gaining experience with jewelers and gem traders in Belgium and the United States before becoming Managing Director of A.E. Köchert in 1990. In the year 2011/12 he has been President of the Rotary Club Prinz Eugen in Vienna. Next to his work in the family firm and his service club, Wolfgang Köchert also is a passionate sailor, was Austrian state champion and several times vice state champion in the star boat class, likes to spend time in the mountains and is interested in classic cars and contemporary art. He is married, has three children and lives with his wife Sabine in Vienna.

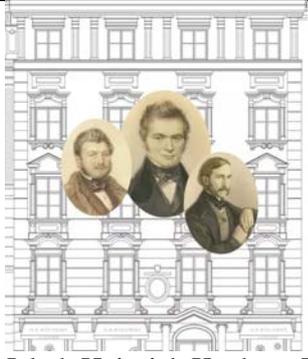
### **Christoph Köchert**

Christoph Köchert is Managing Director of A.E. Köchert Juweliere. After finishing school followed by working as a tour guide on a guest ranch in the Rocky Mountains and military service in Austria, he studied Commercial Sciences at the Vienna University of Economics and Business Administration and graduated with an MBA (Master of Business Administration, Mag.) in 1992. Christoph Köchert has been Managing Director since 1990 but has already been working in the company during his goldsmith apprenticeship years from 1984 until 1986 and after that as member of staff until 1990. In that time, he also gained a broad experience in his field through working at jewelers and gem traders in South Africa and New York. From 1995 to 1996 he was avocational Managing Director of a large-scale exhibition project "Kunde:Kaiser" at Schönbrunn Palace, which presented the history and present of the 25 most important court suppliers still in existence on the occasion of Austria's 1000-year anniversary. Together with his wife he is very active in the catholic community of Vienna, develops and organizes lecture series and marital seminars and has been the President of the Rotary Club Wien West in 2018/19. In 2001, he became the chairman of the „Der Neue (!) Markt“ association, a club promoting and fostering the “Neuer Markt” shopping district of Vienna and the surrounding area. Since 2022, he also is member of the board of the Association les Hénokiens. He is married to Anna and lives with her and their four children in Vienna.

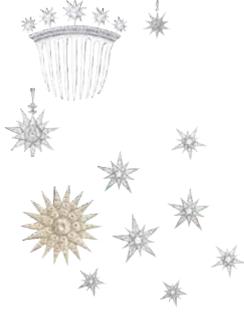
### **Florian Köchert**

Florian completed his A-Levels at Ampleforth College boarding school (York, UK) where he developed a deep passion for Art & Design at an early stage. He studied History of Art and European Literature at the University of East Anglia in the United Kingdom, graduating with Honours in 1999. He continued his studies at the School of World Art Studies Sainsbury Institute of Visual Arts by completing his Master's Degree in the following year. His successful studies and degrees allowed Florian Köchert to gain further experience via various apprenticeships, including in the jewelry department of Christie's Auctions London, the Austrian Academy of Science in Rome and in the position of assistant to the director of the Museum Moderner Kunst Stiftung Ludwig Wien. In 2002 he started a three-year traineeship at his family's jewelry business, A.E. Köchert Juweliere in Vienna, a gemology course in Linz and a sales apprenticeship for watches and jewels. In 2004 Florian Köchert successfully completed his certified examination as a goldsmith and as a retail salesman and won the Juvenarta next Gen. Design Award in jewellery design. In 2005 he ventured into opening A.E. Köchert's second store in Salzburg, which he has run ever since. He is interested in hunting and vintage motor cars. Florian is engaged to Carlotta Heubach and they live with their two children in Salzburg.

**Exhibit 3: Timeline – Development of La Maison Köchert 1814 - Today**

	<b>Historic Events</b>	<b>Köchert History Milestones</b>	<b>Typical Example of Köchert Jewelry of that Period</b>
1814	Congress of Vienna.	Frenchman Emanuel Pioté opens up a goldsmiths' workshop in Vienna. Thanks to his artistic enameling work, it is not long before Pioté acquires an outstanding reputation.	 <p>Jakob Heinrich Köchert, Emanuel Pioté, Alexander Emanuel Köchert.</p>
1815	Battle of Waterloo: Napoleon exiled to St. Helena.		
1819	Carlsbad Decrees.	Jakob Heinrich Köchert, originally from Riga, applies to work for Pioté. He marries the Frenchman's sister-in-law, and soon becomes a partner in the ambitious goldsmiths' business. Köchert brings the art of mounting large gems with him from St. Petersburg, where he has spent his years as an apprentice.	 <p>Cross pendant: gold and emeralds, c. 1820.</p>
1827	Greek War of Independence: The Treaty of London between France, Britain, and Russia, demands that the Turks agree to an armistice in Greece.	Prince von Metternich, the most important client – and mentor – of “Pioté et Köchert”, sends a valuable arm-band to the lady who has captured his heart, the Duchess of Lieven, with the words: “To the things one manages to achieve in Vienna in style, belongs everything to do with jewelry and precious stones.”	 <p>Flower tiara: diamonds, c. 1840 Duchess of Lieven with jewelry from Pioté und Köchert, c. 1820 Tag: „Pioté &amp; Köchert, Joailliers de la Cour de S.M.I. &amp; R.“</p>

1831	The New England Anti-Slavery Society is formed by abolitionist William Lloyd Garrison in Boston.	The Austrian Emperor Franz I – the “Kaiser”- commissions the ambitious company to produce a gold box for the Turkish ambassador. A year later, the coveted honorary title of “Kaiserlich Königlicher Hofjuwelier”, or “Imperial Royal Court Jeweler” is bestowed upon Pioté and Köchert.	 <p>Gold box engraved, c. 1830.</p>
1838	The first steamship from Europe arrives in New York Harbor. Start of scheduled steamship service across the North Atlantic between England and New York. Compared to a sailing ship, the travel time is reduced by half.	Production of the imperial insignia to mark the coronation of Kaiser Ferdinand as King of Lombardy-Venetia.	 <p>Emperor Franz I, 1832 Emperor Ferdinand I, ca. 1838 Design: Orb of Lombardy-Venetia by Peter Fendi c. 1838.</p>
1844	Samuel Morse sends the first telegraphic message in the Morse alphabet from Washington, D.C. to Baltimore.  Charles Goodyear is granted a patent for the vulcanization of rubber.	Alexander Emanuel Köchert joins the company. Under his stewardship, Köchert is destined to become one of Europe’s foremost jewelry houses. To this day, every piece of jewelry which leaves the workshop at the company’s headquarters on Neuer Markt is hallmarked with his initials, “AEK”.	  <p>Brooch and earrings: Gold, c. 1835; hallmark AEK.</p>
1848-1849	Revolutions across Europe.	Not quite 50 years after its founding, the company Köchert is already about to reach its first high point: Kaiser Franz Joseph appoints Jakob Heinrich Köchert as his personal jeweler – the Imperial Royal Court and Chamber Jeweler.	 <p>Picture frame: Franz Joseph I, enamel, various gemstones, 1873.</p>

1854	Crimean War	Six years after his coronation as the Austrian Kaiser, Franz Joseph marries the ravishingly beautiful Princess Elisabeth von Bayern. That same year, Alexander Emanuel Köchert takes over the management of the company from his father.	 <p>Empress Elisabeth with diamond stars from La Maison Köchert, 1865.</p>
1858	British Crown takes control of India from the British East India Company and makes India a British colony in 1862.	Kaiser Franz Joseph commissions Köchert to create a set of 27 diamond stars for Elisabeth – “Sisi” – which the Kaiserin has artistically plaited into her hair. By doing so, Sisi triggers a fashion throughout Europe: suddenly, stars are <i>en vogue</i> wherever one looks.	 <p>Design drawings and photos: diamond stars of Empress Elisabeth, c. 1860.</p>
1870	Franco-Prussian War; proclamation of German Empire.	As the Chamber Jeweler, Alexander Emanuel Köchert is also entrusted with the supervision of the Imperial treasury. Under his guidance, the Austrian imperial crown is furnished with an intricate edging of pearls. By doing this, Köchert completes the previously unfinished imperial regalia.	 <p>Austrian imperial crown, completed by Alexander Emanuel Köchert in 1870.</p>
1880	<p>Thomas Alva Edison is awarded U.S. patent number 223898 for his invention of a better light bulb.</p> <p>Vincent van Gogh makes the decision to become a painter.</p>	Heinrich and Theodor Köchert take over the helm at the company – the third generation of the family to do so. Something like 50 goldsmiths are now creating outstanding, much-admired tiaras and necklaces at La Maison Köchert. By now, Köchert is being mentioned in the same breath as the other great jewelers of Europe, such as Mellerio, Bucheron and Cartier.	 <p>Brooch: rubies, diamonds, pearl, c.1890.</p>

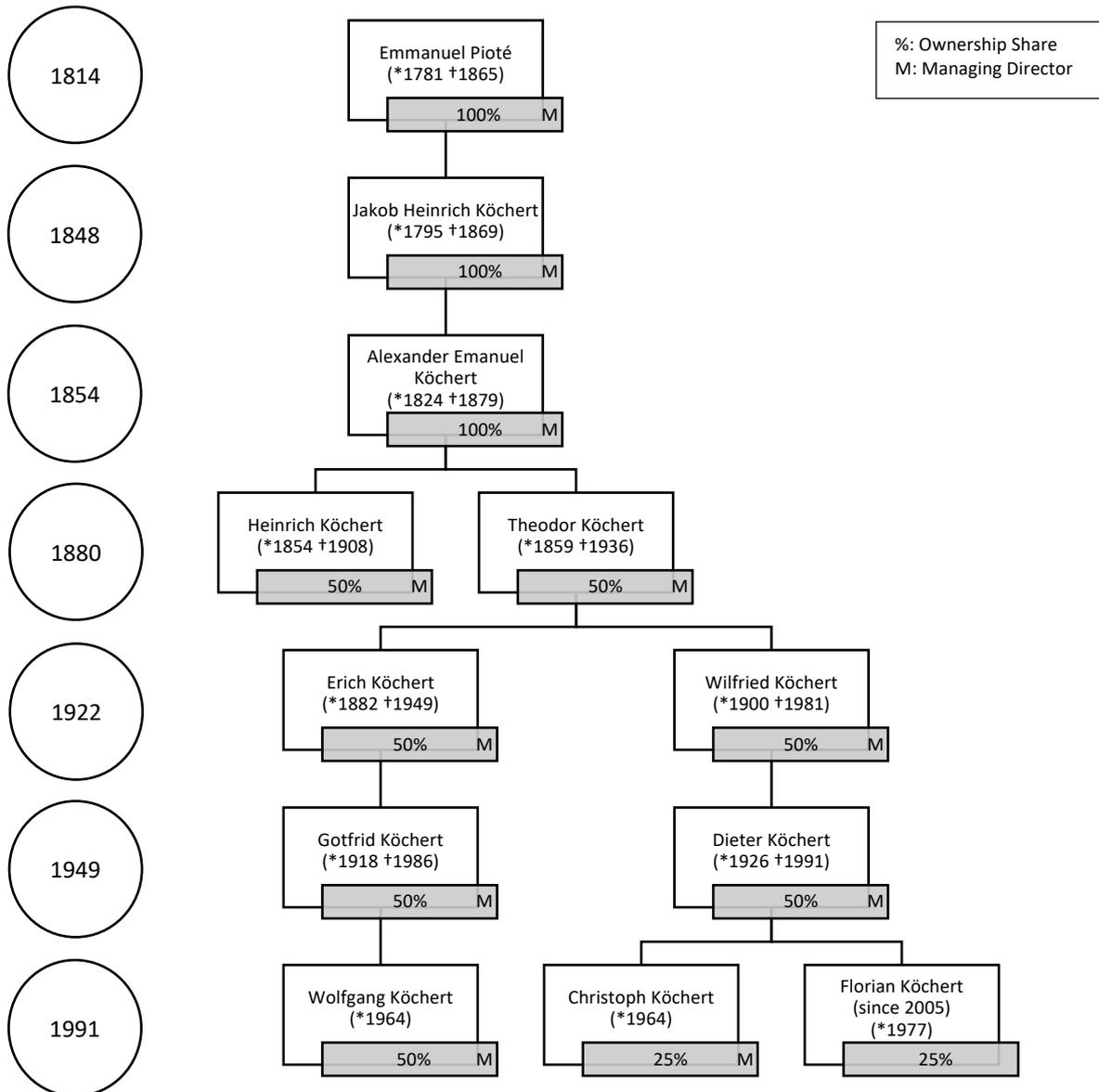
1908	<p>The first Ford Model T is produced in Detroit.</p> <p>The Frenchman Henri Farman achieves the first powered flight over a distance of more than one kilometer with his Voisin bi-plane. He was awarded the Grand Prix d'Aviation for this achievement.</p>	<p>As the Ottoman Empire gradually collapses, a series of new monarchies, such as the Tsardom of Bulgaria, begins to emerge along Europe's eastern border. The crown jewels of the new tsardom are ordered from Köchert. An exquisite tiara of lilies is produced for Tsarina Maria Louisa, who has originally been born into the Bourbon family.</p>	 <p>Maria Louisa of Bulgaria; design drawing: tiara of lilies for Tsarina Maria Louisa of Bulgaria, c. 1910.</p>
1916	<p>The Battle of Verdun (WW I) begins.</p>	<p>The death of Kaiser Franz Josef at the height of World War I heralds the end of an era. His successor, the young Kaiser Karl and his wife Zita, order a vast array of pieces of jewelry of all shapes and sizes featuring their initials from Köchert. These are used to honor personalities deemed worthy, or serve as gifts for guests at the royal household.</p>	 <p>Design drawing: Karl and Zita armband; "K" armband: gold, enamel and diamonds, gift to guest from Kaiser Karl, c. 1915.</p>
1928	<p>Bacteriologist Alexander Fleming accidentally notices that one of his staphylococcus cultures, in which molds of the genus Penicillium have gotten into, has been killed. His further investigations lead to the development of the antibacterial substance penicillin.</p>	<p>As a consequence of the break-up of the Ottoman Empire, Albania, too, becomes a monarchy. The country's new rulers desire sufficiently prestigious jewelry, and turn confidently to the Kaiser's jeweler to fulfil their needs. King Zogu's crown, along with a tiara for each of his six sisters, are created by La Maison Köchert.</p>	 <p>Cigarette case: gold and enamel, design by Erwin Lang, c. 1930; design drawing: Capricorn tiara for the wife of the Albanian king, c. 1930.</p>

<p>1945</p>	<p>End of WW II. Germany and Austria are divided into occupation zones.</p>	<p>The Second World War, and subsequent construction of the Iron Curtain just a few kilometers east of Vienna, prove to be further major turning-points for La Maison Köchert. It means important markets are lost overnight – while at the same time, new opportunities are born with the beginning of mass tourism.</p>	 <p>Brooch: diamonds and pearls, design by Erwin Lang, c. 1948.</p>
<p>1989</p>	<p>Fall of the Berlin Wall: anti-communist revolutions across eastern Europe</p>	<p>Following the untimely deaths of their fathers (in 1986 and respectively 1991), cousins Wolfgang and Christoph step in and take over responsibility for the destiny of La Maison Köchert in 1991. Working on the basis of a long history in jewelry, they develop a new, classically Köchert style; “Sisi’s Stars” are revived using the original designs, and prove to be a triumph. But there’s more: the Köchert watch is introduced.</p>	 <p>Köchert watch: 18kt gold, available since 1995          “Kaiserin Elisabeth“ diamond star, 2014          Christoph, Wolfgang and Florian Köchert.</p>
<p>2005</p>	<p>Angela Merkel becomes German Chancellor, George W. Bush begins his second term.</p>	<p>A second store opens in Salzburg under Florian Köchert’s management in 2005.</p>	 <p>Florian Köchert in front of the new store in Salzburg.</p>

<p>2022</p>	<p>Russian invasion of Ukraine, followed by a mass exodus, worldwide protests, and sanctions against Russia.</p> <p>Incumbent President Emmanuel Macron is elected for a second term in France's presidential election in a runoff against Marine Le Pen.</p>	<p>After overcoming the challenges of operating through a huge building site lasting three years, Neuer Markt in Vienna rises from the ashes in all its new splendor. It is quickly restored to its rightful place as one of the most beautiful spots in central Vienna.</p> <p>Also in 2022, it was possible to further expand the location in Salzburg and to enlarge and refurbish the store, to take it to the next level.</p>	 <p>Neuer Markt in Vienna.</p>
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Source: <https://www.koechert.com>

**Exhibit 4: Genealogy, Ownership and Management of La Maison Köchert**



**Exhibit 5: Product Range of La Maison Köchert**

In the studio on the first floor of A.E. Köchert's headquarters in Vienna, goldsmiths meticulously handcraft individual pieces based on designs by designers. Following a cherished tradition, A.E. Köchert also commissions interesting contemporary artists to reinterpret jewelry and let their signature speak in precious pieces.

A small overview of A.E. Köchert typical jewelry pieces, as well as Made to Measure unique pieces are shown here.

**a) Made to Measure**

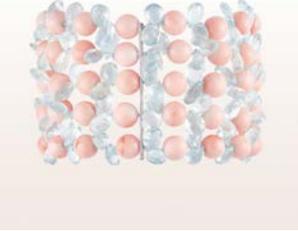
Show Pieces	<p>For the aristocracy and bourgeoisie of the 19th century, magnificent tiaras were the highlights and show-pieces of the family jewelry. Invitations to grand balls and wedding soirées would often include the words “diadème si possible”, and there was a veritable “tiara boom” between 1880 and 1918. These pieces of jewelry didn’t just embellish the ladies in question tremendously; they were also popular statements, designed to underline a family’s social status and importance.</p> <p>Today, in the 21st century, tiaras are enjoying a renaissance.</p>	
Engagement Rings	<p>Many newly-engaged couples pay homage to this hugely personal decision with a piece of jewelry that is equally special and individual to them. Together with our specialists, they create an engagement ring according to their individual ideas that speaks its own very special language.</p> <p>Feelings, mutual experiences, visions of a shared future together – all these things and more can be expressed in an unmistakable piece of jewelry.</p>	
Signet Rings	<p>Our clients like to give signet rings to loved ones as one part of a rite de passage, to mark a new chapter in life – as the education of a young member of their family’s draws to a close, for example. This can help with the process of breaking free from the parental home, as it remains a sign that the young person in question continues to belong to that whole and remains closely bound to other family members.</p>	

<p>Stone Portraits</p>	<p>Jewelry has a strong emotional dimension, and in contrast to people and feelings, it lasts forever. Portraits in stone make it possible us to remember much-loved people in our lives – forever. It can do just the same thing for us with family pets and animals close to our hearts, the things we love and hobbies we follow with a passion.</p>	
<p>Honors &amp; Distinctions</p>	<p>Would you like to honor extraordinary performance with an undeniably unforgettable gift?                  Pieces of jewelry that distinguish those receiving them have a long and proud tradition for us.</p> <p>Examples include the Sub Auspiciis Praesidentis rings, which were being referred to as Sub Auspiciis Imperatoris at the time of the Kaisers.</p> <p>Today, just as then, university graduates who have performed uniquely well are honored.</p> <p>Then there is the Philharmonic Ring, which the world-famous orchestra presents to personalities deemed deserving of such an honor.</p>	

**b) Collections**

<p>Haute Joaillerie</p>	<p>For two centuries, subtle precious stones – and the opulent pieces of jewelry we use to produce them – have been our passion. And that’s one thing of which we’re absolute certain – they will always be there, the great occasions and major life events which are honored and celebrated with such jewelry.</p>	
<p>Sisi Stars</p>	<p>The stars of Kaiserin Elisabeth are one of the most famous sets of jewelry ever to have emerged from Austria. Sisi owned no fewer than 27 of these diamond stars, which she could wear as a necklace, tiara, pendant, brooches or as hair adornments.</p> <p>Alexander Emanuel Köchert, the Royal and Imperial Court and Chamber Jeweler, designed and produced the stars for the Kaiserin. In an homage to a remarkable woman, we have revived Kaiserin Elisabeth’s stars according to</p>	

	<p>the original designs. Like their predecessors, they can be worn as brooches, pendants and hairpins.</p>	
<p>X-Changeables</p>	<p>La Maison Köchert’s ambition has always been to create jewelry that the wearer could wear in a range of different ways. A diamond necklace that could be transformed into a magnificent tiara with just a few touches, for instance. With our X-Changeables, we take this desire for spontaneous change further still, with drop earrings featuring upper sections and pendants that can be combined as, how and when the wearer feels it should be so.</p>	
<p>Coccinella</p>	<p>In the years leading up to the First World War, the Wiener Werkstätte developed new knotting techniques that suddenly made it possible to attach glass balls to sumptuous necklaces, ear jewelry, scarves and bags. In the 1990s, as more modern polishing techniques began to emerge, we also began using the new and more refined technology to process real precious stones into very special pieces of jewelry that live and breathe the spirit of the Viennese design tradition.</p>	
<p>Hunting Jewelry</p>	<p>All of us at Imperial and Royal Court Jewelers A.E. Köchert have been perfectly conversant with hunting for as long as we can remember – the Kaiser himself was a hugely passionate hunter, after all. As a result, we were able to create a vast array of elegant hunting jewelry for him and his hunting party, using a mix of GrandIn – the rare eye teeth of deer or stags – gold and precious stones. Our mission today? To interpret this proud tradition in a new and modern way.</p> <p>We will be pleased to advise you personally about something you would find truly special when out hunting, and to create unique hunting insignia in accordance with your wishes. Please feel free to bring your GrandIn or other trophies with you when you visit us: we’ll use these to create something genuinely decorative for you to wear while hunting.</p>	

<p>Jade</p>	<p>There's just no end to the positive energy one could communicate about jade. It first gained renown thanks to the Emperors in China, who designated it a "heaven stone". The Aztecs and Mayans also prized jade, considering it even more valuable than gold. They revered the stone as the "stone of love", which was believed to transform friendship into inner love. The Conquistadors named it piedra de ijada – loin-stone – because the indigenous peoples would use it to treat kidney ailments. This is also where the name "nephrite" originated. Jadeite is also part of the jade mineral group, of course.</p>	
<p>Artists &amp; Designers</p>	<p>Part of the Köchert family and company tradition since time immemorial has been for famous artists to drop by at our office on Neuer Markt and create unmistakable pieces of jewelry in fertile collaborative projects with the master goldsmiths working at our studio.</p>	
<p>Stoned</p>	<p>Piercing beautifully-colored precious stones, then threading these, is probably one of the oldest ways we have of adorning ourselves with natural beauty. It's safe to assume Fred Flintstone would have given Wilma necklaces created in this way as a gift on their anniversary.</p> <p>Erwin Lang, whose designs had a huge impact on our company from the 1920s through to the 1960s, re-interpreted this ancient tradition, creating unmistakable colored necklaces, ear jewelry and armbands. Jewelry featuring precious stones has been an enduring component of our collections ever since.</p> <p>It stands out thanks to the virtually inexhaustible number of different ways in which such colors and forms can be combined.</p>	

<p>Gentlemen's Jewelry</p>	<p>Choosing the right gift for a man isn't easy. They rarely wear earrings or necklaces, and when it comes to rings, a wedding ring is often the closest they come to expressing the emotions often contained therein. Pay us a visit, however, and you're sure to come out with an idea or two that could really work for your man. How about cufflinks with colored stone cabochons, for example? Or our best-sellers, the ball cufflinks.</p> <p>Tailor buttons, signet rings or the Köchert watch will also make fabulous gifts for the man in your life. We'll be happy to advise you on selecting a gift as individual as he is.</p>	
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**c) Jewelry Types**

<p>Rings</p>	
<p>Earrings</p>	
<p>Colliers</p>	

<p>Bracelets</p>	
<p>Pendants</p>	
<p>Brooches</p>	
<p>Cufflinks</p>	
<p>Köchert Watches</p>	

Source: <https://www.koechert.com>

**Exhibit 6: Illustrious Clients of La Maison Köchert**

Prince Klemens of Metternich (\*1773 †1859)

Dorothea Princess of Lieven (\*1785 †1857)

Philipp Haas (\*1791 †1870)

Emperor Ferdinand I of Austria King of Lombardy-Venetia (\*1793 †1875)

Eduard Baron of Todesco (\*1814 †1887)

Gustav Knight of Epstein (\*1828 †1879)

Empress Elisabeth “Sisi” of Austria-Hungary (\*1837 †1898)

Karl Wittgenstein (\*1847 †1913)

Emperor Francis Joseph I of Austria-Hungary (\*1848 †1916)

Gustav of Mauthner (\*1848 †1902)

Anton Dreher the Younger (\*1849 †1921)

Katharina Schratt (\*1853 †1940)

Archduke Rudolf, Crown Prince of Austria (\*1858 †1889)

Anna Sacher (\*1859 †1930)

Princess Stéphanie of Belgium (\*1864 †1945)

Richard Strauss (\*1864 †1949)

Emperor Charles I of Austria-Hungary (\*1887 †1922)

Zita of Bourbon-Parma (\*1892 †1989)

King Zog I of Albania (\*1895 †1961)

Geraldine of Albania (\*1915 †2002)

Princess Maria Louise of Bulgaria (\*1933)

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Sources:

<https://www.koechert.com>

[https://de.wikipedia.org/wiki/A.\\_E.\\_Köchert](https://de.wikipedia.org/wiki/A._E._Köchert)

## **Acknowledgements**

This case could not have been written without the most generous cooperation and help of the Köcherts. The author thanks them for nearly two decades of a trusting and successful relationship. All photographs in this case are used with the kind permission of A.E. Köchert Juweliers Gesellschaft m.b.H..

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The logo of the Association les Hénokiens is used with the kind permission of the Association les Hénokiens.

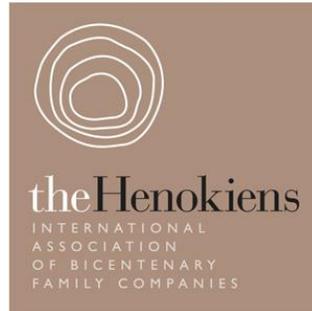
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# The C.Hoare & Co. Case Study

Author : Rania Labaki  
(EDHEC Business School)

# ***The Henokiens Case Collection***



## **Lessons from a 350-year-old banking dynasty**



**Rania LABAKI**



***October 2022***

**Author:**

Dr Rania LABAKI

Associate Professor of Finance and Family Business

Director of the EDHEC Family Business Research Centre

EDHEC Business School, France

Email: [rania.labaki@edhec.edu](mailto:rania.labaki@edhec.edu)

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## Introduction: A 12<sup>th</sup> Generation Family Business that Stands the Test of Time

Over the course of human history, select families have managed to sustain thriving businesses for more than three centuries. Although viewed as legendary institutions, these businesses remain embedded in the communities which they pledge to serve responsibly, on the basis of strong values and long-term focus.

C. Hoare & Co, the oldest family-owned bank in the world<sup>1</sup>, is one of them.

As the economist John Maynard Keynes has put it back in 1938, “The Bank (...) carried on as a family business (...) is uncomplicated by branches, unseduced by amalgamations, undisturbed by any process of change, unshaken by the financial crises of two and a half centuries, being put to no hazard by excessive ambitions or too much talent for ‘guessing’ ” (Keynes, 2010, p. 301).

This reflection still stands in the 21<sup>st</sup> century. Described by *Time Magazine* as “unshakable” (Smith, 2008), by *Spear’s* as “a giant” (Marsh, 2022), by the *Financial Times* as “almost unique<sup>2</sup>” (Murphy, 2018), and by *The Wealth Net* as “a jewel” and “a symbol of unchanging stability and calm” (Pooter, 2016), the Bank celebrating its 350 year-anniversary this year continues to fascinate in private banking and beyond.

“For all that he cared deeply about his new bank, and worried about his successors, the founder, Sir Richard Hoare, could have had no conception that he was establishing a dynasty of bankers who would continue his business (...) for hundreds of years to come” (Hutchings, 2005, p. 228). Since its inception in 1672, C. Hoare & Co. is still owned and run by the founder’s descendants. Seven Partners from the 11<sup>th</sup> and 12<sup>th</sup> generations currently perpetuate the banking dynasty on an unlimited liability basis. As Alexander Hoare, 11<sup>th</sup> generation Chairman of partners and former CEO, explains: “This bank has sustained itself for 350 years without any outside capital and along the way has given back huge amounts to the community, so I think we have been a net positive for society for 11 generations.” (Marsh, 2022).

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<sup>1</sup> According to *Spear’s* (2022).

<sup>2</sup> In that its founding family owners have unlimited liability for all its actions.

What are the lessons the Hoare Banking Dynasty has to offer on sustaining the family, the business, and their relationships with the community over centuries? In particular, what are the crucial milestones of the dynasty's history, where do the Hoare's distinct strengths lie, and how did the family manage to perpetuate them, weathering multiple forms of crises - ranging from financial crashes to world wars, from industrial revolutions to pandemic outbursts, and from family diverging views to dysfunctional behaviours -?

Exploring these questions, this case study offers a comprehensive analysis of the C. Hoare & Co.'s *Odyssey* by triangulating data from multiple sources, including interviews with family and non-family stakeholders, historical and archival material, academic and professional publications.

The following sections are structured as follows. Part 1 presents a brief account of the history of C. Hoare & Co.'s with selective developments about influential milestones to date. Part 2 suggests a framework of the major factors conducive to the Bank's longevity and success. The last part provides a glimpse into the main learnings and concluding remarks charting the future of the Bank.

This inside look at the past and the present of C. Hoare & Co. delivers inspiring lessons and directions for a sustainable future of families in business.

## Part 1. The Hoare's Banking Dynasty: A Brief Historical Perspective<sup>3</sup>

C. Hoare & Co. is a member of *The Henokiens*, an association of bicentenary family businesses characterized by common values, such as respect for product or service quality and human relationships, the know-how transmitted with passion from generation to generation and the continuous questioning of achievements<sup>4</sup>. Since 1672, the Bank managed to thrive along those lines despite socio-economic, geo-political and family crises, becoming the oldest family-owned and-run in the world. Looking at the rich history of the Hoare's banking dynasty is merely an invitation to reflect on its early beginnings and subsequent milestones, its evolving ownership, management and governance, and its long-lasting philosophy of performance and impact.

### 1.1 From Origins at the Sign of the Golden Bottle ...

Founded at a time when a number of firms made the transition from goldsmith to banker, Hoare's Bank was among the exceptional few in England to succeed and survive the first two decades of the eighteenth century, then to prosper and survive for a long time (Hutchings, 2005; Temin & Voth, 2011).

The Bank started life by Richard Hoare from a base in the goldsmith business in Cheapside, trading gold and silver plate, jewellery, and precious stones at the Sign of the Golden Bottle<sup>5</sup>.

Born in 1648, Richard was raised as the only son of Henry Hoare, a successful horse dealer, in "a household where religion provided the structure and where hard work was expected" (Hutchings, 2005, p. 8).

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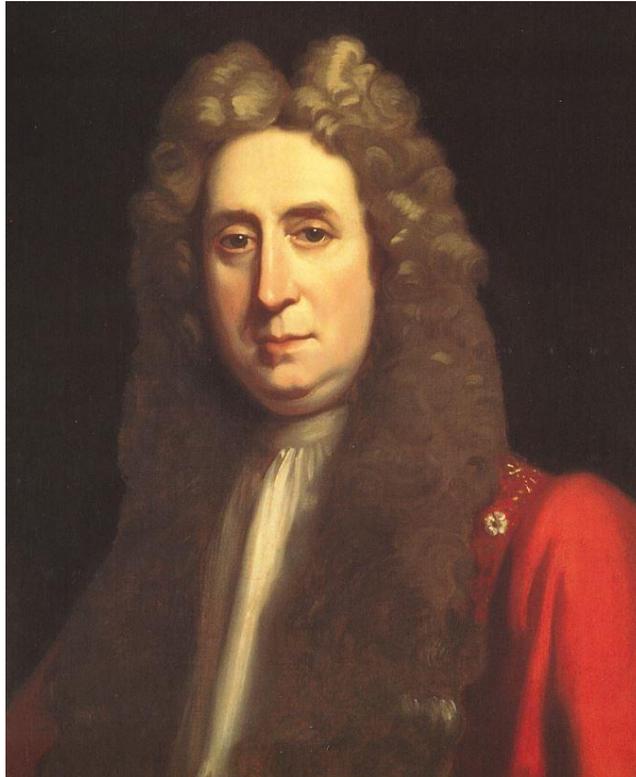
<sup>3</sup> The case is not intended to provide a detailed historical account of the Bank's evolution. For more information, the reader is invited to revert to the book « A History of the Hoare Banking Dynasty » by Hutchings (2005) and to the Bank's website for updates : <https://www.hoaresbank.co.uk/>

<sup>4</sup>Source : <https://www.henokiens.com/>

<sup>5</sup> Recognizable by its sign in the shape of a gold skin in reference to the trade of goldsmith. This insignia is still in use today by C. Hoare & Co.

**Figure 1.**

**Portrait of Sir Richard Hoare, Founder of Hoare's Bank**



*Source: Painted by Jonathan Richardson.  
Picture Courtesy of C. Hoare & Co.*

In 1672, he completed a seven-year apprenticeship and became freeman of the Worshipful Company of Goldsmiths, which permitted him to trade in his own name upon the acquisition of the business from his former Master's widow in 1673 (Hoare's Bank, 1932; Hutchings, 2005). From acting as temporary custodians of valuables which might not safely be carried on their owners' persons and as makers and dealers in gold and silver wares, the goldsmiths have taken up during this period most of the functions of a modern banking house, by lending money out of interest and paying interest to their depositors in most cases (Hutchings, 2005, p. 11; Upton, 1933, p. 74). Richard developed his banking activities in the same line, lending money both with and without interest (Temin & Voth, 2006).

When the constraint of Goldsmiths traditionally based in Cheapside was lifted, the ‘merchant’ bankers moved to Lombard Street and the ‘deposit’ bankers to Fleet Street and its surrounding area, presumably to be close to the lawyers<sup>6</sup>. In 1690, Richard moved to new premises on Fleet Street<sup>7</sup>, one of the most important places for the goldsmiths’ trade in the City of London, which was at that time the largest capital city in Europe (Hutchings, 2005, p. 12). Not only the London move led to an increase in business (Hutchings, 2005, p. 15) and the development of valuable and strong connections (Hutchings, 2005, p. 18), but it also allowed Richard to concentrate on banking by offering payment services, loans, and brokerage to the customers (Temin & Voth, 2004, p. 1657). Hoare’s origins as a goldsmith facilitated such a transition because it had an edge in appraising the value of collateral—plate in the majority of cases (Temin & Voth, 2008).

In the early years at least, the Bank provided facilities that allowed out-of-town customers to cash cheques drawn on accounts in London and invested customers’ deposits in mortgages and small-scale government loans (Laurence, 2008). Lending against interest was a main source of profit which was later complemented by proprietary trading (Temin & Voth, 2003) as the Bank started investing on its own account (Temin & Voth, 2004) and acting for customers who wanted to invest in joint stock companies (Laurence, 2008).

Richard involved his sons in the business affairs to different extents, while encouraging them to qualify as businessmen through education, to learn foreign languages, to develop skills in account keeping, writing and spelling, to properly manage their means, and to look after each other’s affairs, while remaining steadfast to the Protestant faith (Hutchings, 2005, pp. 21-22).

Several of Richard Hoare’s sons failed, however, to live up to his expectations, including his firstborn son “Richard Junior”. Although he established him as a merchant trading in the Mediterranean and as his agent, Richard Junior’s bad management combined with poor luck excluded him from the possibility of becoming partner, even leading him to be referred to as “Naughty Richard” (Hutchings, 2005). Richard’s second son, also named “Good Henry”, became partner in 1702. The same year, Richard was knighted by the new sovereign Queen Anne.

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<sup>6</sup> According to the accounts of Michael G. Hoare (2022).

<sup>7</sup> where it still operates to date.

In the course of his lifetime, Sir Richard Hoare’s achievements extended beyond the business arena as noted by Alexander Hoare, “He must have been a remarkable man to evolve a successful banking business from goldsmithing, to be Lord Mayor of London twice and a Member of Parliament, and to socialise with the great and good, including royalty” (Hoare, 2021a).

After his death in 1719, his younger son, Benjamin Hoare, joined Good Henry as partner to pursue the Hoare Bank’s journey.

## **1.2 ...To Subsequent Milestones at the Intersection of the Family, the Business and the Community**

The remaining (and ongoing) chapters of the Bank’s history provide powerful testimonials about the challenges and the achievements of the eleven generations who followed in the footsteps of the founder Sir Richard Hoare. Selected milestones<sup>8</sup> throughout the centuries provide an overview of this evolution.

### ***1720 Completing the Bank transition and riding the South Sea Bubble***

Over the course of a generation, Sir Richard Hoare completed the transition from all-purpose jeweller to banker (Temin & Voth, 2006, 2011). By the 1720s, the partners had ceased to act as goldsmiths, although they continued to offer interest-free loans secured on plate (Laurence, 2008).

The sons of Sir Richard Hoare, “Good Henry”<sup>9</sup> and Benjamin, invested heavily in the South Sea Company, generating significant profits for the Bank and their customers, by riding the South Sea

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<sup>8</sup> The milestones are selected with a focus on the business major developments or changes over time. They do not reflect an exhaustive picture of the family’s achievements within the business and beyond. Whenever not specified, the descriptions provided build mainly on a synthesis from the following sources: Hutchings (2005), The Henokiens and C. Hoare & Co. websites. We invite the reader to refer to the Op. Cit. references for further information about other aspects of the Bank’s history.

<sup>9</sup> For nine generations, epithets allowed to identify the partners named “Henry” by referring to distinct attributes they were renowned for.

Bubble (Laurence, 2008; Temin & Voth, 2004). Their success was mainly attributed to timing the market with considerable skill (Hutchings, 2005).

### ***1725 A third generation and a non-family partner in the Bank***

After Henry's death, his son referred to as "Henry the Magnificent" (for his contribution to Stourhead) started his "reign" which spanned sixty years. The Bank's sole partner at the time - his uncle Benjamin - nominated Christopher Arnold, a senior clerk, to supervise the young man. For the first and only time in the Bank's history, a non-family member was made a partner.

### ***1731 A new knighted partner***

The brother of Henry the Magnificent, Sir Richard, was made Partner. Fifteen years later, he was knighted after serving as Lord Mayor of London, defending London during the second Jacobite uprising<sup>10</sup>.

### ***1743 Shaping "The Paradise of Stourhead": The Hoare's as country gentlemen and good bankers***

The purchase of the Stourhead estate in 1717 and its exploitation in the following decades building on the plans of the mastermind, Sir Richard Hoare, and his descendants (Fox, 2020) - to become what will be referred to as "Paradise of Stourhead"- contributed to propelling the Hoare family from the merchant classes into the landed gentry ranks (Fox, 2020; Hutchings, 2005). At the same time, Stourhead may have been the clue to Henry the Magnificent's meticulous management of the Bank as it was the income from the Bank which made his dreams of paradise on earth become reality (Hutchings, 2005, p. 56).

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<sup>10</sup> Following his death in 1754, his two sons Henry referred to as "Fat Harry" and Richard of Barn Elms succeeded him.

### ***1777 A strict management style that pays-off in uncertain times***

“Henry of Mitcham” was made a Partner, dominating the bank for the next 50 years. He weathered the unsteady period of the American and Continental Wars with a strict management of the Bank’s affairs which paid-off as deposits trebled.

### ***1826 Maintaining the Bank independence***

Private banks lost their monopoly on deposit banking, with many of them sold or converted into joint-stocks banks except Hoare’s Bank.

### ***1852 An unusual partnership agreement conducive to tensions and scandals***

Brothers-in-law by marriage, Peter ‘of Luscombe’ and Henry ‘of Staplehurst’ entered into a new partnership agreement which lasted 14 years. Although they had differing religious views, they managed to take turns at running the bank in six-month stints (Hoare, 2021a) and to revive confidence in the Bank, further increasing the level of deposits. Their sons, however, burdened the business with scandal during the 1860s, dissipating important family assets. Peter’s son-in-law, Algernon Strickland, was made partner in 1866 upon Henry’s death.

### ***1891 Strengthening the Bank’s position***

Since 1725, the Bank was running without capital, relying on the implicit guarantee of the Partners’ own wealth. The Baring crisis of 1890 persuaded the family to introduce explicit capital into the Bank<sup>11</sup>. The Partners published the Bank’s first balance sheet with their own personal capital.

### ***1909 A time of retrenchment for the 8<sup>th</sup> generation***

Harry of Ellisfield, 8<sup>th</sup>-generation member and son of Henry of Iden, is made a senior partner, overseeing a period of retrenchment of the Bank.

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<sup>11</sup>Based on the accounts of Michael G. Hoare.

### ***1914-1915 Women's support in World War I times: From the Partners' wives and daughters to the first female clerks***

In 1914, the Bank customers' demands soared following the government issue of War Loans in addition to National War Bonds, Treasury Bonds and War Savings Certificates. The Partners' wives and daughters were therefore commandeered to support in dealing with the increased workload (Hutchings, 2005, pp. 184-185). Women did not hold an official clerical position within the Bank until 1915, which was not an unusual scenario within banking employment more generally (Jeacle, 2010, p. 317). To replace the staff called up to fight in the War, women clerks were employed for the first time in the Bank's history.

Messrs Hoare Trustees was established in 1917 then incorporated by private act of parliament in 1926.

### ***1929 Unlimited liability as the basis of a new legal form***

On July 5, 1929, the Partners converted the Bank into a Private Company with unlimited liability, the legal form of the Bank up to date. They became the sole Shareholders and Directors although they retained the description of themselves as Partners (or Managing Partners), maintaining the manner in which they have run the business (Hutchings, 2005, p. 193).

### ***1939 Navigating World War II***

On the outbreak of World War II, most of the Bank's staff - except a few key employees alongside Rennie, Bertram and Derrick Hoare - were moved to a family house at Ovington in Hampshire (Hutchings, 2005, pp. 204-206). The Bank continued effectively operating, setting-up triangular bookkeeping procedures and adapting to female clerks (Hoare, 2022c)<sup>12</sup>.

In May 1941, the Fleet Street premises were bombed but the fires were bravely extinguished by the household staff, led by Bertram Hoare. The extraordinary commitment of the staff who saved

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<sup>12</sup> During the six years when the Bank remained at Ovington, a varied program (film clubs, social evenings, sports activities ...) was arranged for the employees temporarily adapting to the country life. This illustrates the nature of the connection the Bank has nurtured with its employees.

the Bank from destruction was given due recognition by the Partners in the form of rewards (Hutchings, 2005, p. 208).

### ***1959 A 10<sup>th</sup> generation along with continuous growth***

Henry ‘Cadogan’ became the first of the 10<sup>th</sup> generation of Partners. Deposits continued to rise, and the number of employees surpassed 100.

### ***1975 The first steps of digitalization***

The first bank-wide computer system was installed<sup>13</sup>.

### ***1996 A first lady partner***

Venetia Hoare became the first female partner in the Bank’s history.

### ***2000 Digitalization in progress***

The website of C. Hoare & Co. was launched. The first online statements were issued the following year.

### ***2006 A first non-family Chairman on board***

Lord Wilson of Dinton was appointed as the Bank’s first non-family Chairman. He will serve in this position for ten consecutive years.

### ***2009 A first non-family CEO***

In the Foreword of the 2010 financial statements report, the Bank’s Chairman stressed that 2009 marks “a historic change in the governance of the Bank”. Jeremy Marshall was appointed as the Bank’s first non-family Chief Executive, taking over from Alexander Hoare who served for nearly 8 years in this position (C. Hoare & Co., 2010).

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<sup>13</sup> An interesting account about the process leading to increasing mechanisation at the Bank, by means of a new computer system, and the challenges encountered along the way is provided by Hunter (2018d, pp. 48-49).

### **2011 Introducing “The Master Charitable Trust”**

The first UK-based Bank Donor-Advised Fund was launched and labelled “The Master Charitable Trust”<sup>14</sup>.

### **2016 Divesting the wealth management business**

After acquiring the first wealth arm 20 years ago, the Bank made the “*huge decision*” - in Venetia Hoare’s terms (Marsh, 2022) - to sell the wealth management business. While the family expressed significant pride in building it, Alexander Hoare described the rationale of this decision as three-fold. First, it stems from the family’s willingness to have this division continue its development through a growing scale and investment, which requires a larger and deeply experienced wealth management business who has the appropriate resources (Hardeman, 2016). Second, this move helps reduce the burden of new onerous European markets legislation - known as Mifid II – which is huge for a small bank such as Hoare’s (Murphy, 2018). Third, the sale allows the Bank to focus on its core business and invest further in its tech offering, following the launch of a smartphone app for customers, and to re-evaluate its online banking platform (Hardeman, 2016).

### **2018 First outpost outside London**

The Bank opened a Cambridge office designed to serve existing clients but also attract entrepreneurs in a region known for bioscience and technology ventures (Metcalf, 2019).

### **2021 “The show goes on” with the 50<sup>th</sup> Bank Partner from the 12<sup>th</sup> generation and the first female CEO**

Diana Brightmore-Armour was recruited as the first non-family and female CEO of the Bank. The same year, Amy Rodwell became the 50<sup>th</sup> Partner, the third woman, and the first member of the 12<sup>th</sup> generation. She joined the six other Partners from the 11<sup>th</sup> generation in writing another chapter of the Bank’s history.

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<sup>14</sup> More developments are provided in the second part of the case.

While these milestones offer a revealing account of C. Hoare & Co.'s rich history, ***three selected facts bring light to less renowned facets of the Bank.***

### ***#1 - The origin of the 'C' of C. Hoare & Co. uncovered***

Charles Hoare gave his Christian name to C. Hoare & Co as the last senior partner to continue the practice of having the Bank named after him. He successfully led the Bank in the period that followed the Bank Charter Act in 1844, which restricted the private banks operations with the aim to protect the Bank of England as the sole note issuer in London (Hutchings, 2005, pp. 124-125). Charles was also one of the founders of the I.C.B.S which financed the building of 880 Anglican churches between 1815 and 1850 and the commissioner in 1799 for the design of Luscombe Castle and gardens in South Devon (The Henokiens).

Despite his death in 1851 and abandoning the practice of styling the Bank by the name of the current senior partner in 1852, the Partners of the Bank designated as "Messrs Hoare" continued to sign as "Charles Hoare and Co". In 1929, this gap between policy and practice was put to an end with the Partnership converted into a Company under "C. Hoare and Co." (Hutchings, 2005, p. 126) which remains until today.

### ***#2- The coat of arms is still a mystery***

A double headed eagle represents the Hoare family's coat of arms since the early 1700s. In his Genealogical and Heraldic Dictionary, Burke (1865, p. 581) describes more accurately the Arms of Hoare as "an eagle displayed with two heads, arg., charged on the breast with an ermine spot, a bordure, engrailed, of the second" and the Crest as "an eagle's head, erased, arg., charged with an ermine spot". He adds that the Motto is "In ardua [meaning: On high]" and the Seat "Stourhead House, Bath".

Looking into rare existing accounts (e.g., The H600 Project), the earliest known recording of the double headed eagle crest with the College of Heraldry was made by Sir Richard Colt Hoare in his

*Pedigrees and Memoirs of the families*, a book on the Banking Hoare family among others (Colt Hoare, 1819). In his case study, Price (NA) suggests that the history of the coat of arms dates back to 1786 when Richard Hoare Esq. of Barn Elms was created a Baronet and acknowledged by The Royal Patent following his service to the kingdom. The King gave to the Hoares the right to bear 'either in a canton in their coat of arms, or in an escutcheon, at their pleasure, the arms of Ulster, (to- wit) a hand gules, or a bloody hand in a field argent.'

**Figure 2.**

**Hoare Coat of Arms**



*Source: Picture Courtesy of C. Hoare & Co.*

According to Michael G. Hoare, the double-headed eagle emblem was 'borrowed' by the son of James Hoare (master of the Mint 1660 -1696) from an unrelated Hoare family in Devon and later copied by both the Irish Hoares and his already distant cousin 'Good' Henry. The family has been

using it ever since, despite the disapproval of the College of Arms who insisted that it be marked to indicate its lack of provenance.

Today, the coat of arms is displayed alongside a collection of century-old ledgers recording the bank's transactions. The origin is still, however, not known to date according to Pamela Hunter, the Bank's archivist.

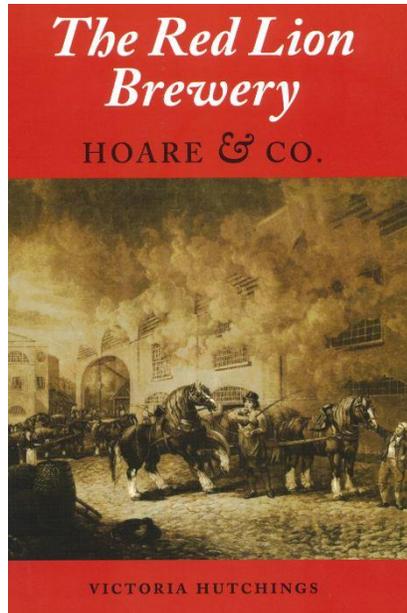
### ***#3- The Red Lion: The Bank's family affair***

Established in the late 15<sup>th</sup> century, the Red Lion Brewery was "one of the oldest pedigrees in London" (Hutchings, 2013, p. 11), operating in the business of brewery for nearly twice as long as the Hoares had been in the business of banking (Hutchings, 2013, p. 35). The Red Lion Brewery was renamed Hoare & Co and became a Hoare's family affair for five generations.

While it was common practice for breweries to be owned and run by families during this period (Mathias, 1953), the relationship between the Hoare's family and the brewery was a particular one. Although "the Hoares were not brewers by tradition or training, brewing was viewed as a good business to be in from a banker's perspective" (Hutchings, 2013, p. 126). Banking and brewing had indeed become natural partners in several prominent London banking families due to the profitability and the good return on capital of the brewing business (Hutchings, 2005, p. 129). In 1802, Henry Hoare of Mitcham bought the principal share in the Red Lion Brewery for his son George Mathew Hoare (Hutchings, 2005, p. 129). The latter became the first brewing member of the family and started the new partnership of the company which traded as "Hoare & Co." in 1824 (Hutchings, 2013). Other family members took over the business as owners, managers and/or directors for nearly 130 years.

Figure 3.

Cover of the “Red Lion Brewery: Hoare & Co.” Book Illustrating Hoare & Co. Horse-drawn Dray and Stem ‘Sentinel’ Lorry at the Red Lion Brewery c. 1920



*Source: Hutchings (2013)*

The relationship between the family and the brewery was often moderated by the Bank, as mutual tensions and benefits were arising along the way. Hutchings (2013, p. 123) suggests in her analysis that “the natural fit between brewing and banking which made the relationship a business model in 19<sup>th</sup> century industry was not without its problems on a personal level”. The situation and the behaviour of family members in the Bank had, in fact, an impact on the brewery and vice versa.

On the one hand, the Bank provided support with facilitated (or hindered) access to both capital and loans to meet the working capital needs, cover investments costs, and even pay dividends in difficult times. On the other hand, the brewery’s good (or difficult) financial situation had a positive (or negative) impact on the Bank given the subsequent interest payments.

To illustrate, the relationship of Hoare’s Bank as a long-term investor in Hoare & Co. was strengthened when the will of Henry of Mitcham came into effect in 1828. Foreseeing the need for pursuing the family support for the brewery to survive, Henry stipulated that his loans to

Georges should continue for fifteen years. Over the years, however, mismanagement of financials and of expectations among family members led to disappointments which translated into divisions between the family branches (Hutchings, 2013). For example, Michael G. Hoare explains that the two 'brewing brothers' of Henry of Iden had financial difficulties caused by an unfortunate combination of their over borrowing at a time when tax and temperance prevailed and the competition from the lighter beers brewed in Burton on Trent which were severely reducing the Hoare's brewing profits. Both brothers were obliged to sell their substantial properties to repay their loans and Willie, the brewery's chairman, narrowly escaped bankruptcy. In 1890, the bankruptcy of Henry of Iden triggered the resignation of his brother who was Chairman of Hoare & Co. Towards the last years of the brewery's existence, an overdraft from the Bank allowed the distribution of dividends in 1828, despite a decreasing representation of the family at the brewery (Hutchings, 2005, 2013).

Notwithstanding the difficulties faced by the family in striking a fine balance between the banking and the brewery business affairs, including the Red Lion into the historical overview extends our horizons on the Hoare's interlocking directorates beyond the banking business.

### **1.3 Ownership, Management, and Governance in the 21<sup>st</sup> Century**

Throughout its history, the family traded as a series of partnerships until 1929. It then decided a corporate form would be better for accumulating banking reserves, so it incorporated as an unlimited liability company (Hoare, 2021a). This is still the case today, making of the C. Hoare & Co. the only independent bank in the UK operating on this basis.

The characteristics of the ownership model contribute to the Bank's continuity in the family's hands in three ways.

First, through the unlimited liability ownership, partners are made responsible with their personal assets. As emphasized by Alexander Hoare, "We are liable for every decision we make and it elicits an air of caution and accountability" (Chapman, 2012). At Hoare's, the concept of responsibility extends beyond the legal dimension though.

To the question “What ownership means to you?”, Venetia Hoare, 11<sup>th</sup>-generation Partner, replied, “We regard ourselves as trustees for the future rather than absolute owners” (The Ownership Project at Oxford, 2021). This is in line with Hutchings’s (2005, p. 228) earlier conclusion, “It is firmly indoctrinated in each new Partner that his or her position is one of a life trustee of the Bank”. Unlimited liability works to the customers’ advantage (Marsh, 2022) but not only. Reflecting on “responsible ownership”, Venetia Hoare offers a stakeholders’ view of ownership. As she puts it, “As an owner, I feel responsible to a number of people: future generations of the family, the people who work for us, the wonderful customers, and the community we operate in” (The Ownership Project at Oxford, 2021).

Second, this model is set up so that family ownership is not diluted over time. Whereas the transmission of ownership in the early beginnings was traditionally from father to son, more recently it progressively shifted by embracing the wider family, including women, to adapt to the changing family landscape. Moreover, only descendants from the founder are eligible to own unlimited liability shares, which trade at par, if unanimously appointed by the other partners and work full time in the business (Hoare, 2021a). This reduces the chance of having the individual shareholders lose interest because they are not closely involved (Marsh, 2022). The partners do not have the right to appoint heirs to inherit their shares. Whenever a partner retires, the ownership is handed back to the Bank to be reallocated (Hoare, 2021a). As a result, according to Venetia Hoare, today only seven<sup>15</sup> out of nearly 4 000 descendants of the Bank’s founder are owners (and Partners) (The Ownership Project at Oxford, 2021).

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<sup>15</sup> Alexander Hoare, Venetia Hoare, Simon Hoare, Bella Hoare, Alex R Q Hoare, Rennie Hoare, and Amy Rodwell.



In recent decades, the governance of the Bank gradually developed from a structure where the Managing Partners used to comprise the Board and take advice from independent non-executive Consultants to the Board alongside an Audit and Compliance Committee (e.g., C. Hoare & Co., 2008) to a structure where the Board is comprised of a mix of independent non-executive directors, the CEO, and the Partners. The Board then delegates the day-to-day executive management to the CEO<sup>16</sup> who, in turn, directs the Management Team (MT) to deliver against the Bank's strategy. In addition to the MT, the following committees provide support in discharging the Board's responsibilities: Audit, Risk & Compliance Committee and Remuneration & Nominations Committee (C. Hoare & Co., 2022). As described in the Bank's last Annual Report, the Board actively participates with the MT in setting culture and strategy, including significant decisions or shifts in strategic direction while considering various key stakeholders (C. Hoare & Co., 2022)<sup>17</sup>.

Looking into the future, Alexander Hoare (2022a) expects the management team to change substantially but asserts that continuity will be provided by the partnership. The successful combination of an enduring unlimited liability ownership and an increasing professionalization of the Bank's governance and management is likely built on the Hoare's philosophy of impact.

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<sup>16</sup> The current composition of the Board is five Directors who are Partners (Alexander Hoare, Venetia Hoare, Simon Hoare, Bella Hoare, Alex R Q Hoare) and five non-family Directors (Lord McPherson of Earl's Court GCB - Chairman, Diana Brightmore-Armour- CEO since June 2021, Andrew McIntyre, Johanna Waterous, and India Gary-Martin. More information is available via <https://www.hoaresbank.co.uk/our-people>

<sup>17</sup> It is noteworthy to mention the Board of Messrs. Hoare Trustees which is made up of five family partners and one non-family director, respectively Alexander Hoare, Venetia Hoare, Simon Hoare, Bella Hoare, Alex R Q Hoare, and Lord McPherson of Earl's Court GCB. More information is available via <https://www.hoaresbank.co.uk/trustees>

## 1.4 Philosophy of Impact: “Aligning Profit with Principles”<sup>18</sup> as a Consistent Red Thread

The Hoare’s family vision, “To continue to be the preeminent private bank in the UK” (C. Hoare & Co., 2022), inspires the fulfilment of its purpose of being “Good bankers and good citizens” through all business decisions (C. Hoare & Co., 2021c).

As Michael Graham Hoare, the former Chairman of the Audit and Compliance Committee, observes, “Our Bank’s performance indicators are different from those of other Banks”. The growth and profit maximization objectives that other Banks seek to achieve have not, indeed, been the focus at Hoare’s.

According to Alexander Hoare, “We are not interested in growth or maximising profits, we are trying to optimise quality” (Dunkley, 2015). He adds, “There is a social point to our business” (Chapman, 2012) by explaining, “We are not a business that exists to make the maximum profit and are not answerable to external shareholders, so we are not pressed to meet any short-term profit objectives” (Chapman, 2012) (...) “by flogging someone an inappropriate product” (Cope, 2001) (...) We believe in sustainability and in doing the right thing”(Chapman, 2012). The same line of thought applies to growth as he declares, “We do not want to grow, a lot of chief executives want to increase their empire. I would call it spending other people’s money” (Merrell, 2005). More recently, he suggests, “Enough profits will flow - so long as the focus remains on the right things” (Marsh, 2022).

“The right things” likely refer to the stakeholders’ impact that stands at the heart of the Bank’s strategy and is expected to echo the Bank’s purpose. “The Board regularly discusses how to engage with key stakeholders, both from a governance and strategic perspective. All matters submitted to the Board include analysis of which stakeholders will be impacted and how their interests have been considered” (C. Hoare & Co., 2022). Particular attention is paid to building profitable long-term relationships with the customers and offering an exceptional and

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<sup>18</sup> This section’s title is inspired by the Family Business Week (2021)’s case title although it provides a more exhaustive approach with additional insights.

personalised service. Even colleagues are invited to discuss and reflect on their own personal contribution to the Bank's purpose (C. Hoare & Co., 2022).

With this in mind, a decade earlier, the Bank's growth has been substantial on all fronts -- profit, assets, liability with funds under management, lending, and deposits were each up by 10%, as pointed out by Jeremy Marshall, the former CEO in 2012 (Morais, 2012). Perceived as "the most profitable bank in the country" (Morais, 2012), C. Hoare & Co.'s return on equity was equivalent to 10.9%, significantly higher in comparison with Barclays' 6.6% and with other major U.K. banks producing losses during this period. As for the return on capital employed, it was "roughly 20%", as indicated by Alexander Hoare who underlines that "it is an internal measure only, and is not an actual ROCE as would be understood more widely" (Morais, 2012).

Ten years later, the Bank coffers are still healthy (Marsh, 2022), as emphasized by the recently appointed CEO, Diana Brightmore-Armour, "We have a very strong balance sheet" (Spear's 500, 2022a) including a capital ratio of 21% (C. Hoare & Co., 2022) and capital resources representing a total share capital and reserves of £416m. The total comprehensive income for the year closing in March 2022 has raised from £4.0m in 2020/21 to £18.0m in 2021/22, while the annual dividend per ordinary share remained stable<sup>19</sup>, equivalent to £50, to the benefit of future investments<sup>20</sup>. In the past decade, the Bank's ongoing growth and development was, indeed, entirely funded through retained earnings, as shown in the following chart.

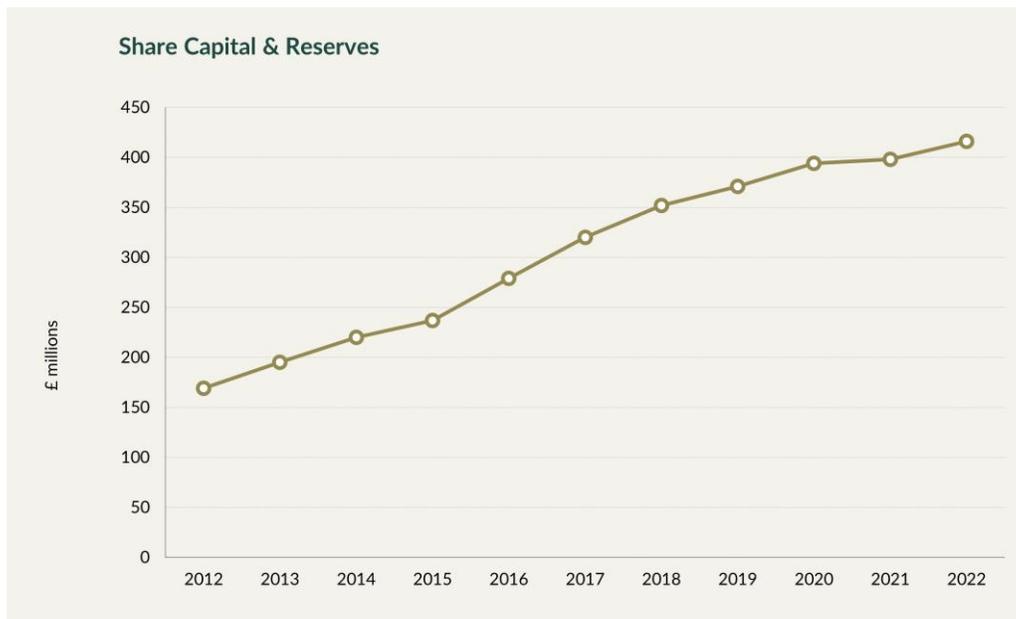
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<sup>19</sup> This is the case since at least 1994 (Metcalf, 2019). For more information, the reader can check the financial reports (2008-2022) published on the C. Hoare & Co's website : <https://www.hoaresbank.co.uk/financial-reports>

<sup>20</sup> In the *Chairman's Foreword* (C. Hoare & Co., 2022, p. 2), Lord Macpherson of Earl's Court GCB writes that these investments include the acceleration of the bank's two-year transformation plan, by simplifying processes, refreshing technology, embedding hybrid working and improving resilience through further investment in security, fraud prevention, risk and controls, and regulatory compliance. To support this transformation plan, the staff headcount has increased from 451 (Full Time Equivalent) in 2020/21 to 464 in 2021/22.

**Figure 5.**

**C. Hoare & Co.'s Growth in Capital Resources (2012-2022)**



*Source: Website of C. Hoare & Co.*

In addition to these illustrative financial indicators, the Bank has engaged in further efforts embedding its “good bankers and good citizens” purpose in the business decisions by having recently certified as a B-Corporation. A comprehensive assessment of performance was conducted following the B-Corporation framework, viewed by the Bank as “a useful mechanism for us to challenge ourselves to be more effective as good bankers and good citizens” (C. Hoare & Co., 2022). This assessment identified many areas where the Bank is doing well in addition to several areas of improvement that led to setting a strategic objective of year-on-year improvement in the impact. The Bank decided to focus, over the next 12 months, on the environmental impact of its operations and loans, a greater equality, diversity and inclusion, and a stronger governance in measuring and managing impact (C. Hoare & Co., 2022). The Bank has also released an inaugural impact report in 2021, disclosing the social and environmental impact alongside key data on colleagues, customers, and suppliers relationships (C. Hoare & Co., 2021c).

Following these developments in 2021, the Bank has achieved great progress in embedding its purpose even more deeply in the business, according the last Annual Report (C. Hoare & Co., 2022). Profit and Principles that drive Purpose are, therefore, two sides of the same coin that C. Hoare & Co. learned to master over the centuries and is still committed to in the future.

## Part 2. The C. Hoare & Co. Compass: Navigating the Odyssey from Generation to Generation

From the distant past to the modern times, C. Hoare & Co. was guided by the necessity of aligning profit with principles. The in-depth analysis of the Bank’s sustainability<sup>21</sup> over twelve generations leads to the identification of four important determinants. The following figure is a representation of the model which is developed in the upcoming sections.

**Figure 6.**  
**A Proposed Framework of the Hoare’s Banking Dynasty Sustainability**



*Source: Author of C. Hoare & Co. Case*

<sup>21</sup> Sustainability refers to « durable business success, family cohesion, and close connections with the community ». It is therefore not limited to but extends the concept of sustainable development.

## 2.1 Customers Relationships' Base: A Triptych of Shared Values, Mutual Trust, and Service Excellence

Looking into the early days of Hoare's Bank, Temin and Voth (2003, p. 21) wondered, "Why would a bank provide interest-free loans at all, given that this entails opportunity costs?". Analysing the company's archival records, the authors came to the conclusion that Hoare's motivation might have been rooted in future business expectations. As time went by, they observed that Hoare's learned how to acquire customers and provide them with a service that they valued - and eventually came to pay for. This might have gradually built basis to the emphasis on the quality of relationships and services that the bank is still distinctively known for to date.

Figure 7.

### C. Hoare & Co. Banking Leaflet

  
**C. HOARE & CO.,**  
**BANKERS.**  
*Established at the Sign of the Golden Bottle in  
Cheapside prior to 1673.*

Managing Partners:  
H. HOARE. P. A. M. HOARE  
A. H. HOARE. E. H. HOARE  
A. W. STRICKLAND. P. W. HOARE  
H. P. R. HOARE. Lt. Col. G. L. HOARE.

37, FLEET STREET, ALDFORD HOUSE,  
LONDON - E.C.4. 67, PARK LANE, W.1.

Telegrams: "BANKOFE, FLEET, LONDON." Telegrams: NUBANKOFE, AUDLEY, LONDON.  
Telephones: CENTRAL 4522-G. Telephones: MAYFAIR 4522, 4523.

**Banking Facilities.**  
Messrs. Hoare are pleased to open Accounts in the names of Private Individuals, Commercial Concerns or Businesses introduced to them by their friends and customers.  
They receive money on deposit at seven days' notice on the terms advertised by the London Clearing Bankers and are prepared to receive money on deposit fixed for longer periods, subject to arrangement.  
They can arrange for their customers to cash their cheques anywhere in the British Isles or abroad; they issue Letters of Credit, and provide Circular Notes, available for all parts of the world, open Foreign Currency Accounts and carry out Foreign Exchange Business.

Source: Hunter (2018b, p. 6)  
Picture Courtesy of C. Hoare & Co.

In the 1690s, Hoare's Bank started to expand its activities to a new clientele beyond its traditional mercantile customers (Laurence, 2008). In the early 1700s, in addition to providing loan services, Hoare's Bank made access to the market in securities easier for its customers and assisted them in dealing in stocks (Laurence, 2008). The Bank's strategy during this period focused on "selecting high-net worth customers who were of impeccable social standing" (Temin & Voth, 2003) and "well-connected" (Temin & Voth, 2008) given their solvency prospects, instead of spreading its credit risk over a larger number of borrowers (Temin & Voth, 2003). Not only this strategy paid off from a business perspective but it was also – unlike other banks – probably implemented without encountering difficulties in identifying and tailoring the needs of this type of customers (Temin & Voth, 2003). A strategy turned into a lesson that the Bank still adopts and encourages others to, as suggested by Alexander Hoare, "Get the depositors in, lend to people who can afford to borrow" (Clark & Cahill, 2009) while emphasizing the ongoing condition of "impeccable credentials" of customers (Smith, 2008).

In the first decades of the 18<sup>th</sup> century, Hoare's clientele was among the richest group in the kingdom, fostering the business growth to a considerable size (Joslin, 1954). The Hoare's loan customer base originally included aristocrats as well as minor noblemen (Joslin, 1954; Temin & Voth, 2006), with the bulk of the lending mainly made on mortgage and bond (Joslin, 1954). Then, it gradually became increasingly blue-blooded (Temin & Voth, 2006). "Managing lending to landed aristocrats during the 18<sup>th</sup> century was not easy" though, as noted by Michael G. Hoare. "One of the bank's strengths was always to prefer quality of security to rates of interest. At a time when the bank sought to reduce its loan book with rising interest rates to finance the French wars, it proved more than difficult to obtain re-imbursalment of loans", he further explains.

The second line of business included City men customers to whom the Bank would make a stream of advances, upon a variety of securities (e.g., East India Stock, South Sea Stock and tea warrants) (Joslin, 1954). As for the deposit customers, the Bank rapidly became in the early 18<sup>th</sup> century one of the great banks for the aristocracy and gentry, prior to increasingly including landowners and lawyers, with mercantile links becoming less important (Joslin, 1954). The customers, therefore, ranged from a majority of landowners to landed aristocrats and gentry, MPs and officeholders, charities and clergymen, with a few exceptions relative to businesspeople with

extensive mercantile interests (Laurence, 2008). Women represented a notable group, fluctuating from 10 to 12%, out of the non-mercantile customers<sup>22</sup>. Overall, the records and correspondence of the bank in the early 18<sup>th</sup> century indicate that much of the business of the bank and its customers took place within groups of people united by blood, marriage, religion, and politics, while frequently including several members of the same family (Laurence, 2008).

“The type of customers has evolved over the centuries”, as observed by the Bank’s archivist Pamela Hunter. The poet Lord Byron, the diarist Samuel Pepys, the novelist Jane Austen, and the ballerina Ana Pavlova featured among the illustrious Bank’s customers. At present, customers are still carefully selected, excluding royalties and the “nouveaux riches” according to Alexander Hoare interviewed in March 2022 and in line with a previous statement he made for Time Magazine, “New money may be hotly courted elsewhere, but not here” (Smith, 2008). While looking for a spread of customers, young and older ones, in the City and the arts, and occasionally academics (Cope, 2001), the Bank’s main customers currently consist of many of the largest landowning families in Britain (Marsh, 2022), entrepreneurs and legal professionals (Merrell, 2005; Reynard, 2019), as well as partnerships, owner-managed businesses, family offices and charities (The Henokiens<sup>23</sup>).

As Bella Hoare puts it, “The essence of private banking is relationships”(Reynard, 2019). At the Bank, customers and relationships operate as two sides of the same coin. From the founding generation to date, “customer relationships were the heart of the business”<sup>24</sup>. The customers’ base at Hoare’s is therefore merely described in terms of “customers’ relationships”.

Its nearly 15 000 customers relationships’ base (Marsh, 2022) goes in line with the intention to keep the business small<sup>25</sup> (Morais, 2012). The rationale behind, according to Alexander Hoare, is “The bigger you are, the more risk you have of a reputational accident because you weren't able to oversee [the business] properly.”(Smith, 2008). Still, the Bank accepts new customers who are

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<sup>22</sup> During this period, most women customers were widows or unmarried as it was unusual for wives to have accounts, with the exception of some joint husband and wife accounts (Laurence, 2008).

<sup>23</sup> [https://www.henokiens.com/content.php?id=51&id\\_membre=11&lg=en](https://www.henokiens.com/content.php?id=51&id_membre=11&lg=en)

<sup>24</sup> [https://www.hoaresbank.co.uk/Richard\\_Hoare](https://www.hoaresbank.co.uk/Richard_Hoare)

<sup>25</sup> Alexander Hoare explains that his job is to keep his bank small and beautiful (Clark & Cahill, 2009) in reference to Schumacher (2011)’s book « Small is beautiful ».

“extremely well introduced” according to Alexander Hoare (Smith, 2008), notably on the basis of personal recommendations (Merrell, 2005) such as from existing customers (International Directory of Company Histories, 2022) or from people of character known to the Bank's officers (Morais, 2012). Adapting to the new world of finance, Bella Hoare explains, “We are always open to new customers. Before we had online banking, existing customers weren’t asking for it. They didn’t know they wanted it. However, we’ve had significant take up and now have 60% penetration in online banking, less for our app but that is building” (Reynard, 2019).

Prospective customers must qualify though before being taken on by the bank (International Directory of Company Histories, 2022; Temin & Voth, 2006). With demand exceeding supply since the 2008 financial crisis, the Bank has been improving the "quality" of its customers, quietly squeezing out unprofitable customers while ensuring the "relationships" with new ones are more complex and lucrative (Morais, 2012). As illustrated by the title of an article by *The Times*, “Billionaires join queue to sign up for bank that likes to say: ‘Maybe’ ” (Merrell, 2005). “We reject loads of rich prospective customers – we only want the like-minded ones”, as explained by Alexander Hoare (Hoare, 2021a).

The Bank partners propose assessments, “chats” or so-called interviews of prospective customers, whereby not only their financial wealth matters are discussed but mainly and most importantly the values that stimulate them. Both qualitative and quantitative considerations are taken into account, including the fit of the new customers with the existing ones (Merrell, 2005). As described by Alexander Hoare, this relationship “is mainly about sharing the same values” (Lederer, 2019), in line with the Bank philosophy “we enjoy working with customers who share our values”(C. Hoare & Co., 2021a).

This seems engrained in Hoare's early policy of knowing and understanding its (selective) customers back in the 18<sup>th</sup> century. At that time, such policy turned out to be “more important than the potential benefits of risk diversification through a large portfolio of small loans” (Temin & Voth, 2006, p. 178). The relationship-building and management are still key in the development of the customer-base. According to Bella Hoare, once customers join the bank, they are introduced to their personal relationship manager who handles their needs (Reynard, 2019)

through a comprehensive portfolio of services. These range from day-to-day banking and flexible lending to specialist services from the Bank's treasury, farms and estates, family offices and family businesses, city professionals, entrepreneurs, and arts, culture and entertainment teams, and support with philanthropic giving (C. Hoare & Co., 2022, p. 6). The customers' relationship is likely to last on the long run given the low turnover rate in the Bank (Smith, 2008). It is crafted with care as "the company is able to offer highly personalized services unavailable at larger banks" (International Directory of Company Histories, 2022) with "peerless dedication" to customers, always put first in decision-making, as observed by the current non-family CEO Diana Brightmore-Armour (Spear's 500, 2022a).

To date, the Bank still follows the same formula with just "first-rate client service" (Morais, 2012). Comparing the customers' relationships of Hoare's to those of other banks, Alexander Hoare explains, "we compete on dimensions where we have the clear advantage: relationships, flexibility, care, independence, and speed of service". This echoes the comparative analysis by Laurence (2008, p. 566) on the basis of records of two contemporary banks in the 18<sup>th</sup> century, suggesting that "Hoare's Bank was exceptional in the services it provided and in the way in which its partners' advice was given, or at least acted upon". The quality of service translates into a more expensive service than other banks, which the customers are willing to pay for as they believe that they are getting value for money, according to Bella Hoare (Metcalf, 2019).

The Hoare partners personally approve (or turn down) every major loan to a client, quickly delivering their decision because they either know each customer personally or, at the least, are very familiar with the client's finances (Morais, 2012). Even the employees abide by "*The Guide to the Bank*", treating customers (people) as they would wish to be treated (Morais, 2012). This piece of wisdom which still stands the test of time was received by the Partners from their predecessors and is meant to be passed on to the next generation, as advocated by Venetia Hoare (The Ownership Project at Oxford, 2021).

Furthermore, Bella Hoare emphasizes that "these relationships are meant to be enduring" (Reynard, 2019). Mutual trust represents, in fact, an important component of the sustainability of customers relationships at Hoare's. As suggested by Cantillon (2017 (1931)), "Some trust one

banker, some another. The most fortunate is the banker who has for clients rich gentlemen who are always looking out for safe employment for their money without wishing to invest it at interest while they wait." By these canons, "Hoare's Bank was well placed" in the 18<sup>th</sup> century, according to Joslin (1954, p. 177), and continues to be so to date. As explained by Alex R Q Hoare (2021b), "Trust continues to be important. We never forget that when a customer deposits money with us, they are trusting us to give it back when they ask for it. We take a similar view when making a lending decision". These relationships of deep trust are founded on shared values of honesty, empathy, excellence and social responsibility (C. Hoare & Co., 2022, p. 6). The fact that a lot of employees work in the Bank for 25 years, dealing with several generations of the same customer, also contributes to building trust, as noticed by Alexander Hoare (Cope, 2001).

Trust also stems from the ability of the Bank to overcome crises by building on its long history. As Alex R Q Hoare adds, "our customers trust us to be ready for the expected and the unexpected" (Hoare, 2021b). The 2008 financial crisis illustrates this statement well. The Bank received more deposits in the first three months of the year than in its first three centuries, according to Alexander Hoare (Masters, 2008). Overall, the Bank's deposits increased by 21 percent, followed by 16 percent in 2009, and the Bank remained profitable (Marsh, 2022) despite the crisis' severe impact on other banks. Michael G. Hoare suggests that this performance is part of a pattern as it has already been noted in the 1975 crisis. He underlines the importance for a family bank without access to third-party funding to maintain comfortable capital ratios not only to be able to face economic downturns, which can often be of long duration, but also to accommodate increases in deposits over which it has no control.

"Interviewed by Bloomberg, Islay Robinson, the chief executive officer of a mortgage broker with dozens of high-net-worth customers of the Bank, provides a testimonial on the Hoare's in a similar line, "They tend to be able to come up with solutions that other banks cannot provide" (Metcalf, 2019). This is also reflected in the higher levels of customers' satisfaction at C. Hoare & Co. in comparison with other banks (Smith, 2008). As emphasized by Alexander Hoare, "We only want customers (...) who want to enter into a long-term relationship with us". With loyal employees and partners steadily serving a selective group of customers and their families, including "three generations of the same family" (Cope, 2001), this philosophy has been bearing

its fruits. Many of the customers are still with the Bank for generations<sup>26</sup> (International Directory of Company Histories, 2022) – sometimes stretching back to centuries (Family Business Week, 2021) up to the 1700s (Temin & Voth, 2006).

These observations faithfully reflect the current description of the Bank activities on its website, “We provide a contemporary bespoke banking service based on deep personal relationships and long-held values”<sup>27</sup>. A competitive advantage that can be put at test during crises which the Hoares managed to anticipate and navigate through innovation and adaptation.

## **2.2 Innovation and Adaptation in Crisis and Beyond: A Learning-by-doing and A Prudent Risk Management Approach**

As Diane Brightmore-Armour puts it, adaptability spans the lifetime of Hoare’s Bank, making it “a very relevant, agile bank” (Spear’s 500, 2022a). In the late 17<sup>th</sup> and early 18<sup>th</sup> centuries’ London, to switch from goldsmith to credit intermediary was to venture into a largely unknown and difficult activity (Temin & Voth, 2003, 2006). This entailed crucial innovations, which shaped the English banking history, by goldsmith bankers (Joslin, 1954, p. 168) among whom Hoare’s Bank turned out to be a key player. The records at Hoare’s provide “a striking image of how business practices were adapted to use a new business model” (Temin & Voth, 2006, p. 178). Richard Hoare and his sons were successful pioneers in terms of business model innovation, managing to make a relatively new idea at that time a successful business. “As they had no template against which to measure themselves” (Temin & Voth, 2006, p. 152), they were innovating and learning at the same time. Their innovation was part of a learning-by-doing approach on the organizational, managerial, and technological levels.

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<sup>26</sup> This observation is in line with previous research on century-old family businesses that are members of The Henokiens. For more details on the multigenerational system of loyalties including the customers, refer to Labaki (2017, 2022).

<sup>27</sup> <https://www.hoaresbank.co.uk/>

In fact, the move from goldsmiths to bankers was not possible just by learning a new trade. The Hoare's learned the business of banking as a new 'technology' (Temin & Voth, 2006), extending their clientele to particular individuals, such as private individuals outside the tight-knit community of merchants or the smaller community of princely rulers (Temin & Voth, 2003). As Temin and Voth (2006, p. 151) explains, "The introduction of commercial banking to the wider public of London required *organisational innovation* by Richard Hoare and his associates". On the one hand, they replicated the lending practices already used at the time. On the other hand, they successfully innovated by adapting the system of deposit banking and combining it with lending and brokerage services.

Taking a Chandlerian view, Temin and Voth (2006) argue that by extending their expertise into new dimensions, the Hoare's made changes in *managerial practices* that stand as innovations which are as important as introducing new machines - although they did not have any. They developed recognizably modern aspects of banking practice, such as the banker requiring the customer's authorization to pay himself (Laurence, 2008, p. 567). They were also investing in the intellectual or human capital to operate the new business, through education and build-up of a set of 'operating instructions', probably largely unwritten, and gradually evolving (Temin & Voth, 2003, 2006). Changing the interest rate charged on their transactions over time is an illustration of their adaptability, as they started directing their banking decisions towards selecting the right borrowers rather than the interest rate at which they borrowed (Temin & Voth, 2006).

Hoare's early pioneering innovative behaviour<sup>28</sup> was balanced with a relatively *prudent approach* though, in comparison to the competitors and to the standards of 18<sup>th</sup> century banking and commerce (Temin & Voth, 2003, 2006). The Bank was described as *cautious* in its choice of loans and liquidity reserves and in its investments in the stock market (Temin & Voth, 2003, 2006). This prudence at heart evolved to become particularly prominent after 1720.

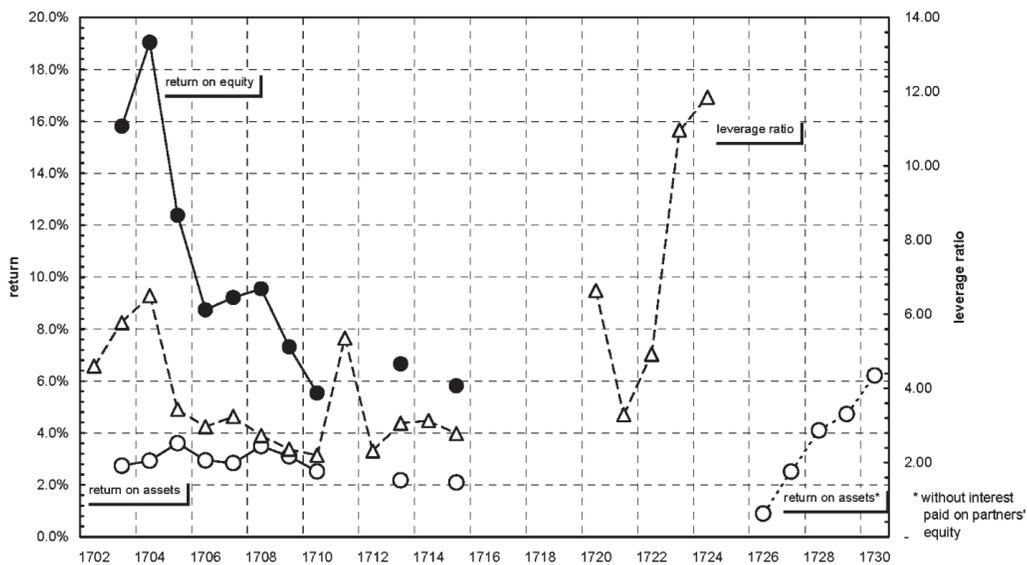
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<sup>28</sup> The illustration of innovative behaviors in this case is mainly focused on the early beginnings of the Bank. Among notable innovations, it is worth mentioning the Bank's launch of a highly innovative portfolio management service in 2003 as an extension of its investment offering. "The new service represented the first manager of manager (MoM) program to invest via more than one multi-manager specialist. The move is an example of a small private bank punching above its weight in the investment arena by leveraging the skills of other specialists" (Datamonitor, 2005).

Tracing the roots of the Hoares' risk attitude, Michael G. Hoare suggested referring to the training that Sir Richard Hoare, the founder, must have received at the hands of his father Henry, the Horse dealer. During the Civil war and at a time of real shortage of coin, he built up a substantial fortune, much of it based on selling 'on credit'. In the following years, family crises (such as the death of a partner) and external crises (such as the annus horribilis of 1710/11 and the South Sea Bubble in 1720) have contributed to further shaping the Bank's risk behaviour, as shown in Figure 3 (Temin & Voth, 2003, 2005).

**Figure 8.**

**Return on Assets and Equity, Leverage Ratio of Hoare's Bank (1702 – 1730)**



*Source: Temin and Voth (2006, p. 161) based on archival records*

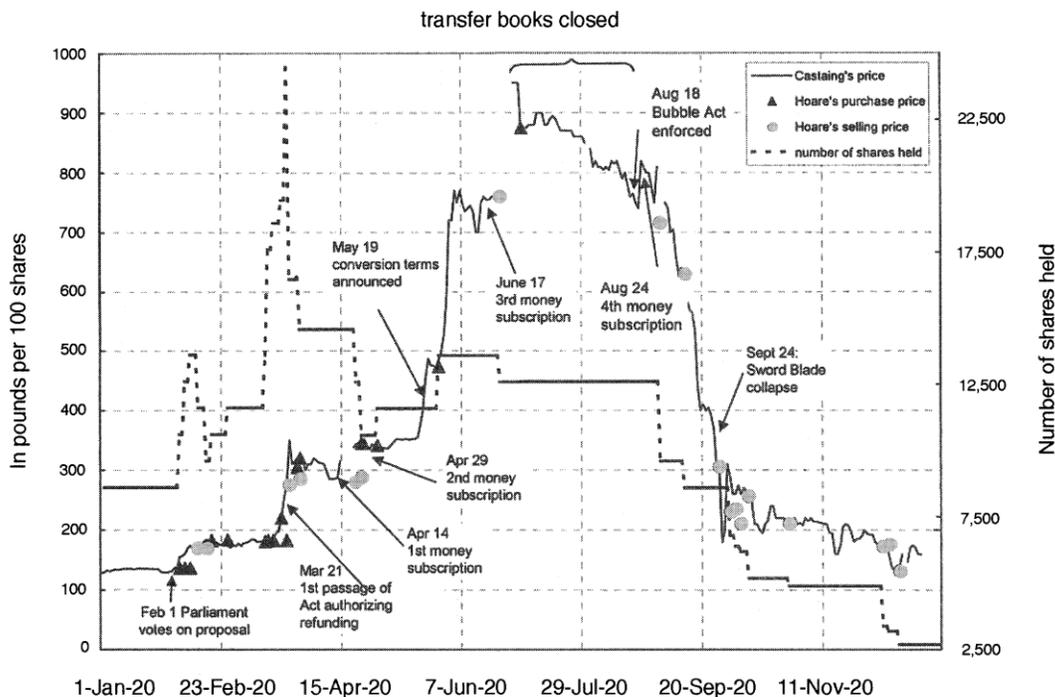
While family crises led to fluctuations in equity levels, crises such as the annus horribilis of 1710 (with its high number of bankruptcies and relatively low profitability at Hoare's) led Hoare to make brutal cuts in loans without interest which ended up by paying off later and relatively quickly. As for the South Sea Bubble of 1720<sup>29</sup>, it was described as “an intriguing period in the

<sup>29</sup> The South Sea bubble involved a British company with monopoly trading rights over South America which made promises of excessive returns while running a form of Ponzi scheme, exchanging shares in the company for privately held government debt. After increasing by more than eightfold from January to July of 1720, the stock decreased by 88 percent in the fall of 1720 (Krueger, 2005).

bank's history" (Cope, 2001). The partners Henry and Benjamin Hoare managed to skilfully surf the bubble by acquiring South Sea stocks as they rose and selling them whenever they dropped before the bubble burst, making in 1720-1721 the equivalent of their profits over the past 20 years (Temin & Voth, 2004). To illustrate, between February and September, they made about 19 000 pounds of profits that year which represent 1.6 million pounds in today's money (Clark & Cahill, 2009). Interestingly, as demonstrated by Temin and Voth (2004), this impressive performance was not due to chance or agency problems, such as exploiting the belief that the stock was overpriced or benefiting from insider information. In addition to successfully riding the bubble, the Hoare's survived the tumultuous years of the South Sea Bubble crisis which witnessed many private banks disappear.

**Figure 9.**

**South Sea Bubble: An Illustration of the Stock Price Evolution and Hoare's Trading in 1720**



*Source: Temin and Voth (2004, p. 1658)*

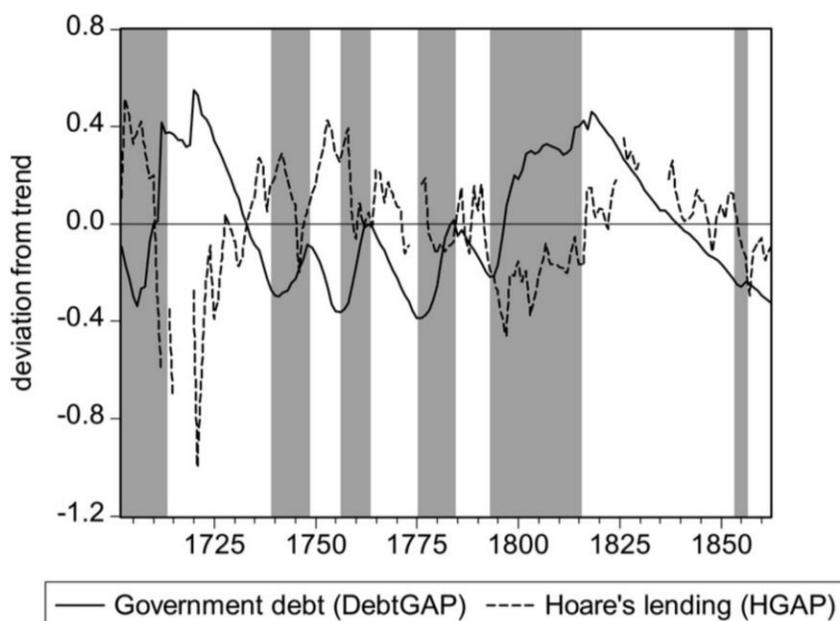
Following the South Sea investment and subsequent earnings, the Bank began to grow in a very conservative way (Temin & Voth, 2011). Whereas before 1720, Hoare's devoted considerable amounts of equity to protect itself from insolvency, after 1720 the partners decided that their

biggest risk was not insolvency – partly since they had changed the nature of their lending operations – but rather illiquidity. Therefore, the Bank changed its way of managing risks after 1720 by moving from a combination of low cash reserves and relatively healthy equity cushions, to holding enough cash to satisfy depositors' demands, even in extreme circumstances (Temin & Voth, 2006). Hoare's Bank also chose its clientele with care to reduce the risk of lending and kept very high cash reserves to reduce risk even more (Temin & Voth, 2011).

When war was imminent<sup>30</sup>, Hoare's immediately boosted its cash ratio, anticipating that it would have to pay out deposits for customers to move funds into government securities. The analysis of annual balance sheets by Temin and Voth (2005) showed that a 1% rise in government debt was met with a 1% decline in Hoare's lending relative to their long-term trends, through reducing credit to customers, calling in old loans and refusing to make new ones.

**Figure 10.**

**Government Debt and Lending at Hoare's – Deviations from Trend**



*Source: Temin and Voth (2005, p. 334)*

<sup>30</sup> such as The Wars of Spanish Succession and Austrian Succession, The Seven Years War, The War of American Independence in the 1770s and early 1780s, The Revolutionary and Napoleonic Wars, and The Crimean War in the 1850s.

The Hoare's family, therefore, spent a long time learning the new banking business (Temin & Voth, 2011, p. 82). This was first shown in Hoare's early innovative efforts from a learning-by-doing approach in the late 17<sup>th</sup> century and early 18<sup>th</sup> century to changing their business model by extending their services to a new clientele and riding bubbles.

Since then, the conservative attitude to risk permeated the Hoare's adaptability, whether in crises or prosperity times, gradually crystallizing into an *institutional memory* that still informs the Bank decisions. The Bank changed its lending practices during wartimes and peacetimes in the 18<sup>th</sup> and 19<sup>th</sup> centuries, by considering "the decline of deposits in wartime an integral part of its business" (Temin & Voth, 2005, p. 345). In addition, the Bank's conservative strategy increasingly consigned it to a niche of the banking market but proved successful in generating new partners, and in turn ensuring the continuation of the Bank (Temin & Voth, 2011).

Reflecting on the Wall Street Crash of the 20<sup>th</sup> century, Rennie Hoare, 11<sup>th</sup>-generation partner and Head of Philanthropy, explains that the knowledge accumulated for 182 years by the 10<sup>th</sup> generation creates *reference points* to the subsequent Partners of what happens in moments of market exuberance or market capitulation (Marsh, 2022). The consistency of this prudent approach permeating adaptability has also paid-off during the financial crisis in 2008. As Bella Hoare, Partner and Director, observes "In banking, the cycles do come around" (...) "The reason we had a good crisis is that we hadn't forgotten the last one. My father's father had taught him the lessons from the 1929 crisis" (Metcalf, 2019). A point reiterated in a recent interview with Henry C. Hoare, Bella's father and former Partner and Chairman of the Bank, who emphasized the lessons learned at the end of the 19<sup>th</sup> century's disaster as one of the keys for the Bank continuity. Alexander Hoare adds that the Bank's "idiosyncratic structure" and "play-it-safe" approach has enticed new customers who have lost faith in financial institutions in the wake of the 2008 financial crisis (Murphy, 2018), leading to cash pouring in from those looking for safety (Smith, 2008), up to receiving more deposits in the first three months of 2008 than in the Bank's first three centuries (Masters, 2008). This long-standing experience gives the partners perspective, helping make the perplexities of events, including Brexit, less foreboding (Smith, 2008). Combining prudence and adaptability, "the memory of the seventh generation is still informing the bank's prudent approach" in 2022 (Marsh, 2022).

Looking at the other big transformations of the 21<sup>st</sup> century, such as digitalization, Hoare's seems to have followed the same conservative path.

While the website of C. Hoare & Co. was launched in 2000 and the first online statements issued in 2001, the digitalization was significantly accelerated subsequent to increasing competition from banks offering cheaper and faster services as well as to increasing regulations from UK and European watchdogs (Murphy, 2018). As highlighted in the title of the *Financial Times* article, "UK's oldest private bank C. Hoare & Co finally goes digital" (Dunkley, 2015), the family announced in 2015 that it was aiming to "fully adopt the digital age". This included "scanning all paperwork and modernising 300 years of working practices" and "investing significantly in new technology" (Dunkley, 2015). The same year, the Bank started testing a new online system and a mobile banking app while launching contactless cards (Murphy, 2018).

Today, the Bank seems to have fully embraced digitalization as illustrated by its LinkedIn page presenting the Bank as "Combining over 350 years' banking expertise with 21st century digital capabilities"<sup>31</sup>. This latest move was further accelerated by the appointment of Rennie Hoare as partner, in an effort to bring "a very important dimension of millennial thinking" into the Bank and to lead it towards digital transformation (England, 2021; Murphy, 2018). One of the Bank's current strategic priorities is to improve its tech, adopting new fintech and technologies as they come out, according to Alexander Hoare, in order to offer clients better digital services, but also to find savings in the business through process automation (Marsh, 2022).

The Partners' conservative attitude to risk is not without setbacks though, as the Bank might have missed out on opportunities. This was the case when the Bank missed the industrial revolution, which led to slowing the growth of the balance sheet unlike other competitors at that time (Clark & Cahill, 2009). Still, the conservative risk management attitude stands firmly today, embedded in the current "tortoise-like approach" as Alexander Hoare calls it: "We go plod, plod, plod, doing what we've done for 11 generations" (Smith, 2008). As a good example, Michael G. Hoare refers to the Bank's adaptation to the very substantial increase in risk provided in the 1990's 'Big Bang' by the closing of the discount market which, since the 1825 crash, had provided material comfort

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<sup>31</sup> <https://www.linkedin.com/company/c-hoare-&-co/>

to interbank lending by adding a second layer of guarantee. More recently in 2022, Alexander Hoare reaffirms in his writings that “unlimited liability keeps the Partners working hard, focused on risk” (Hoare, 2022a).

This approach is also extended at the Board level through the “Board Approved Risk Appetite Statement” and the “Risk Appetite Metrics”. In its last annual report, the Bank acknowledges that it is willing to take risk consistent with the Bank’s values in order to meet its strategic objectives, provided it does not threaten the bank’s reputation or sustainability. In this line, the Board articulates the level of risk that the bank is willing to accept in achieving its strategic objectives both in total and for individual risk categories (C. Hoare & Co., 2022).

Operating in a framework combining learning-by-doing and prudence, the innovation and the adaptation are still at the heart of Hoare’s Bank development since its inception. The Hoares did not, however, restrict them to the Bank *per se*. They particularly thrived or thrived in the philanthropic domain, connecting their business with the family and the broader community.

### **2.3 Philanthropy, Environmental and Social Responsibility: Pioneering Initiatives Conducive to Stakeholders’ Engagement and Impact**

The culture of giving is one of the ways C. Hoare & Co. makes its purpose “*To be good bankers and good citizens*” a reality (Golden Bottle Trust, 2020). A clear sense of purpose is shared by the partners and colleagues alike, observes Diana Brightmore-Armour (Spear's 500, 2022a). This statement echoes “the deep philanthropic involvement of the Hoare family in philanthropy for centuries” (Golden Bottle Trust, 2020, p. 3) alongside other stakeholders, including employees and customers.

The specificity of C. Hoare & Co.’s philanthropy is two-fold.

First, the Hoare's philanthropy has been *enduring* and *pioneering* from one generation to the other. It has set the stage for *continuously innovative* structures and practices that *make an impact and inspire the evolving models of philanthropy* over time.

As Alexander Hoare observes, "Philanthropy has always been part and parcel of the family business. It is in our DNA" (Chapman, 2012). The deep-seated charitable tradition of Hoare's Bank was, in fact, established by its founding father Sir Richard Hoare and inspired by his careful stewardship and Protestant work ethic (Chapman, 2012). As a deeply religious man, strongly involved in public duty, he had appetite for good works throughout his life until his death in 1719 when he made many notable charitable bequests allowing the company to provide annuities for poor widows of freemen and for Christ's Hospital (Chapman, 2012).

The second-generation partner was named "Good Henry" because of his prolific charitable work (Chapman, 2012). Combining money with a radical idea (Hutchings, 2005), he co-founded in 1719 the Westminster Hospital, one of the first hospitals in the world to offer free medical care funded by public subscription (C. Hoare & Co., 2021a; Hoare, 2021c), a concept he borrowed from the joint stock trade of the 18<sup>th</sup> century (Chapman, 2012). In 1812, a subscription account was opened at Hoare's Bank for the sufferers in the North Seas, mainly intended to the relief of the widows and families of the diseased then extended to those on board other recently foundered ships. The remaining balance following the last entry was donated to the Naval Charitable Trust (Hunter, 2018a). In 1815, the Hoare family opened The Waterloo Subscription account for those who had fought the Battle of Waterloo (Hunter, 2018c) and ran subscription campaigns for the wounded veterans (Ross, 2018). In 1891, William Hoare founded the UK's first hospice (Family Business Week, 2021). These actions are merely illustrations of the pioneering spirit of philanthropy of the Hoare's family in the 18<sup>th</sup> and 19<sup>th</sup> centuries. Commitment to philanthropy became increasingly engrained in the Bank's legacy with subsequent generations, proudly carrying it on throughout the 20<sup>th</sup> and 21<sup>st</sup> centuries.

More recently, the "Hoare's passion for giving has been channelled through the Golden Bottle Trust (GBT)" (Golden Bottle Trust, 2020) named in reference to the insignia of the Bank. Set up by the partners in 1985, it was built on charitable donations from the Bank, such as part of the

Bank's annual profits (10%). Also referred to as the Bank's 'eighth partner' (Chapman, 2012), the GBT provides grants for various causes intended to make a positive impact on the social, educational, and environmental level. Thirty-five years later, Rennie Hoare, Partner and Head of Philanthropy at C. Hoare & Co wrote in the GBT annual report that "The Trust helped further the philanthropic ideals of the Hoare family". In a *Financial Times* article, he adds that it is one of the longer-lived investors in the field of impact investment (Ross, 2018). New approaches were gradually introduced in the GBT, such as the philanthropy profiling tool and the integration of UN Sustainable Development Goals in the grant-making process (Golden Bottle Trust, 2020).

The Hoare family also demonstrated an early involvement with social impact investments by co-creating their own vehicle. As explained in the last GBT annual report, "In 2016 there was no product in the market which was sufficiently diversified and intentional about impact. We wanted to think systemically about how our investments can contribute to a better world, whilst also generating competitive financial returns."

At the end of 2016, the GBT became a founding partner of a new social impact investment fund, Snowball, to align investments with values. At the end of 2019, 100% of the trust's reserves investments were moved to social impact portfolios. This concept of "*total portfolio impact*" means that both investments and grants have a positive impact. Stated differently, the negative impact of investments does not outweigh the impact of grant giving (Golden Bottle Trust, 2020). As Alexander Hoare recently reported, the GBT endowment is now 100 percent invested for impact across four fund managers and some proprietary investments, and the performance has been very satisfactory for the charity<sup>32</sup> (Hoare, 2022b, p. 8).

The Bank was also the first in the UK to introduce a Donor Advised Fund (DAF) – "the Master Charitable Trust". This DAF is an umbrella charity that enables customers - individuals and companies - to give in tax-efficient and effective manner to chosen beneficiaries now and for generations to come without the administrative burden of running their own charity or foundation. Messrs. Hoare Trustees is the sole Trustee of The Master Charitable Trust and

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<sup>32</sup> We invite the reader to learn more about the Snowball Impact methodology by reading the article by Hoare (2022b).

undertakes all administrative aspects of the Giving Funds (C. Hoare & Co., 2021a). According to Alex R Q Hoare, in the 10 years since its launch, the Master Charitable Trust has facilitated charitable donations of £ 160 m (Hoare, 2021b).

Customers of the Bank and the Master Charitable Trust have also joined the GBT in investing in Snowball LLP, which was recognized in 2022 as the "Best for the World" by the B Corporation<sup>33</sup>.

Second, the Hoare's philanthropy reflects *shared values* and is integrated, as such, into both the *family* and the *business* in a *holistic perspective*. This entails engaging and benefiting the Bank's stakeholders such as the owning and wider family, the employees, and the customers.

*On the business level*, the philanthropic spirit is instilled in the bank's culture. It is made visible through bank actions around *awareness, education, incentives, and support of employees and customers*, among other stakeholders.

The bank has developed *a new approach to employee and customer philanthropy*.

It has implemented a philanthropy programme and pioneering its use in a corporate environment<sup>34</sup>. As such, employees are introduced to philanthropy and its relevance to the bank through an on-boarding course (Vogel & Kurak, 2019). The Bank also organizes a series of events to inspire and to engage customers, employees, and selected stakeholders in dialogues around miscellaneous causes. Labelled "Winter Talks", these events feature inspiring and impactful speakers who are philanthropists, representatives of charities, or experts in advancing important causes<sup>35</sup>.

Employees are also encouraged to take part in the philanthropic efforts while benefiting from the Bank's centuries of expertise and access to the philanthropic community (Golden Bottle

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<sup>33</sup> B Lab recognizes the B Corps that have achieved the highest verified scores in the five impact areas evaluated on the B Impact Assessment. More information is available via: <https://www.bcorporation.net/en-us/find-a-b-corp/company/snowball>

<sup>34</sup> <https://www.mpfglobal.com/awards/awards-2019/best-philanthropy-engagement.aspx>

<sup>35</sup> To learn more about the Winter Talks, we invite the reader to check the articles featuring insights from the events at <https://www.hoaresbank.co.uk/insights?topic=winter-talks/winter-talks-series&type=insights,news,events>

Trust, 2020). They have the possibility to participate in different ways to decisions on the Bank's grant-making (Vogel & Kurak, 2019).

The GBT and the Master Charitable Trust also support the charitable giving of the employees and customers of C. Hoare & Co. This includes the double matched "Give-As-You-Earn" (GAYE) scheme through which for every pound given by the employees, two pounds are added by the GBT into their charitable account (Golden Bottle Trust, 2020). In 10 years, the Bank's staff who participated to this scheme increased from 37% (C. Hoare & Co., 2011) to 51% (C. Hoare & Co., 2021c), placing the Bank in the top 100 UK companies subscribed to it<sup>36</sup>. The Bank's customers also engage in the Master Charitable Trust, with 70 of them having contributed to over £60 million of grants (Vogel & Kurak, 2019). While cumulative GBT grants account for more than £23 million, according to the 2019-2020 report, the trust allocated £2,798,914 in grants - in size from £200 to £300,000 - to over 325 different beneficiaries in 2019. To date, the Master Charitable trust has channelled £250m to charitable causes, according to Alexander Hoare.

Community engagement is another key part of the Bank's philanthropic agenda as illustrated by initiatives supporting the local community through the COVID-19 pandemic. In addition to donations ranging from coffee machines and supplied meals to NHS workers to essential goods to homeless people, the bank's catering team cooked meals for a voluntary-sector day-care centre for the homeless and the vulnerable, and colleagues raised funds to purchase an electric van for charity's food deliveries (Family Business Week, 2021). These collective efforts echo the strong alignment between the Bank employees and partners and the communities.

*On the family level*, philanthropy is strongly embedded in the history and acts as a motivating and binding force.

A Family Forum acts as the GBT's grant making committee. Meeting on a monthly basis, the Forum discusses donations from the GBT to support different family activities intended to engage the wider Hoare family (ranging from 2000 to 3000 members) in philanthropy. These range from a form of venture philanthropy to discretionary grants for fully committed members to a

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<sup>36</sup> <https://www.hoaresbank.co.uk/golden-bottle-trust>

charitable cause<sup>37</sup>, as well as to more substantial, highly strategic grants directed by individual members of the Family Forum (Golden Bottle Trust, 2020). Through a profiling exercise, family members identify the causes that matter most to the family to focus its individual and collective philanthropy efforts (Vogel & Kurak, 2019). All decisions are collective and build on trusted networks (Golden Bottle Trust, 2020). Therefore, philanthropy proves to be a family governance vehicle that brings the family closer together around historical values and encourages them to act upon them through philanthropic commitments.

The impact of the Hoare's philanthropy has been recognized by a number of important awards<sup>38</sup>. The recognition of Hoare's commitment on the social and environmental levels extends, however, beyond philanthropy at large.

Diane Brightmore-Armour praises the Bank's much-celebrated commitment to social responsibility (Spear's 500, 2022a) which seems to permeate the organizational atmosphere. Exchanging with two non-family employees of the Bank, a newcomer and a senior member, allows to immediately witness the expression of joy of work, pride, and satisfaction. Both have plans to pursue their career in the Bank and perceive themselves as part of the extended family<sup>39</sup>. These elements, among others, reflect the care and concern for the well-being of employees that family businesses are recognized for (Corbetta & Salvato, 2004; Miller, Lee, Chang, & Le Breton-Miller, 2013) and that the Hoare's family instils in its human resources management. "The bank's strong ethos of social responsibility" not only attracts and retain employees but also the customers (Spear's 500, 2022b).

On the environmental side, the Hoare's family engages beyond the significant amount of grants dedicated to related causes<sup>40</sup>. As indicated by Amy Rodwell, the last partner to join the bank, the environmental considerations are an integral part of her interests (C. Hoare & Co., 2021b). This extends to the operational level including the Bank's carbon footprint. In 2021, Hoare's became

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<sup>37</sup> Family members have the possibility to apply for a grant up to £5000 to support a charity that they are deeply involved in/of their choice.

<sup>38</sup> Such as the 2018 Diamond Payroll Giving Quality Mark.

<sup>39</sup> Which is in line with existing research on non-family employees (e.g., Lingo & Elmes, 2019).

<sup>40</sup> Through both grants and investments, over £17.7m were oriented towards the SDGs (including over 9% of the GBT's grant making).

among the first banks in the UK to introduce environmentally friendly Visa cards. Meant to become the Bank's default cards over a three-year period, their emissions are approximately 68% lower than traditional cards upon industrial incineration. Made from PLA, which is corn-based, each card is produced with 73% less carbon emissions than traditional bank cards - allowing to support the environment with every swipe, tap or transaction<sup>41</sup>.

Marking its 350-year anniversary, the Bank announced '350 Grants' together with the GBT. As Rennie Hoare (2022e) explains, these grants are intended to celebrate the Bank's historic innovation and risk-taking and to address current issues where they can be equally impactful. At Hoare's Bank, impact has been always a matter of aligning the sustainable business ideology with the philanthropic activity viewed from a strategic approach (Chapman, 2012). Pursuing such commitment requires, therefore, successfully transferring the legacy to the generations to come. This entails a thoughtful succession process that the Hoares have been managing and revising along centuries.

## **2.4 Succession Process: Perpetuating Successful Attitudes and Talent, Learning from Mistakes, and Adapting to Modern Times**

Succession in a family business can be thought of on different levels - the management, the governance, and the ownership – while being based on different selection criteria. Primogeniture was traditionally the expectation when selecting the successor who embodies the Partner's role as owner and manager of the Bank. As Hutchings explains (2005, p. 24), Richard Junior has failed as the eldest son to live up to his father's expectations "as heir". This implicit expectation of the eldest son as successor soon after collided with and was overridden by the competences' requirements. What was a consistent pattern in the choice of Partners over the centuries was a combination of criteria in terms of competencies, successor gender (male) and origin (direct descendant line from the founder), with some premonitory indications for those who bear the

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<sup>41</sup> Source : <https://www.hoaresbank.co.uk/node/1471>

name “Henry” or “Richard”. In the last decades, these criteria have been gradually extended. In addition, succession planning became one of the four main tasks of the Partners<sup>42</sup> according to Alexander Hoare, representing a frequent item on the monthly agenda of the meetings, as observed by Rennie Hoare (Marsh, 2022).

Still, the underpinning factors that make of this choice a likely success seem to have endured the centuries, albeit with nuances. Three of them are of particular relevance at the Hoares: the right attitudes and talent, the ability to learn from mistakes and act upon them, and the adaptability of the process to modern times.

**Figure 11.**

**C. Hoare & Co. Partners in 2020**



*Source: Picture courtesy of C. Hoare & Co.*

The ownership succession represents the foundational block of the Bank’s continuity in the family’s hands. It builds on a *responsible partnership model* which has no automatic right of inheritance, and which determines the way management and governance succession are processed<sup>43</sup>.

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<sup>42</sup> The other ones being to know the customers, the staff, and the risks.

<sup>43</sup> Part one of the case (section 1.3) provides a more detailed account on the characteristics of the Ownership and its connections with Management and Governance over time.

The Partners' succession process was shaped over time by both *positive and negative experiences* based on which valuable lessons were derived and acted upon.

Looking at the bright side, the successful Partners have inspired the next generation of Partners as role models, embodying a number of virtues which were echoed in the Bank's business practices and service to the community. Partners in the third generation were, for instance, "all committed bankers, unhesitatingly loyal to their predecessors' creation" (Hutchings, 2005, p. 49). This is still particularly true today. As Rennie Hoare explains, the recruitment of new partners makes sure that they have the right culture, the right values, the right attitude to risk, and that they get along well (Marsh, 2022). These attributes seem essential for fulfilling the Partners' outspoken mission "To support the Bank's ongoing commitment to embed our purpose of being 'good bankers and good citizens' "(C. Hoare & Co., 2021b).

Over the years, many partners<sup>44</sup> exemplified the qualities that have set them for success in terms of attitudes, character traits, and skills. While every Hoare contributed in his or her own way to sustain the business, three Hoares stood out according to archivist Pamela Hunter.

Going back to the founding father, Richard Hoare, trustworthiness was his defining trait of business and character. As described on the Bank's website, "it was a genuine commercial asset, more real and reassuring than any of the padlocked strongboxes in his cellar"<sup>45</sup>. Good Henry was a devout man with a social conscience and practical nature, also referred to as "the ubiquitous Henry Hoare" in recognition of his energetic pursuit of good causes (Hutchings, 2005, p. 39). In terms of character, Henry the Magnificent was particularly known for his personal charisma which overshadowed the other Partners in the Bank (Hutchings, 2005, p. 49) and his visionary approach as he was the first to articulate the concept of Partner as a life trustee of the Bank (Hutchings, 2005, p. 228).

The Partners' ethical values were equally important and deeply rooted in the historical connection, attachment, and commitment of the Hoare family with *religion*, namely the Anglican

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<sup>44</sup> For illustration purposes and given the limited length of the case, we focus only on a few Partners whose characteristics were intensively described in various sources. This choice is not meant to rank neither assess Partners by degree of importance.

<sup>45</sup> [https://www.hoaresbank.co.uk/Richard\\_Hoare](https://www.hoaresbank.co.uk/Richard_Hoare)

Church (Hoare, 2022c; Hutchings, 2005). They transcended both their approach to philanthropy and their relationships with customers and other stakeholders (Hoare, 2022c). Sir Richard Hoare and Good Henry were Church Commissioners under Queen Anne, contributing to the founding of early Christian charities and several of her '50 new churches'. Other Partners followed in their footsteps by providing sustained support for the Church of England for 11 generations, including The Henry Hoare Bible Fund which is making grants since 1725 (Hoare, 2022c).

Added to this, Partners had a good sense and practice of public service, namely in the political arena, accumulating throughout the years a number of positions and titles as Mayors and MPs (Hoare, 2022c; Hutchings, 2005). Their other skills, whether gardening, fishing or cricket, have also played arguably in their favour, "providing better training for bankers than treading the corridors of power", as Michael G. Hoare (2022c) puts it.

With religious faith as a red thread, stewardship is likely what describe best the overall qualities of the successful and inspiring Partners to date. While Alexander Hoare defines himself as "steward of the firm's values and heritage" (Spear's 500, 2022b), the newest Partner of the Bank, Amy Rodwell, looks forward to playing her part in "stewarding the bank through the next chapters in its distinguished history", in her own words (C. Hoare & Co., 2021b).

As Partners depend on one another's capabilities and performance to a degree rarely seen in other businesses, given their unlimited liability, "finding the brightest and best family members has been part of the C. Hoare & Co. formula from the beginning", according to Alexander Hoare (Marsh, 2022); not without notable exceptions though. This formula has not been applied steadily if one looks back at the history, even though the founder tried to set the tone by excluding his eldest son, "Naughty Richard", from the partnership because of a presumably lack of competencies (Hutchings, 2005).

Reflecting on the dark side, mainly through the seventh generation, Michael G. Hoare observes that after amassing riches and an important place in society over 200 years, the family lost most of its wealth in one generation (Hoare, 2022d). As values go hand in hand with competencies, "religious conformity was expected of those who worked at the Bank" (Hutchings, 2005, p. 149). Partners such as Henry of Iden who admitted not believing in God were regarded as a serious

moral failing within the family<sup>46</sup>, raising discussions about potential disinheritance (Hutchings, 2005, p. 149). Along with members of his generation who were rich to excess, they were described as arrogant, convinced of their own superiority and with no understanding of risk, as not believing in God liberated them from all constraint (Hoare, 2022c). While being referred to as “rotters” by Venetia Hoare, the seventh generation members seem to have offered lessons that now inform the family about how to construct a lasting partnership and what to look for in a good partner, as suggested by Rennie Hoare (Marsh, 2022).

The past experiences have also enticed the family to emphasize the outside experience of family members before joining the recruitment process. For example, Alexander Hoare joined the family business from PA Consulting while Venetia Hoare joined after a career in investment banking, (Cope, 2001).

The values and professional experience that stand as a guiding star in the recruitment process of Partners also extend to non-family members joining the Bank’s management and governance. The non-family CEO Diana Brightmore-Armour describes herself, for instance, as a “values-led leader” with purpose and values being very important (Spear's 500, 2022a). She first served on the board for 18 months, which gave her great insights before taking on the executive role (Spear's 500, 2022a).

The recruitment of employees seems to follow a similar path since the early years. In her study of the Hoare’s Bank in the Victorian era, Jeacle (2010) emphasizes the significance of values to the clerks’ recruitment process. She found that only those of impeccable character were recruited into the ranks. While humorously referring to themselves as the Association of the Sons of Toil, Hoare’s clerks generally enjoyed a higher salary, longer holidays, and more favourable working conditions than their clerical counterparts. Recent conversations with non-family employees in other positions stressed further the favourable working conditions and atmosphere as compared to other workplaces, which allude to the distinct human resources management practices since that time.

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<sup>46</sup>Out of which around a hundred descendants of Sir Richard have been Anglican priests, as accounted by Michael G. Hoare.

During a recent interview<sup>47</sup>, Henry C. Hoare, Partner from 1959 until 2018 and Chairman from 1988 until 2001, recalls that his own preparation to the Partner's position started at a very young age. Things have evolved since, with the next generation members who are close to existing partners being invited to spend time at the bank for internship or to gain work experience (Hoare, 2022c).

The selection process of new partners entails, henceforth, a strong component of *motivation* that is fostered through opportunities for internships. As explained by Amy Rodwell<sup>48</sup>, "These internships are not expected to raise expectations. They are just a chance; not a guarantee for joining the partnership". Therefore, informal rather than written and detailed protocols or rules exist for identifying and educating the future generation (Hoare, 2022c). Through these internships, Amy Rodwell observes that family members are supported emotionally and for their career development.

Recounting her own experience, she explains that two internships at the Bank during her university holidays prompted her to consider a career in the Bank although she was initially interested in international development. She was fascinated by this initial experience, given the opportunity to learn and to build relationships with other cousins working at the Bank. After gaining an outside experience in other organizations including a Chamber of commerce and a charity, she joined the Messrs Hoare Trustees in 2015 for two years, then the banking team for another two years. Through a rotation in different departments, she learned about the processes and risks involved, consolidated relations with the colleagues, and attended committees' meetings. She was made a Partner in 2021 upon a joint proposal by the Partners.

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<sup>47</sup> In March 2022.

<sup>48</sup> The quotes attributed to Amy Rodwell in this section are derived from an interview held in March 2022.

**Figure 12.**

**Amy Rodwell, 12<sup>th</sup> Generation C. Hoare & Co. Partner in 2021**



*Source: Picture courtesy of C. Hoare & Co.*

Once the partnership opportunity turns into reality at Hoare's, it is followed by informal training and mentoring. Henry C. Hoare, whose daughter Bella became Partner, stresses the importance of informal discussions and meetings, such as those regularly held at lunchtimes, which strengthen communication among Partners. Formal or informal mentoring also plays an important role in the knowledge sharing and competencies development, especially when the mentors have been or are active owners for many years. To illustrate, Alexander Hoare acknowledges that Henry C. Hoare, whom he considers as his mentor, taught him everything he knows (Marsh, 2022).

In addition to the fundamental importance of the values and competencies in the recruitment process, the Bank has been adapting its practices to "modern times". In its recent history, the Bank has made progress in terms of diversity whether on the board and top executive positions or in the partnership composition. Including the *diversity considerations*, the Hoares increased gender and age representation, introduced Partners who do not descend through a direct line from another Partner, as well as the first member in the partnership who does not hold the family name. Only three female partners joined the Bank, starting in 1996 with Venetia Hoare and following with Bella Hoare as members of the 11<sup>th</sup> generation. In November 2021, Amy Rodwell

became the first member of 12<sup>th</sup> generation to join as partner of the Bank while not bearing the Hoare's family name (C. Hoare & Co., 2021b). Alexander Hoare and Amy Rodwell have to go back 200 years or more to find a partner in their direct lines (Marsh, 2022). Rennie and Amy, two relatively young Partners as compared to the senior Partners, bring new skills and perspectives through millennial thinking. With diversity in the making, the path is wide open to continue adapting the Bank succession practices to a changing world.

For the succession process to be a durable success, however, it should be viewed beyond the Partners' circle, that is in a *stakeholders' perspective* with a particular focus on the wider family. As Alexander Hoare observes, "There are two things that can destroy a family business. Business and family. Both must be kept in order" (Lederer, 2019).

While the family, which spans between 2500 and 3000 members, includes only a handful of partners who are financially bound to the Bank, most of the members do not work neither have a financial interest in the Bank (Reynard, 2019). Therefore, what binds the family together and ensures the future upbringing of successors who continue the legacy extends from the financial dimension to the *emotional dimension*.

In this line, the Partners are increasingly organizing activities and initiatives to make sure the family stays emotionally attached to the Bank and united around its values and mission. While philanthropy plays a significant role in binding the family together as explained in the previous section (2.3), the Partners also engage the family in miscellaneous formal and informal activities whether in terms of sharing historical narratives, disseminating information through a family online platform and other digital means, or organizing meetings, seminars, and celebrations.

Shared historical narratives play an important role in educating and engaging the next generations of Partners<sup>49</sup>. Through the Museum of the Bank, the speeches, the tales, the articles and other publications on family memories and history, the family not only learns from the past Partners' mistakes that threatened the Bank's continuity but is also encouraged to act upon them (cf. Hoare, 2021a for an illustration). Therefore, current or future Partners feel indebted to their

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<sup>49</sup> In line with recent research observations (e.g., Labaki, Bernhard, & Cailluet, 2018; Michael-Tsabari, Mihm, Seaman, Viellard, & Labaki, 2018).

predecessors for their guardianship of the Bank, especially those who defended the Bank from Partners who had little interest in its future (Hutchings, 2005, p. 228).

Activities intended for the younger members of the family include a “Cousins Committee” which was originally started by Rennie Hoare three years ago and became gradually more formalized with meetings planned on a quarterly basis. These meetings organized by Amy Rodwell and Rennie Hoare offer a platform to exchange in small groups of cousins, with different professional backgrounds and who are gender and age diverse. Topics include an update about the Bank’s ambitions on topics of interest, such as sustainability and digitalization. As Amy puts it during a recent interview, “it is a good opportunity for them to listen and ask questions and for us to meet them and learn from them” while adding “they are a good sounding board”. Other meetings are also held on an annual basis to discuss strategic topics with cousins who are in the financial industry for example.

Parties also contribute to creating and maintaining connections among the young cousins as well as across generations, including the celebration of the 350-anniversary of the Bank.

Lastly, the Hoares like to leave a *hint for luck* when reflecting on the success factors of succeeding generations. Decoding the past, Michael Hoare (2022c) suggests in his writings that “luck must also take its bow. Luck in the original choice of an activity that is both durable and sufficiently simple for succeeding generations to be able to adapt to it; luck in both always attaining critical mass and also keeping small and simple enough for the family to stay in full control; luck in never running out of capital; luck in avoiding diversification or selling; luck that each generation has thrown up at least one long-lived, competent and committed banker, luck in Britain’s political stability...”.

For the Hoares, the success metrics for succession lie in the ongoing pursuit of the process. As Rennie Hoare suggests, “you’ve succeeded when you are succeeded” (Marsh, 2022). This process has been going on for 350 years which were rich in lessons that this case tried to distil. The concluding remarks are intended to present their highlights in an effort to answer the original research questions and to anticipate the Hoares’ future.

## Concluding Remarks: Charting the Future in Confidence

In his foreword of *Through the years*, Simon M. Hoare (2018, p. 7) reaffirms “how important it is for us to continue adapting to the needs of an ever-changing world without losing sight of the values that have underpinned the bank’s success to date”.

Travelling back in time, this case followed the development of C. Hoare & Co. over 350 years to identify the sources of strengths that contributed to successfully navigating crises and perpetuating the legacy. Building on a *philosophy of impact*, four complementary factors make up the *C. Hoare & Co. Compass towards Sustainability*.

First, a base of select *customers relationships* lies at the heart of C. Hoare & Co.’s activities conducive to service excellence. These relationships prove to be long-standing, even multigenerational, as they are characterized by strong shared values and mutual trust between the Partners and the customers.

Second, facing the evolving environment, C. Hoare & Co. continuously *innovates and adapts its services and processes* in the intertwined systems with which it interacts – the business, the ownership, the family, and the community. Its innovation and adaptability are guided by a dual approach, combining learning-by-doing and prudent risk management.

Third, the Bank pursues pioneering initiatives in the *philanthropy, environmental and social responsibility arenas* since its inception. By engaging stakeholders in their development and implementation, the Bank makes sure to make an impact on different fronts.

Fourth, the Hoares’ *succession recipe* stems from its *responsible partnership model* which is thoroughly crafted to keep the family control and the values that go with it. The process of succession benefits from the lessons of the past, with successful Partners serving as role models for the next generation in terms of consistent attitudes and talent, and with unsuccessful Partners setting the stage for the mistakes that shall not be repeated. This process is meant to be flexible as Partners engage in adapting it to modern times in a stakeholders’ view. Recent examples include diversity inclusion in ownership, management, and governance structures as well as motivational opportunities for future partners. Through succession, the Hoares not only

aim at ensuring the business success but also and most importantly at maintaining harmonious relationships with the members of the family, the community, and the wider environment.

These four components contribute to realizing the self-fulfilling prophecy of the founder, as imagined in the conclusion of *A history of Hoare banking dynasty*, “No doubt it would have delighted him to see (...) his family continue that close connection with the customers that he had taken such pains to establish in his lifetime. He would have applauded the efforts of every generation (...) and it would have warmed his heart (...) to see the young generation taking on the responsibility of running the Bank with such enthusiasm and dedication” (Hutchings, 2005, p. 228).

Looking into the future is almost a tautology as “the Bank is an emphatically forward-facing institution” (Family Business Week, 2021). The Hoare family clearly invested (financially and materially) for the long term since its early beginnings (Temin & Voth, 2006). The Bank’s current strategic ambitions of impact lie at the intersection of environment and modernization plans.

As suggested in the last annual report, the year 2021 allowed the Bank to refresh its strategy to ensure it remains sustainable for the decades to come. The Bank has committed to effective management of the carbon footprint as a core part of this strategy, towards becoming net carbon neutral for the scope 1 and 2 emissions by 2025. The first step is a move to operate as a simpler, faster, better bank by 2023 (C. Hoare & Co., 2022), notwithstanding that it remains content to put self-imposed restraint on its size and ambitions (Hoare, 2022c). The CEO Diane Brightmore-Armour mentions “a modernisation plan that includes expanding the Bank’s operation out into the regions, with a continued focus on social responsibility and sustainability” (Spear's 500, 2022a).

At all times, the future has remained the focus of Hoare’s Bank through a strategic orientation that foresees and addresses challenges in accordance with its line of thought and action. As Alexander Hoare observes, “We are a 349-year old bank with one eye always on the future” (Spear's 500, 2022a) (...) “Aligning the interests of profits, people and planet is not only sustainable; it is key to the bank’s continued success.” (Spear's 500, 2022b).

In 2022, C. Hoare & Co. is 350 year-old and the family still seeks “to operate the business in a manner that is sustainable for the long term” (C. Hoare & Co., 2022). Charting the future of C. Hoare & Co. can therefore be done in full confidence.

**Figure 13.**

**C. Hoare & Co. Bank Exterior and the Sign of the Bottle**



*Source: Picture courtesy of C. Hoare & Co.*

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# The Okaya Case Study

Author : Munehiko Ito  
(Otemae University)



# OKAYA Case Study

MUNEHIKO ITO

Professor

Otemae University

## 1. Introduction

Originally founded in 1669 as a hardware store handling farm tools and swords in the town surrounding Nagoya Castle, OKAYA & Co., Ltd. is a well-known company that is growing sustainably by showing its eagerness for new business while faithfully maintaining traditions. Since its founding, the company has delivered decorative metal fittings for the roofs of the Ise-Jingu Shrine for its vicennial (every 20 years) Shikinen Sengu (the regular refurbishment of shrine pavilions). In addition, the company distributes state-of-the-art iron and steel products, machinery, and electronic parts for car manufacturers, etc. When it comes to pursuing tradition and innovation, the company has a corporate culture second to none.

OKAYA & Co., Ltd. is listed on the Premier Market of the Nagoya Stock Exchange, Inc. With its 5,246 employees and 960.8 billion yen in sales for 2022 on a consolidated basis, it makes its overwhelming presence felt in the Nagoya business community. Previous presidents have served as chairpersons of the Nagoya Chamber of Commerce and Industry, and the ninth president, Masayuki Okaya, is well-known as the businessperson who founded Nagoya Boseki and Aichi Bank Ltd.

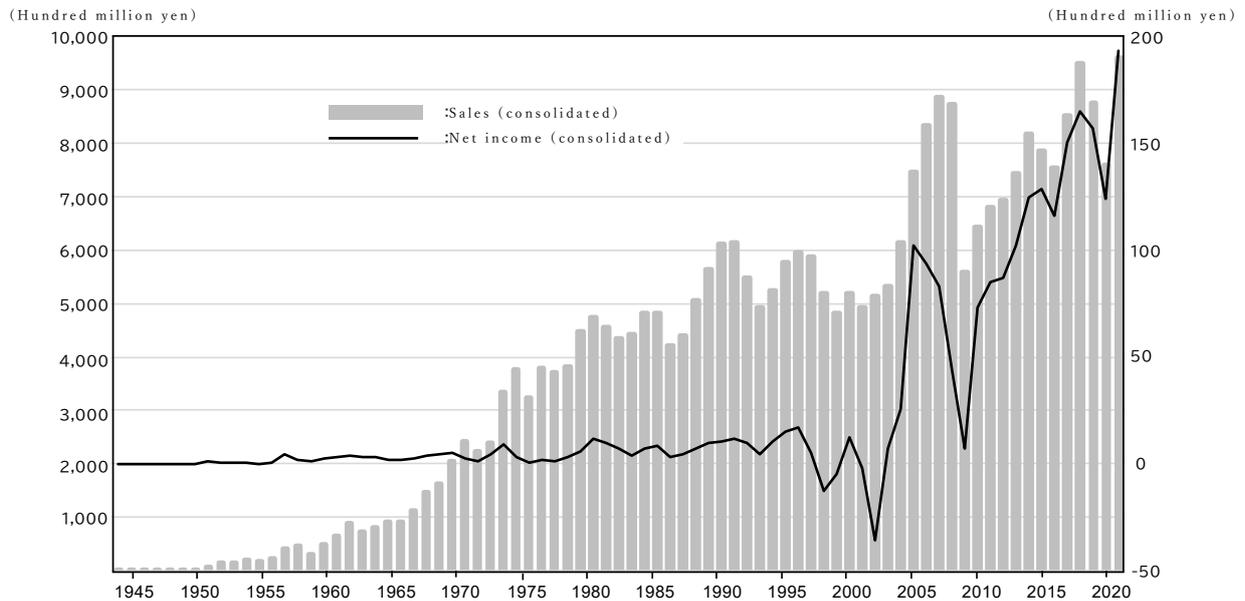
In the approximately 350 years of the company's history, there have been 14 presidents, who have witnessed significant changes in the environment surrounding the company. What has enabled the company to survive turbulent times is the corporate culture that has developed excellent leaders with steadiness and entrepreneurship. Since its founding, OKAYA & Co., Ltd. has had a reputation of having a strong financial standing and being a very solid business. This may sound obvious, but few companies have been able to keep on growing as stably as OKAYA & Co., Ltd. has.

Keeping abreast of current trends, OKAYA & Co., Ltd. has successfully demonstrated the attitude of trying new things. What is behind this success is the company is involved in local activities, it has provided lifetime security to employees, and it has maintained its unique personnel system since its founding. The purpose of this article is to show how the company has been able to run a healthy business and launch new businesses over more than 350 years, with attention given to the birth and development of its unique culture and its personnel system based on it.

## 2. General information about the company

OKAYA & Co., Ltd. was founded in 1669 in Teppo-cho, Nagoya, as a hardware store handling farm tools and swords. More than 350 years have passed, and the current president is the 14th one. Originally, the company operated under the name SASAYA. Later it was renamed OKAYA SHOTEN Co., Ltd. and OKAYA & Co., Ltd. in 1937 and 1943, respectively.

Figure 1. Changes in sales and net income



(Note) The figures from 1995 onward are on a consolidated basis as all subsidiaries were consolidated in the same year. Source: Financial Report

It was the tenth president, Sousuke, who adopted the current name. Some 75 years have passed since the name was changed from SASASO (a nickname for SASAYA) to OKAYA & Co., Ltd., from the 11th president Masao (1945), the 12th president Yasuharu (1958), the 13th president Tokuichi (1990) to the 14th president Takehiro (2021), and the company has increased sales to some one trillion yen. Figure 1 shows the company’s sales and net income from 1943 to the present.

Alfred D. Chandler Jr. (1918–2007), a prominent Harvard Business School business administration researcher, created the famous concept of “Strategy and Structure.” He clarified the process that enabled big companies to emerge a little earlier than OKAYA & Co., Ltd., such as DuPont, General Motors Company, Standard Oil Company, and Sears, Roebuck and Company. This concept describes the strategies targeting the expansion of companies, such as qualitative expansion, geographical expansion, vertical integration, and product diversification, which lead the

structural change called business segmentation, as illustrated with the introduction of dedicated managers and managerial meetings. Next, OKAYA & Co., Ltd. will be examined in relation to Chandler's growth process for companies.

#### Qualitative expansion

OKAYA & Co., Ltd.'s growth from 1943 to the present aligns with Chandler's growth process for companies. In 1936, when the company was operating as OKAYA SHOTEN Co., Ltd., it accounted for 72% of Japanese companies' business for the South Manchuria Railway. It installed the machine division for creating expensive tools and precision equipment in the same year and began to handle ferrous materials, special steel alloys, various steels, machinery and tools, household hardware, and architectural hardware in 1937. In 1948, a ban on private free export trade was lifted, which boosted exports, with the result that companies' profits grew. Keeping pace with the global shipbuilding boom called the Iwado Boom from 1956, the building enlargement boom, and growing general demand, OKAYA & Co., Ltd. was able to earn foreign currency as a steel exporter in that year. And the qualitative expansion of steel plates, the company's flagship product, continued. In this way, the company continued expanding its business and was listed on the 2nd Section of the Market Nagoya Stock Exchange, Inc. in 1995 and the 1st Section of the Market in 1997.

#### Vertical integration

In 1960, the company put the sheet service center into operation in Tokyo after realizing that as a steel trader it had to provide services such as iron cutting and delivery. Achieving huge success, the company opened the Sorami Pier Warehouse in Nagoya and the sheet service center on the pier in 1962 and 1967, respectively. This services-based vertical

integration largely contributed to the increase in sales.

### Geographical expansion

Starting with Okaya (U.S.A.), Inc. in 1964, the company founded the following overseas subsidiaries: Okaya Europe GmbH in 1973; Siam Suriya Co., Ltd. (Thailand) in 1974, Okaya Australia Pty. Ltd. in 1977, Okaya Singapore Pte. Ltd. in 1982, Okaya International (H.K.) Ltd. in 1983, and Siam Steel Service Center Public Co., Ltd. (also in Thailand) in 1985. Today, some 20 overseas subsidiaries are operating.

Figure 2. Diversification

OKAYA & Co., Ltd.	Names of segments	Details of products and services	Main related companies
	Iron and steel (29 companies)	Iron scrap, iron and steel, sheet piles, H-section steel, steel plates, steel pipes, carbon steel for machine structural use, alloy steel, bearing steel, tool steel, stainless steel, others	Tokai Pressing Co., Ltd. Okaya Kenzai Co., Ltd. Okaya Steel Co., Ltd. Okaya Special Steel Center Co., Ltd. Union Autoparts Manufacturing Co., Ltd.
	Information and electrical machinery (11 companies)	Copper, aluminum, rare earths, electronic members, general-purpose electrical machinery, video equipment, semiconductors and electronic accessories, software development and sales, others	Okaya Electronics Corp. Rokugo Elemec Co., Ltd. Okaya Kiden Co., Ltd. Okaya System Co., Ltd.
	Industrial machinery and materials (16 companies)	Machine tools, tools, industrial robots, environmentally friendly recycling equipment, semiconductors and electronic equipment, aircraft members, auto parts, synthetic resin raw materials, resin molding, others	Naito & Co., Ltd. Chubu Plastics Molding Co., Ltd. Tokai Okaya Kizai Co., Ltd. Okaya Kihan Co., Ltd. Okaya Seiritsu Engineering Co., Ltd.
	Living-related products (9 companies)	Piping materials, housing equipment, housing materials, real-estate development, condominiums, marine products, livestock products, warehouse businesses, others	Okaya Mart Co., Ltd. Okaya Logistics Co., Ltd. Okaya service & homes Co., Ltd.
	Overseas subsidiaries (20 companies)	Trading companies that handle a variety of products and are engaged in multifaceted business operations domestically and the main overseas locations	Okaya Kyushu Co., Ltd. Okaya (U.S.A.), Inc. Okaya (Thailand) Co., Ltd. Okaya Singapore Pte. Ltd. Okaya International (H.K.) Ltd. Okaya (Shanghai) Co., Ltd. Others

Source: Financial Report

## Product diversification

The company raised its business performance through qualitative expansion, vertical integration, and geographical expansion and in 1967 recorded over 100 billion yen in sales. It has increased sales nearly every year after that. The key driver for these increases has been diversification. Figure 2 shows the company's products and its main related companies in 2021. When the company was founded as SASASO in 1669, it handled farm tools, carpenter tools, and household goods. Today, as shown in Figure 2, OKAYA & Co., Ltd.'s business is roughly classified into four segments, iron and steel, information and electrical machinery, industrial machinery and materials, and living-related products, with each segment creating plenty of business activities. In addition, the company has also founded overseas subsidiaries. Today, as shown in Figure 2, 85 related companies are running businesses as members of OKAYA Group.

### 3. Creation of a corporate culture (from the first to fourth president)

OKAYA & Co., Ltd.'s corporate culture can be traced back to when it was founded as SASASO. This article will review how the corporate culture has developed. Figure 3 chronicles the company's history from the era of SASASO through to OKAYA & Co., Ltd. We will now have a close look at its history.

Figure 3. Chronology

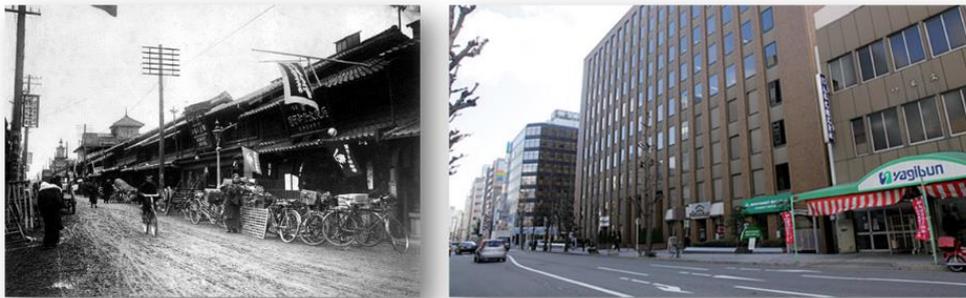
		System	Products handled by the company	Events
1650				
	1669	SASAYA was founded		Great fire of Manji Wakamiya Festival started
		1st president (family head): Sosuke-Muneharu	Farm tools, carpentry tools, and household goods	
1700	1710	2nd: Soshichi-Muneyoshi		Business expansion (the opening of outlets in the north and south)
		3rd: Sosuke-Yoshihiro		
1750	1739	4th: Soshichi-Yoshiyuki	Gokuin-ko Copper products, brass products, and imported products	Solicitation of donations for Sumiyoshi Shrine through Gokuin-ko Realization of the Higaki kaisen shipping service on the Atsuta coast
		5th: Sosuke-Masateru		Raised 10,000 ryo for an Owari Domain-sponsored development of a new field
1800	1794	6th: Sosuke-Masazumi	Franchise system Seasonal salesclerks Sekizen-ko Issen-ko	Restoration of Kanayama Shrine through Issen-ko
			Personnel system - Kikan	
	1845		Formulation of the Five Daily Rules	
1850		7th: Soshichi-Shinpo	Toshihai and Koken	
	1867		M&A of the Osaka Branch	Founding of Nagoya Boseki First president of Aichi Bank
		8th: Soshichi-Masachika 9th: Sousseke-Masayuki	Trading of ancient metals, such as copper, tin, and lead Management of products for export Expensive tools and precision machinery Ferrous materials and special steel alloys Various types of steels and machinery and tools House hardware and architectural hardware	Started dedicating decorative metal fittings for the Ise-Jingu Shrine Shikinen Sengu Great Nobi earthquake
1900	1909			Great Kanto earthquake
		10th: Sousseke		
	1945		Issuance of the company newsletter	OKAYA SHOTEN Co., Ltd.
1950	1958	11th: Masao	Opening of the service center	OKAYA & Co., Ltd. sales of square nails
		12th: Yasuharu	Proposal system	88 family treasures donated to the Tokugawa Art Museum
	1990			
2000		13th: Tokuichi	Formulation of the corporate charter of conduct	Listed on the 2nd Section of the Market of the Nagoya Stock Exchange, Inc. Listed on the 1st Section of the Market of the Nagoya Stock Exchange, Inc.
	2021			
		14th: Takehiro		

When looking over the 350 years of the company's history, it can be seen that two factors played an important role in making up what OKAYA & Co., Ltd. is today. The first factor is that the company has been engaged in establishing land-based businesses. In 1660, nine years before its founding, a fire in the town surrounding Nagoya Castle destroyed a large part of the grid town. Most houses in the eastern part of the grid, in particular, were not able to escape the fire, and the number of damaged townhouses, Samurai residences, and temples amounted to 2,247, 120, and 30, respectively. Later, when a street called Horikiri-suji, which was located at the south end of the grid, was rebuilt between Hisaya-machisuji and Choja-machisuji, it was widened from 5.46 meters to 27.3 meters. The new street was called Hirokoji, which became Hirokoji-dori, the main street of Nagoya today. It grew to be a downtown full of attractions and stalls. After the fire, the founder, Sosuke-Muneharu Okaya, chose to start a business not on Hirokoji but on Teppocho-dori, which was located to the south of Hirokoji and outside the grid. In fact, it was home to many gunsmiths during the Keicho era (1596–1615) and would have been by far the best place for SASASO to start a steel business. And in the 350 years since, no other local merchant family other than Okaya has remained in this area still employed in its original business. The town's demarcation following the fire and SASASO's acquisition of a prime location in Nagoya was a factor that paved the way for the company's growth.

Looking at the history of the company shows that making local contributions has been promoted as part of its corporate culture. This is the other factor of the company's growth. One example of this is its commitment to the Wakamiya Festival, that have taken place since 1664, and one of the three major Nagoya festivals. In 1671, two years after SASASO was founded, the communities of the shrine parishioners donated Kasaboko (festival floats) for the first time and the festival was established. Wakamiya Hachiman Shrine, where the festival still takes

place, is a shinto shrine located in Sakae, Naka-ku, Nagoya, that is worshipped as Nagoya Sochinju (the general guardian of Nagoya). The name of Wakamiya o-dori, a 100-meter-wide street running in an east-west direction in Nagoya, is from Wakamiya Hachimansha. Today, the eight towns (Suehiro-cho, Uramonzen-cho, Minamiotsu-dori, Yaba-cho, Sumiyoshi-cho, Teppo-cho, Ikedakawara-machi, and Monzen-cho) of parishioners host the festival on a rotational basis.

Photograph 1. Past and present scenery of the OKAYA & Co., Ltd. head office in Teppo-cho



SASASO has been deeply committed since the early days of the festival to it and has offered its entrance to the processions parading through the castle towns of Owari as a rest station. Even today, it offers the ground floor entrance of the head office as a rest station every year. On the Ise-Jingu Shrine's Shikinen Sengu, it has devoted metal fittings mounted to the roofs and rails of the shrine pavilions since 1889. Locally-based business led to it achieving huge prosperity some 40 years after its founding. I would like to stress that SASASO's corporate culture, which has enabled it to prosper, grew out of its experiences from those days. The era of the fourth president, Soshichi Yoshiyuki (1670–1710), was when Muneharu Tokugawa, the seventh Tokugawa lord of the Owari Domain, reigned and Nagoya reached its pinnacle. Thus, the leading merchant families from the three major cities at that

time (Edo, Kyoto, and Osaka) all had branches in Nagoya. It was the freight ships exclusively owned by the Higaki Kaisen (Higaki freight shipping) agent, which transported cotton, oils, sake, drugs, household goods, and other goods, that were largely responsible for the delivery of goods in those days. In 1694, the wholesalers of Edo organized the Edo Tokumidonya, a wholesalers union of Edo. The freight ships were also co-owned by them. During the Kyoho era (around 1730), the union owned 160 ships with a load capacity of some 100 tons, which demonstrated huge transport capacity at the time. Soshichi Yoshiyuki also campaigned for the Higaki freight shipping service in the Atsuta coast in Nagoya as well.

Even reputed Higaki kaisen ships, which connected Edo and Osaka, frequently sunk with their cargos due to poor navigation, resulting in big financial losses. Soshichi Yoshiyuki gathered the 11 leading merchant families of the castle town who used Higaki kaisen ships to organize a “Ko” (group in Japanese) called “Gokuin-ko,” which he represented. A Ko during the Edo period had two purposes, religious activities and mutual economic support. Gokuin-ko enabled its members to donate money regularly to Sumiyoshi Shrine to build the main building to enshrine the local maritime god. The fund was also used for compensation payments in negotiations between the shipping association, which was responsible for the handling of cargo on the Atsuta coast, and merchant families when ships were wrecked or cargos went missing.

There is something analogous to the Ko system. In the Netherlands during the same time in the 17th century, the world’s first limited company, the Dutch East India Company (Vereenigde Oostindische Compagnie [VOC]), was founded and the concept of limited liability was established. Ships sailing from the Netherlands to Asia frequently suffered accidents caused by natural disasters, and large sums of money had been lost. This led to the establishment of the system of a limited company, in which

dividends were paid to investors. Although different in scale from the Dutch East India Company, Gokuin-ko is comparable in that its members, to secure a stable supply of goods from faraway places, donated to temples and shrines to reduce the risks of transporting goods. The Dutch East India Company saw its hegemony over Southeast Asia decline as British colonialism grew. Demand for the spices it handled dropped while demand for the tealeaves and cotton textiles the East India Company handled went up, and in 1799, the Dutch East India Company was disbanded. SASASO created its system of maritime transport development around the same time, which led to the establishment of the system for importing copper and brass products, among other things, from various countries. The company made a significant leap, taking advantage of a business boom in Nagoya, and was certified as a purveyor for the Owari Domain.

#### 4. Innovations based on various unique systems (from the fifth to seventh president)

An unprecedented business boom in Nagoya during the era of Kyoho and Genbun (1730–1740) helped realize the extension of the Higaki kaisen shipping service to the Atsuta coast. This reformed SASASO's subsequent business in two ways: firstly in logistics as products from faraway places became available for purchase and secondly the way the Ko represents the establishment of a type of fund management by donating to temples and shrines and organizing local merchant families to promote local businesses. From 1764, when the sixth president Sosuke Masazumi succeeded the fifth president Sosuke Masateru, to 1868 and a little later to the eighth president, Soshichi Masachika, SASASO went on reforming its internal systems and its foundations became stronger.

The fifth president, Sosuke Masateru, transferred the headship of the family to future president Sosuke Masazumi after serving as the head for

a brief period. When Sosuke Masazumi was 18 years old, a fire broke out in the neighborhood and destroyed the building housing the store, but he had a makeshift house built immediately, and he resumed business just three days later. Sosuke Masateru, who was on a pilgrimage at that time, reportedly transferred the headship to Sosuke Masazumi. Sosuke Masazumi, as president, rebuilt the burned shop and boosted business even more. He implemented structural reforms, including establishing the family constitution and ranks. In 1838, the Okaya family was certified as a fiscal purveyor of the Owari Domain and granted the right to use a surname and wear a sword. This raised its status to just below that of the three senior purveyor families of the Owari Domain, the Sekido, Ito, and Uchida families.

The “Bekke” system (franchise system)

The organizational system during the Edo period was largely based on the Bekke or franchise system. After serving as an apprenticeship for a certain number of years, a person was allowed to run their own franchise shop and their status changed from a resident employee to a franchise owner. The Bekke system was also sometimes called Norenwake. Owners were given retirement allowances, temporary allowances, household goods, and enjoyed lifetime security. SASASO’s Bekke system appears to have been established in the era of the fifth president, Sosuke Masateru, which can be seen in the necrology as well. According to the records, from 1794, when Sosuke Masateru was the fifth president, to 1866, the era of the seventh president, Soshichi Shinpo, 46 employees established franchise shops over this seventy year period. Memorial services were still performed at anniversaries up to 49 years after their deaths. The era of president Sosuke Masateru saw SASASO’s business grow significantly, and he would have included the franchise system in the family constitution in order to solidify the foundations of the business. While many merchant

families applied the Bekke system in those days, no other family made the system so rewarding as the Okaya family. This system is still in place today at OKAYA & Co., Ltd.

#### Seasonal salesclerks

The sixth president, Sosuke Masazumi, introduced what was at the time new marketing innovations. One of them was the seasonal salesclerk system, which is similar to sales or marketing outsourcing today. Among SASASO's key products in the 1800s were farm tools, which had been selling well enough to attract customers from as far away as the Hokuriku area. To put it in modern terms, the SASASO brand had become established in the country. In those days, there was no way to place a purchase order. Instead, several facilitators for the farming community took advantage of sightseeing tours of Nagoya to buy such goods. The company reportedly offered attractive services such as discounting to attract customers from all over the country.

To encourage new business, the company prepared wrapping cloth with the SASASO stamp on it to make it a brand. And wooden license tags with the name of Owari Domain branded on them played the role of a sales outsourcing contract. The company's salesclerks carried these tags with them to prove their identity to prospective customers. In addition, something comparable to training, as we know it today, was conducted. This sophisticated seasonal salesclerk system grew in scale and spread nationwide, as it was very helpful for farmers who had no extra income. And it contributed to the nationwide recognition of the SASASO brand.

#### Sekizen-ko and Issen-ko

SASASO adopted progressive business methods in Nagoya, where stability in business was respected. In addition to new personnel systems like Bekke and seasonal salesclerks, the company took a new approach

to employees' welfare, which was rare in those days. In 1803, the company founded Sekizen-ko. It comprised veteran day-shift workers doing business using the name of SASASO and franchise owners, who helped each other financially when necessary due to expenses, procurement, and others. Sekizen-ko members saved premiums every two months in addition to financial contributions from the Okaya family, and borrowers were required to pay back debts with interests by a deadline. Sekizen-ko lasted until 1835, by which time an enormous 1,222 ryo had been collected and divided among its members.

Around the same time, SASASO was asked to restore the Kanayama Shrine in Atsuta, Nagoya. Because it enshrined the god of metal, the company was chosen as the representative of the merchant families handling metals, such as blacksmiths, makers of metallic ornaments, and hardware dealers in Nagoya. The company founded Issen-ko to raise funding. The system was simple; each member paid "Issen" (1/100th of one yen) as a monthly premium. In 1841, the shrine was restored thanks to Issen-ko and religious rites came to be performed there.

The "Ko" system, which organized merchant families of hardware and raised funds through the collection of small premiums, solidified the Okaya family's business.

### The Five Daily Rules

OKAYA & Co., Ltd.'s business philosophy based on the five daily rules has been passed down as the company's motto since the Edo period. In addition to the management policy of SASASO and the rules for the store and the home in the daily motto, in 1836, the sixth president, Sousuke-Masazumi, established and practiced the Five Daily Rules, which all staff recited every morning before work. Similar to the spirit of corporate social responsibility (CSR) as we know it today, they shaped the work and business attitudes of the workers and contributed to the prosperity of the

business. The Five Daily Rules are as follows:

Work on your inner self and not your outward appearance

Work within the bounds of your station and avoid excessive luxuries

Disregard vanity and be honest and sincere

Avoid idleness and find joy in your work

Understand your responsibilities and work well with others

As seen from the rules, the company's idea was that satisfying the community, partners, and customers would make the company last indefinitely. When there was a large fire in Nagoya during the Edo period, the company released goods in stock and did not cease to provide parts and equipment even when a leading partner faced a financial crisis. In this way, the company has been fostering the corporate culture of acting not only for the benefit of itself but also for the community and other companies.

Toshihai (managership) and Koken (guardianship)

The seventh president, Soshichi Sinpo, opened the first-ever branch in Osaka in 1862. The property had belonged to a hardware dealer in Osaka who had been a long-time partner of the company. The branch went into operation under the name of Fukudana or Kanaya and not SASAYA. This is how the first-ever branch was born. Based on the idea that a personnel system would be necessary, with the number of branches increasing as the business grew, the company formulated a "Kikan," which means a template or model that specifically indicates guidelines for behavior, etc. The Kikan system had six ranks and clarified each rank's responsibilities and norms. "Toshihai" and "Koken" were the top managerial posts in those days. What is interesting about this system is that it already specified the concept of stock and stockouts (running out of stocks) as we know it today.

The Toshihai was the manager who managed an entire shop and was required to check the books every day to avoid over ordering. The Koken was the guardian and chief operational officer who was held accountable for personnel and accounting affairs. In addition to checking the books without fail, when erroneous payments were discovered, he was required to address these immediately. The system was very advanced for a merchant's business in the Edo period in that it clearly stated job descriptions and responsibilities.

In this way, SASASO started in the Edo period and grew to become a major business representing Nagoya. The corporate culture that sustains the company today was fostered in that era. In order to contribute to the growth of Nagoya through its business expansion, solicit donations for temples and shrines, and perform its role as a logistics hub, the company fostered a corporate culture of doing locally oriented business and treasuring its employees.

#### 5. Birth of OKAYA & Co., Ltd. (from the eighth to tenth president)

By the Meiji Restoration (1868), the dawn of the modern state, SASASO was recognized as a leading company by the business community of Nagoya. Since then, how did the company grow over the next upwards of 70 years to 1943, when the company was renamed OKAYA & Co., Ltd. after having operated as OKAYA SHOTEN Co., Ltd. Since 1937? The answer involves globalization, the promotion of joint ventures, and social contributions.

#### Globalization

During the Meiji period and the era of the ninth president, Sousuke Masayuki, a civil war called the Seinan War broke out and inflation was triggered following the government's issuance of inconvertible bank notes

(paper money that cannot be converted into gold or other currencies). To overcome this inflation, efforts were made to earn foreign currency to increase national wealth. Sousuke Masayuki, who succeeded the headship of the family, decided to embark on a new business, “cloisonne” (a technique for decorating metalwork). The manufacturing method for cloisonne had been established by Tsunekichi Kaji, who is considered the founder of “Owari cloisonne.” Tsunekichi had studied Dutch cloisonne dishes to understand the manufacturing method, and he laid the foundation for Owari cloisonne. Sousuke Masayuki decided to market cloisonne wares overseas, and in 1871, he founded the Aichi Cloisonne Company with 30,000 yen in capital. Before this, no private capital company had ever existed in Nagoya. What caused the company to make this leap was the 1873 world exposition in Vienna, Austria. Its exhibits in the event were highly appreciated and sales increased sharply. This was the first-ever case where a Japanese company successfully marketed goods in a foreign country. Word about this accomplishment spread across the country. This was OKAYA & Co., Ltd.’s first-ever experience of globalization.

#### Founding joint ventures

After the Meiji Restoration, tycoons in Nagoya founded many joint ventures. Sousuke Masayuki launched a variety of companies, making the Tokugawa lord of Owari and the Okaya family the largest and the second largest shareholders, respectively. In addition to being the founder of the 11th National Bank in 1877 and the president of the 134th National Bank in 1878, he became the first president of Aichi Bank Ltd., which he founded in 1896 by integrating those two national banks. Since not only the financial business but also the spinning business was viewed as promising in the global market in those days, he participated in the founding of Nagoya Boseki (now Toyobo Co., Ltd.) in 1885. Entering the

20th century, he did not cease to advance business diversification by joint ventures. In 1909, he incorporated the family business to create Okaya Joint Stock Company while spinning out the real-estate division to form Okaya Property Partnership Company (now Okaya Estate Co., Ltd.). While working as an executive at the following companies, Aichi Bank Ltd., Aichi Tokei Denki Co., Ltd., TOHO GAS Co., Ltd., and Okuma Iron Works Ltd., as well as being the chairperson of Nagoya Chamber of Commerce & Industry, he established himself as a tycoon in the Nagoya business community.

#### Social contributions

In 1917, the tenth president, Sousuke, built a student dormitory named Shinsho Gakusha to help poor students financially and began to provide them with scholarships. After becoming an incorporated foundation in 1938, it has operated in what were occasionally tumultuous times. Over 500 students have received its support, and the company has been running the service for more than 100 years, in good times and in bad. Without seeking publicity for this service or requiring students to join the company in exchange, he and the four presidents that succeeded him have adhered to the founder's intentions. In addition, in 1936, when Nagoya Imperial University was founded, he provided it with funding and acted as an advisor while also serving as the chairperson of Nagoya Chamber of Commerce & Industry. The tradition of contributing socially is still alive in today's business.

In 1934, when Nakagawa Canal was constructed to promote the water transportation system in Nagoya, the company built a warehouse of 2553 square meters, which was capable of housing 10,000 tons of materials at the riverside of Oguri bridge. To maintain historical landscapes, in 2020 the company, at its own expense, refurbished and restored it to its original appearance of the early Showa period. As stated earlier, for the Ise-Jingu

Shrine's Shikinen Sengu, the company has dedicated decorative metal fittings mounted to the roofs and rails of the shrine pavilions for more than 100 years since 1889.

It was during the Meiji to the prewar period, when Japan was modernizing, that SASASO, which had started as a store, turned into a company. In the process, not only Japan's economic growth but also the globalization of business, participating in a variety of joint ventures, and social contributions to the local community played important roles. Strong localism, in particular, was the driving force of business even in that era. Anticipating war and with it tougher rules on the founding of a limited company, Okaya Joint Stock Company renamed itself OKAYA SHOTEN Co., Ltd. in 1937. However, after war broke out, the company considered the new name Shoten as inappropriate and renamed itself OKAYA & Co., Ltd. in 1943.

## 6. Concluding remarks

There are said to be over 50,000 companies that have more than 100 years of history in Japan, and most of them are family companies. They have the advantage of conducting management, choosing successors, and governing on a long-term basis. However, there is also the criticism that a founding family's exclusive occupation of management can lower the morale of employees and trigger a talent drain. A flexible approach to changes, such as economic globalization, is a requirement for a company's long-term survival and it has hugely influenced family companies as well. There is no doubting that human resources are the source of competitiveness for family companies in particular. Nagoya has many family companies with long histories. In general, family companies in Nagoya that have been local-oriented since their founding are gradually drawn to big cities, including Tokyo and Osaka.

This article has discussed the process in which OKAYA & Co., Ltd. has grown. Because of its excellent management, the company became a member of the Henokiens Association in 2004, and in 2019, the 13th president, Tokuichi Okaya, became its chairperson. The Henokiens is an association that was founded in France in 1981 and consists of long-standing companies from across the world. The name Henokiens is derived from Henok in the Old Testament, a grandson of Adam who was said to have lived for 365 years. The criteria for a company to become a member of the association are very demanding, such as, it must have more than 200 years of history, still be managed by the founding family, and be well managed. At present, the association consists of more than 50 companies from Europe, centering on France and Italy, with ten from Japan. Of those, OKAYA and Co., Ltd. is a company with sales of some one trillion yen and an excellent performance. Finally, the factors that have made it possible for the company to enjoy 350 years of prosperity are listed below:

#### Spirit of local contributions

The founder passed down the spirit of local patriotism and local contributions. In fact, the location of the headquarters has remained unchanged since the company was founded 350 years ago. It has engaged in local-based business activities, as illustrated in soliciting donations for local temples and shrines, managing festivals, forming logistics hubs, promoting joint ventures with banks and other companies, and its policy of going public only on the 1st Section of the Market of the Nagoya Stock Exchange Inc. Nagoya has prospered greatly since the Edo period, and the company has been able to enjoy this prosperity thanks to the principle of contributing locally.

## Development of human resources

The governance required to invest a great deal of effort in the development of human resources has been outstanding. It is noteworthy in two respects. One is the family governance, through which the company has smoothly grown from the SASASO era to that of OKAYA & Co., Ltd. The other is structural governance: employees enjoyed lifetime security and memorial services after their deaths through such systems as the Bekke (franchise) and Koken (guardian) systems. Since such systems have been passed down, a high degree of employee loyalty has been maintained. In addition, the company has contributed to the development of human resources socially by founding the student dormitory Shinsho Gakusha in order to build students' characters, creating a human resource development scholarship, and working as a promoter for the founding of a local national university.

## New business models

The company invented the seasonal salesclerk system, which is comparable to the outsourcing of sales promotions today. This made the SASASO brand well known nationwide. In addition, the company founded the mutual financing associations Sekizen-ko and Issen-ko to raise funding more efficiently. More recently, it formed joint ventures with banks and other businesses from different industries. In this way, keeping abreast of trends, the company has tried new things.

## Globalization

Based in Nagoya, the company expanded its trading zone to Osaka, Hokuriku, and other areas during the Edo period. More recently, it has expanded its business overseas and has overseas subsidiaries operating in 22 countries today.

I have discussed the 350 years of the company history from SASASO to OKAYA & Co., Ltd., focusing on four points. In February 2005, the 13th president, Tokuichi Okaya, formulated the Corporate Charter of Conduct, which is the very essence of the business of OKAYA & Co., Ltd. that has been derived from SASASO. It is said that former “Zaibatsu” firms (large conglomerates) in Nagoya are so cautious that they “knock on a strong stone bridge before crossing it.” While an Osaka businessperson concludes a contract on the spot, a Nagoya businessperson is careful to avoid a snap decision by saying, “I will reply tomorrow.” Traditionally, the family status of Nagoya merchant families has been symbolized by “Sankeshu to jochi shichike” (the three senior purveyor families and the seven junior purveyor families of the Owari Domain). And of the ten families, one of the few families still thriving today is the Okaya family. Not all of the 350 years of the company’s history would have been smooth. While it is generally believed that tradition does not create innovation, each of the 14 presidents has created innovation while treasuring tradition in the process of maintaining the SASASO brand and achieving his own breakthroughs. More specifically, it is sensitivity to trends, measures to keep pace with them, the development of human resources capable of supporting them, and the tradition of the business spirit of working as one to take on challenges that have made OKAYA & Co., Ltd. what it is today.

References:

-Financial Report

-Okado, Buhei (1968): *Tetsuhitosuji: Okayakoki 300nen no ayumi* (Sticking to steel: 300 years’ history of OKAYA & Co., Ltd.), the Mid-Japan Economist

-Alfred D. Chandler Jr. (2004) *Strategy and Structure* (translated by Aruga, Yuko), DIAMOND, Inc.

## Appendix: Corporate Charter of Conduct

The OKAYA Group will not only pursue sustainable growth and fulfill its social responsibilities but will also raise its corporate value by working on sustainable improvements of its management and improve and reinforce internal controls. We will make efforts to maximize shareholders' returns and will utilize different functions globally to contribute to optimal procurements for our partners. We will treat employees fairly and provide opportunities for them to develop themselves so that they can develop a dynamic organization and demonstrate their abilities.

Based on this charter, OKAYA & Co., Ltd., declares it will respect human rights both domestically and internationally and abide by related laws, international rules and their spirit. And it will clarify inside and outside the company how to behave as a good global citizen through business activities with the aim of becoming a sensitive best global sourcing partner that contributes to manufacturing in the global market.

To satisfy diversified social needs and fulfill our social responsibilities, we will observe what is agreed on between stakeholders and us. And we will provide the best products, services, and information to customers to obtain their satisfaction and trust.

We will practice fair, transparent, free competition and proper trade. We will maintain a healthy and proper relationship with governmental administrations and partners. We will promote communication with society as well as shareholders and disclose the company's information properly. We will protect and manage information of any kind strictly, including personal and partners' information. We will respect our employees' characters and individuality and ensure a safe and worker-friendly work environment.

We will actively promote offering products, services, and information effective for environmental protection and take proactive environmental actions, such as resource saving and pollution prevention. As a good

global citizen, we will commit ourselves to the local community and society.

We will stand against antisocial forces and groups that threaten public order and safety and will stand apart from them. To promote the globalization of business, we will respect local rules and international norms of all kinds, including those on human rights, and will do business respecting local cultures, customs, and stakeholders' interests to contribute to local development. We will ensure employees remain conscious of the OKAYA & Co., Ltd. Employee Code of Conduct so that all of them practice it on a daily basis.

Recognizing that senior management is responsible for practicing the spirit of this charter, it will take the initiative in keeping all employees, including those from group companies, informed about the charter and will improve and review the internal structure continually. In the event of a violation of the charter, senior management will take initiatives to address it, find the cause, take preventive steps, disclose information swiftly and properly to the public, punish severely those involved as well as the senior management, and ensure authorities and responsibilities are clarified.

Enacted on February 1, 2005 (partially modified in January 2012)

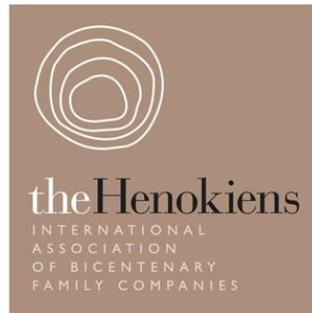
Tokuichi Okaya, President



# The Grondona Case Study

Author : Rania Labaki  
(EDHEC Business School)

## ***The Henokiens Case Collection***



### **Lessons from a 203-year-old family business**



**Rania LABAKI**



***December 2023***

**Author:**

Dr Rania LABAKI

Associate Professor of Finance and Family Business

Director of the EDHEC Family Business Research Centre

EDHEC Business School, France

Email: [rania.labaki@edhec.edu](mailto:rania.labaki@edhec.edu)

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## Introduction: A Family Legacy Imbued with Myths, Secrets, and Realities Spanning Over Two Centuries

Once upon a time, the narrator of the *White Gold* tale revealed, “Perhaps not everyone knows that in Val Polcevera, Genoese hinterland, there is a precious treasure chest. And to jealously guard it is the Grondona family, six generations of masters in the art of biscuit making and confectionery bakery”<sup>1</sup>. What secret does this treasure chest hold, embodying the competitive advantage of a family business for more than 200 years?

Exploring this enigmatic question led me to a voyage of discovery in time and space, triangulating narratives of multiple stakeholders, archival and historical data, publications from varied sources, and accounts based on field observations and artefacts of Biscottificio Grondona<sup>2</sup>. Opening the Grondona’s treasure chest appealed to a journey transcending the senses to which I am inviting you to join. It starts by releasing opera music notes and embellishing the air with gourmet scents, then gradually astonishing our sight with embroidered delicacies, up to turning our leap of faith into a culinary experience at its apogee.

Grondona’s experience was labelled as “*an incontrovertible truth*” by experts coining the neologism “*Biscottimi*” to designate the excellence of its products (M. Gattiglia, 2020). The experience was described as “*a living demonstration*” (M. Gattiglia, 2020) of the long-term continuity of “*reference products*” that are “*undoubtedly the most qualified and traditional Italian pastry products*” (M. Gobbi, 2020) for 200 consecutive years. In the eyes of Grondona, this experience is the fruit of “*a long-term adventure*” that is more than just “*a successful entrepreneurial reality*” (The Henokiens website).

Since 1820, the Grondona family has been perpetuating a legacy of passion, responsibility, and excellence around its Italian specialty biscuits and pastries while skilfully navigating challenging

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<sup>1</sup> IlGolosario. (2022). “Grondona: the white gold of Val Polcevera and the art of biscuits”.

<sup>2</sup> All accounts in this case which mention the company « Grondona » or « Biscottificio Grondona » refer to the company legally registered in Italy as « Biscottificio Grondona S.p.a ».

paradoxes - *tradition and innovation, internationalization and attachment to roots, rational and emotional logics.*

From an artisanal flour mill to a top-quality biscuit factory, the clues of Biscottificio Grondona's early developments can be found in a legendary notebook with a black cover, also labelled as the "*Notebook of Good Things*", documenting the secret recipes, ingredients, and techniques of Grondona's products. Still today, Andrea Grondona, 6<sup>th</sup> generation member, observes "*You cannot name the Grondona Biscottificio without immediately thinking of one of our sweet products which have become iconic over time as the Lagaccio, the real biscuit baked and cooked twice, rough and fragrant, or Canestrelli, which have the rich consistency of simplicity*". In the spirit of balancing the old and the new, Orlando Grondona, 5<sup>th</sup> generation member, explains: "*For two hundred years we kept alive the knowledge of our parents for the enrichment of our children. Being custodians of a tradition did not give us the excuse to stop being surprised*".

Such surprises are shared among stakeholders within and across borders as "*the Grondona biscuit factory is a source of pride for the Liguria region and for Italy which it represents with its products throughout the world*" (Andrea Grondona, The Henokiens Congress, 2021). Over the years, a number of awards and recognitions further demonstrated Grondona's success story both nationally and internationally. These range from the Award by the Chamber of Commerce of Rome attributed to companies that have made the history of Italy<sup>3</sup>, recognizing Grondona's 150 years of history and Italian excellence, to international nominations and awards such as the SIAL Italian Food Awards and the prestigious Great Taste Awards for *traditional and new products*<sup>4</sup>. A special postage stamp was also issued by the Italian Post to celebrate the 200-year anniversary of Biscottificio Grondona. The stamp depicts the historical logo representing the iconic "Circle of Life", a symbol of the philosophy that has been directing Grondona's products over the years (Biscottificio Grondona, 2020) (Figure 1).

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<sup>3</sup> In commemoration of the 150<sup>th</sup> anniversary of the unification of Italy.

<sup>4</sup> The Italian Food Awards nominated products were Baci di Dama and Pandolcini Antica Genova® in 2022. The Great Taste awarded products with 1 star were Pandolcini Antica Genova® in 2014 and Ciambellone and Baci di Dama in 2018.

The art of balancing rational and emotional logics has been perpetrated in Grondona's decisions and processes related to the long-lived "white gold" even in the subtle details. According to the ongoing myth, Francesco Grondona, 4<sup>th</sup> generation member, used to nurture the white gold, alias the white mother, 100% natural sourdough, by listening to and singing classical opera music. Until today, passion for opera remains engrained in the family's genes, reinforcing the art of mastering the unique quality of the products.

***Figure 1: Commemorative stamp by Poste Italiane of the 200-year anniversary of Grondona, featuring the company's historical symbol of the "Circle of Life"***



*Source: Picture Courtesy of Biscottificio Grondona*

The Grondona "Opera" (alias case study) will unfold in 3 Acts, leading to family business lessons that inspire.

Act 1 will highlight influential milestones in the history of Biscottificio Grondona. Act 2 will offer an analysis of Grondona's enduring philosophy, sustained competitive advantage, and distinctive features in the production process. Act 3 will expose the paradoxical tensions and rationales that Grondona managed to navigate, highlighting the main factors conducive to continuity. The opera will conclude with a glimpse of the main learnings and the strategic insights charting the future of the family business in the hands of the 7<sup>th</sup> generation and beyond.

## Act 1. Shedding Light on Grondona's Historical Milestones<sup>5</sup>

Biscottificio Grondona is member of *The Henokiens*, an association of bicentenary family businesses characterized by common values, such as respect for product or service quality and human relationships, the know-how transmitted with passion from generation to generation and the continuous questioning of achievements<sup>6</sup>. "Joining The Henokiens is very important as it rewards the loyalty to our values as entrepreneurs", according to Gildo Grondona (LaFrecciaWeb, 2021); Since 1820, the Grondona family managed to thrive along those lines despite diverse crises and increasing market competition, passing on the business to the 6<sup>th</sup> generation. Prior to diving into Grondona's key success and resilience factors, the following overview of the family business milestones allows to reflect chronologically on its early beginnings and achievements to date.

### 1.1 A Lineage of Six Generations of Family Members in Business

*Figure 2: Grondona family portrait in early 1900s*



*Source: Picture courtesy of Biscottificio Grondona, depicting third generation members Orlando Grondona and Gilda Grondona with their son Francesco.*

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<sup>5</sup> This case is not intended to provide a detailed historical account of Biscottificio Grondona. The sources of the upcoming sections are derived from the company website, 200-year anniversary book, press articles and interviews with various stakeholders. For more information and updates, the reader is invited to revert to the website: <https://www.biscottificiogrondona.com/>

<sup>6</sup>Source : <https://www.henokiens.com/>

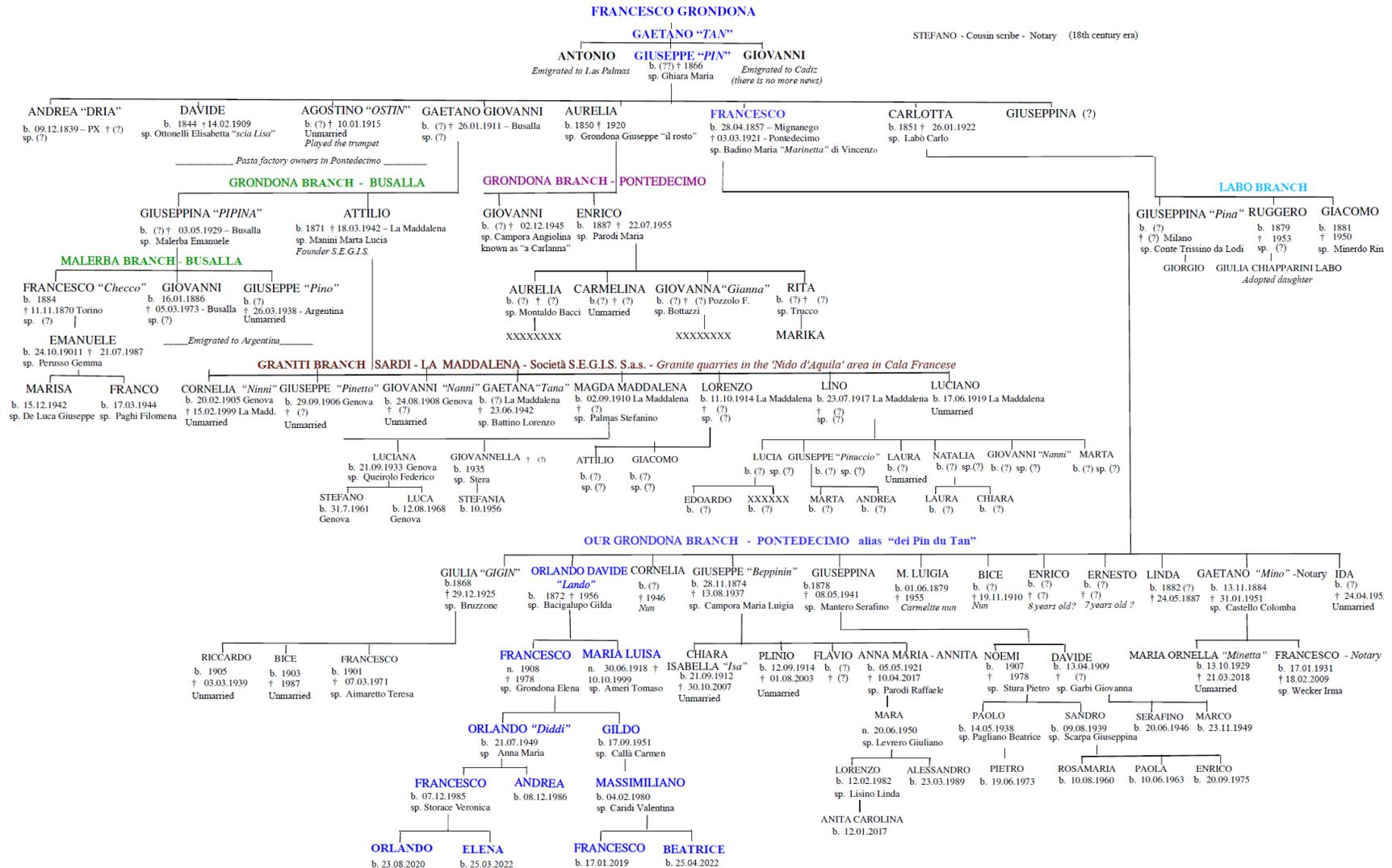
Family businesses are distinctive organizations, in the sense that they operate and develop through the interaction of three main systems: the business, the ownership and the family. Each system is defined by a set of values, norms, emotions, and objectives that can collide to different extents (Labaki et al., 2013). Understanding the evolution of Biscottificio Grondona entails, therefore, the exploration of the family, the ownership, and the business, as they overlap over time.

As illustrated by the family tree (Figure 3), the Grondona family adventure starts with the founder, Giuseppe Grondona, then continues with five generations of owner-managers. Whereas up to the fourth generation, Biscottificio Grondona was solely controlled by a male successor who also took over the leadership, in the fifth and the sixth generations, the ownership, management, and governance were extended to siblings and cousins.

A self-fulfilling prophecy, the name given to a Grondona new-born likely predicts a future role in relation with the family business, as per the intergenerational recurrence of the Francesco's and Orlando's named family members who took over owner-manager positions. Thus, in addition to the family name, the male successors tend to hold the first name of the owner-managers in previous generations. The seventh generation is not exempt of this enduring tradition, with two family members named Francesco and Orlando and a third one named after Elena, member of the fourth generation who was actively involved in the family business. In fact, although not entitled as owners, several female family members played an active role in the family business.

Andrea Grondona, sixth-generation member, recounts the influential role of the wives of the controlling owners. His grandmother, Elena Grondona, was foresighted, perseverant in turning her creative ideas into reality, and genuinely sociable. She launched a Grondona shop serving as a platform to nurturing the relationships with the local customers, which still runs to date. She played a complementary role to her husband Francesco Grondona, in terms of sales support and development, and served as sole administrator of the family business until 2010. Carmen Grondona, the wife of Gildo Grondona and fifth-generation member, was also instrumental through her complementary role as director of production in the family business.

Figure 3: Grondona family tree showing the owners-managers who are descendants of the founder



Source: Grondona Family document completed and translated by the case author/ Note: The names in navy blue represent the family branch of Biscottificio Grondona / Legend: sp. = spouse ; b. = date of birth; † = date of death; (?) = unknown or uncertain information.

*Figure 4. Portraits of Elena and Francesco Grondona, fourth generation members of Biscottificio Grondona*



*Source: Picture courtesy of Biscottificio Grondona*

Grondona's succession over generations embodies more than the traditional transfer of business ownership. On the one hand, it is tied to the transfer of the know-how, whether engraved in the famous black notebook or developed through field experience and experimentations. On the other hand, it goes hand in hand with the transfer of the family values intended to be continuously infused in the business<sup>7</sup>.

Following in the footsteps of "hard-working Giuseppe"<sup>8</sup>, Grondona's successors were driven by strong family values and an outlook for business growth. Each generation of successors proved to be entrepreneurial in its own way, imprinting its mark on the business by contributing both to the enrichment of the production processes and to the variety of products, therefore to the business expansion.

This multidimensional view of succession guided the succeeding generation towards perpetuating the legacy for generations to come.

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<sup>7</sup> The reader can refer to Part 2 - section 2.1 to learn about these values.

<sup>8</sup> As described in the webpage: <https://www.biscottificiogrondona.com/en/philosophy/>

Starting 2019, the sixth generation took gradually the reign of the management while being supported by the fifth generation. Currently, Francesco Grondona, sixth generation member, serves as CEO of Biscottificio Grondona and works along with his brother Andrea Grondona and his cousin Massimiliano Grondona while the fifth generation is mainly involved at the governance level.

The chronology and main contributions of the six generations in business are summarized in the following figure and presented in more detail in the upcoming sections.

**Figure 5: Grondona’s generations of successors and their main business achievements**

<b>1820</b>	<b>Giuseppe Grondona</b> <i>Flour and Pasta Production</i>
<b>1850</b>	<b>Francesco Grondona</b> <i>Introduction of Bread Production</i>
<b>1920</b>	<b>Orlando Grondona</b> <i>Transition to Biscuits Production (Yeast Pastries and Malted Biscuits), Creation of the Iconic “Biscotto della Salute”</i>
<b>1948</b>	<b>Francesco Grondona</b> <i>Focus on Leavened Sweet Breads, Biscuits and Pastries, Creation of the “Lagaccio”, the “Canestrelli” and the “Pandolce”, Development of the Brand Image “Circle of Life”, Production Modernization</i>
<b>1972</b>	<b>Orlando and Gildo Grondona</b> <i>Pursuit of Modernization, Launch of the Export Activity (1990), Investments in Communication, ISO Certification (2001) and in the Expansion of the Products Range through Innovations (with nominated and awarded products) and through Acquisitions of Duca d’Alba (2005) (Extra Virgin Oil and Sugar Free Products) and Bonifanti (2007) (Traditional Christmas and Easter Cakes), Development of a New chain of Shops (2011) and Coffee Bars fostered by the Acquisition of Bocchia (2013)</i>
<b>2009 – to date</b>	<b>Francesco, Andrea and Massimiliano Grondona</b> <i>Pursuit of the Same Philosophy of Innovation and Extension of Products Comprising Sweet and Salty Leavened Breads, Biscuits, and Pastries, Development of Digital Marketing and Communication, Development of the Domestic Market and Internationalization through Exports in 25 countries, Celebration of the 200-year Anniversary.</i>

Source: Biscottificio Grondona Case Author (2023)

## 1.2 From Origins at the Mill Producing Flour, Pasta, and Bread ...

The Biscottificio Grondona story begins in the early 19<sup>th</sup> century with an artisanal flour mill where peasants brought their own grain to grind and left a part of it in payment to the miller.

Giuseppe Grondona purchased this mill in 1820 and exploited it to create his pasta factory with the surplus flour left over by local farmers, using the nearby stream as a source of energy.

In 1850, Francesco, Giuseppe's son, moved to the Verde torrent, which had always been considered an area that never dries, to develop the activity by producing both pasta and bread.

He continued his father's journey through the art of preserving and growing the "white mother"<sup>9</sup>.

*Figure 6: Grondona's factory in the early 20<sup>th</sup> century*



*Source: Picture courtesy of Biscottificio Grondona*

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<sup>9</sup> More developments are provided in Act 2.

In a document issued by the Genova Chamber of Commerce and Industry, Francesco Grondona records that the company was founded by his father Giuseppe in 1820, officially naming the activity as a “bakery and pasta factory” and entering the register of companies.

Figure 7: Business Register, Genova Chamber of Commerce and Industry, 1820

**CAMERA DI COMMERCIO E INDUSTRIA  
GENOVA**

no. d'Ordine **17881** Ditta Individuale

**ENUNCIA E REGISTRO DELLE DITTE**

Al sensi degli art. 58, 63 e 68 della Legge 20 Marzo 1910 N. 121 sulle Camere di Commercio e Industria, nonché da 70 a 74 del Regolamento 19 Febbraio 1911 per l'applicazione della predetta Legge i sottoscritti denunciano alla Camera di Commercio e Industria di Genova gli elementi che seguono:

**Indice** Grondona Francesco fu Giuseppe  
 nome, nome, paternità e domicilio del proprietario esclusivo della Ditta Grondona Francesco fu G.  
 a. cognome **Pauddesca** fu Garibaldi  
 1.° della costituzione, e dell'inizio dell'azienda **1820**  
 2.° della Ditta **Pauddesca e Partificio**  
 3.° della Ditta **Limita**  
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 Grondona Francesco

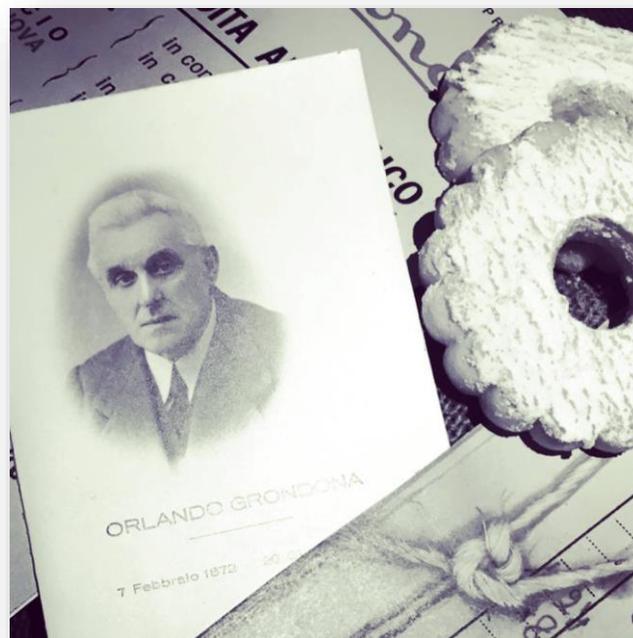
Source: Picture Courtesy of Biscottificio Grondona

### 1.3 ... To Diversifying and Specializing in Biscuits

Later celebrated as the “*scholar of sourdoughs and malted cookies*”, Francesco’s son, Orlando Grondona was born on February 7, 1872.

Over the years, he collected the historical and original family recipes in a notebook with a black cover in which he reported good, simple, natural, and timeless things. This notebook contains the traditional recipes confided by the local housewives, the secrets, and the observations of the techniques for kneading, cooking, and keeping the natural white sourdough alive. Handed down to the following generations, his records have become since a reference and a source of great knowledge.

*Figure 8: Portrait of Orlando Grondona, third Generation of Biscottificio Grondona*



*Source: Picture Courtesy of Biscottificio Grondona*

Orlando chose to diversify the business by starting the production of various confectionery specialties, including “yeast pastries” and “malted biscuits”. He strongly imprinted his mark on the products in terms of both content and form, as his name became an integral part of the company’s denomination and branding.

**Figure 9: Biscottificio Orlando Grondona, Genovese confectionary specialties: Early branding on products and correspondence stationery**



Source: Pictures Courtesy of Biscottificio Grondona

Between the end of the 19<sup>th</sup> and the beginning of the 20<sup>th</sup> century, Orlando Grondona became “the most renowned biscuit maker in the country”<sup>10</sup>.

Among his many contributions, Orlando invented the healthy biscuits “Biscotto della Salute”, still produced today as “Corleggeri”.

**Figure 10: Biscotti della Salute**



Source: Picture Courtesy of Biscottificio Grondona

<sup>10</sup> Sources: <https://www.biscottificiogronadna.com/en/genova-pontedecimo/> and Biscottificio Grondona (2020, p. 14)

## 1.4 From Modernization in line with Business Development ...

In 1948, Francesco, Orlando's son, abandoned the manufacture of bread and pasta to increase the production of leavened sweet breads, biscuits, and pastries. He launched the “Lagaccio”, the “Canestrelli” and the “Pandolce” and laid the foundations for the company development by modernizing the biscuit factory.

*Figure 11: The historic factory in the 1950s, ensuring the products distribution from Ventimiglia to La Spezia*



*Source: Picture Courtesy of Biscottificio Grondona*

The production line in the 1950s and 1960s included the manual packaging that was delegated to the capacity and care of the female workers, as opposed to the preparation and kneading which were handled by male workers (Biscottificio Grondona, 2020, p.18).

**Figure 12: The production line of Lagaccio Antica Genova®**



*Source: Picture Courtesy of Biscottificio Grondona*

Francesco maintained close ties not only with the employees but also the local community. He shared his other passion for horses following in the footsteps of his father. As illustrated in the picture near the emblematic *Caffe Margherita* in Genova Pontedecimo, the locals would go on a ride with him and sometimes help guard the horses while he was in town on tour.

**Figure 13: Francesco Grondona in Genova Pontedecimo**



*Source Picture Courtesy of Biscottificio Grondona*

In 1951, the company's development was marked by the creation of an iconic brand through the symbolic image of the "old man and little girl". On August 21, the patent with the designation "From childhood to old age" was registered. The image conveyed the Genoese special quality marked by the value of familiarity, and its ability to accompany us for the entire circle of life.

**Figure 14: Patent for the Company Trademark, 21 August 1951.**

MINISTERO DELL'INDUSTRIA E DEL COMMERCIO  
Ufficio Centrale dei Brevetti per Invenzioni, Modelli e Marchi

**BREVETTO PER MARCHIO D'IMPRESA** Anni 20  
BREVETTO PER MARCHIO N. 103258  
DI BREVETTO

di primo deposito.

Questo ufficio dà atto che concede il brevetto per il marchio d'impresa di cui appresso,  
come da domanda contraddistinta nel relativo Registro col n. 4574

Ufficio di deposito: Genova

Data e ora di deposito: 3 novembre 1950, ore 10 e 10'

Titolare e suo domicilio: BISCOTTIFICIO GRONDONA S.p.A.  
in Genova-Fornelle

Merci o prodotti da contraddistinguere: Biscotti (classe 17).

*Dall'infanzia alla vecchiaia*

**Grondona**  
biscotto salute

Colori rivendicati: \_\_\_\_\_

Il presente brevetto non garantisce l'importanza o l'autorità del marchio, o la bontà o la provenienza dei prodotti, o l'esistenza delle altre condizioni richieste perché il brevetto sia valido ed efficace.

(Annotazioni speciali): \_\_\_\_\_

Roma, il 21 AGO 1951

IL DIRETTORE \_\_\_\_\_

Fig. Letta, Roma - 4-2402 (e. 100) - ord. 61

Source: Picture Courtesy of Biscottificio Grondona

The development of the business continued through leavened sweet breads cookies and pastries with the fifth generation taking over the management in 1972. Orlando became the new director, mainly in charge of finance and commerce, and Gildo the production director supported by his wife, Carmen.

In 1986, a new factory was launched in Campomorone and the old factory was used for the retail sale of the products. At the vanguard, the factory was highly technological while maintaining the original and artisanal production processes unaltered.

## **1.5 ... To An Era of Domestic and International Expansion**

The year 1990 marked a turning point for the development of Biscottificio Grondona through international expansion, namely the export of its products in the large-scale retail trade.

To meet the expansion needs and ambitions, a new warehouse was inaugurated in Genoa-Bolzaneto in 2000 and followed by the certification of ISO DNV in 2001. Grondona served the best chains and regional shops in the area, especially in Northern Italy, such as premium supermarkets and gourmet shops.

In the same line, significant investments were made in 2003 to promote the brand, specifically in communication and advertising campaigns on TV, in newspapers and local magazines.

The production was further expanded through diversification made with a series of acquisitions of other historic Italian brands.

Duca d'Alba's acquisition in 2005 allowed to extend the products line to those based on virgin olive oil and sugar free while Bonifanti Srl acquisition in 2007 contributed to extend the products to the Panettone (traditional Christmas cake) and the Colomba Pasquale (traditional Easter cake). Following these developments, a new chain of shops or bakeries was inaugurated in Piedmont in 2011.

This success culminated on June 8, 2011 with the recognition of Biscottificio Grondona by the Chamber of Commerce of Rome as a business presenting the Italian excellence for over 150 years without ever changing ownership.

Figure 15: Gildo Grondona receiving a special award from the Chamber of Commerce of Rome



Source: Picture Courtesy of Biscottificio Grondona

The company’s continued expansion was also marked by the the new generation gradually joining the business, with Andrea and Francesco, the two sons of Orlando Grondona, and Massimiliano, the son of Gildo Grondona.

In 2013, Grondona acquired the bar-cafeteria Bocchia and relaunched its line of products. Following this move, the company acquired an excellence in coffee roasting in Genova and coffee bars where Grondona’s cookies were also commercialized.

In 2020, the continuous expansion led to doubling the space of the factory to reach 8000 m<sup>2</sup>, with new technologies and automatic warehouse solutions.

Marking the milestone of its 200-year anniversary, the company published in 2020 a book entitled “Our first 200 year-anniversary of Biscottificio Grondona”.

The book features multi-voice stories, testimonies, and tales from the family and various experts, such as the writer Guido Bosticco, the oenologist Luigi Odello, the food technologist Mauro Gobbi, the entrepreneur Maurizio Gattiglia, the communication designer Valeria Bucchetti, and the professor of microbiology Massimo Vincenzini.

The publication coincided with the launch of a national commemorative stamp by the Italian Post<sup>11</sup> and of a special pastries box for the occasion.

**Figure 16: Book cover, commemorative national stamp, and pastries box released for the 200-year anniversary of Biscottificio Grondona**



*Source: Pictures Courtesy of Biscottificio Grondona*

Today, the sixth generation is actively involved in the business management, leading the developments on the domestic market and the exports in over 25 countries around the world. The fifth generation remains on the board, with Gildo Grondona as President of the company.

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<sup>11</sup> The commemorative ceremony in the presence of the authorities of Genoa, the mayor Mr Marco Bucci and the assessor Mrs Paola Bordilli, with the Grondona active family members can be watched via the following link : <https://www.facebook.com/grondonaspa/videos/2971383992961507/>

*Figure 17. Portraits of Gildo and Orlando Grondona, fifth generation of Biscottificio Grondona*



*Source: Pictures Courtesy of Biscottificio Grondona*

While these milestones offer a revealing account of Grondona’s rich history, the next sections will decipher Grondona’s enduring philosophy, sustained competitive advantage and other distinctive features, as well as its processes of paradoxes management to ensure continued success.

## Act 2. The Grondona Compass from Generation to Generation

From distant past to modern times, Biscottificio Grondona was guided by an enduring philosophy supporting its successful strategic expansion along with its sustainable competitive advantage embodied by the “white gold”.

### 2.1 A 3D Philosophy that Stands the Test of Time: The Foundational Values

The Grondona’s family philosophy inspires the fulfilment of its vision as a family business for generations to come, through family and business decisions. As explained in the opening of “*i nostri primi 200 anni*” (2020, p.3), “The old man and the little girl express the cycle of life, “*from infancy to old age*”<sup>12</sup>, and for years they have been a symbol of the philosophy that directs our products. This is the reason why this symbol was chosen to consecrate the company’s bicentenary”.

*Figure 18: The Circle of Life, From Infancy to Old Age, as the bicentenary symbol of Biscottificio Grondona’s philosophy*



Source: Picture Courtesy of Biscottificio Grondona

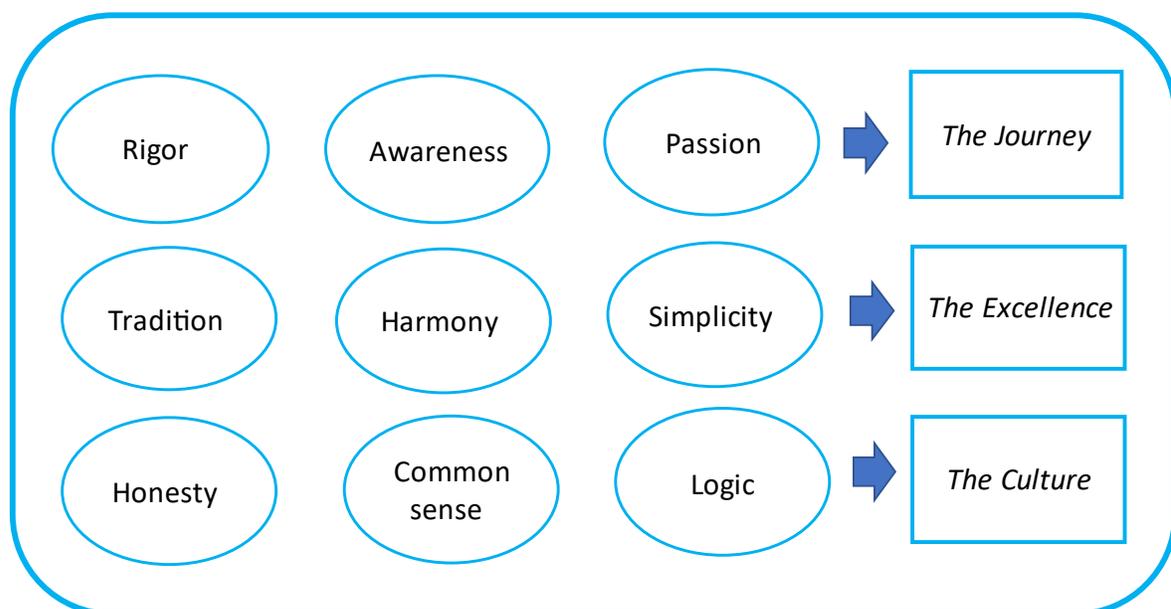
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<sup>12</sup> Translation of the italian words "dall'infanzia alla vecchiaia".

The in-depth analysis of the family business over six generations leads to the identification of three important axes that reflect its philosophy: *the journey, the excellence, and the culture*. Each axis is based on a set of unshakable values of the family in business, which are echoed in the interactions with the stakeholders, who tend to adopt them or hold on to them in return.

The following figure is a representation of Grondona’s three dimensional or *3D value-based philosophy model*.

**Figure 19: Core Values of Biscottificio Grondona’s 3D Philosophy**



Source: *Biscottificio Grondona Case Author (2023)*

“The Grondona’s journey was made with *rigor, awareness, and passion*”<sup>13</sup>. These values were largely inspired by the family roots in Ligurian terrain, “a region known for its roughness, openness, rigor, and poetry”<sup>14</sup>. They have rocked the members of the family since childhood and were transferred from generation to generation. The experiences of the family members recounting their journey in the family business provide a salient demonstration of that process.

<sup>13</sup> <https://www.biscottificiogronadona.com/>

<sup>14</sup> <https://www.biscottificiogronadona.com/>

Andrea Grondona, 6<sup>th</sup> generation member, observes, “We were born in the dough” while Gildo Grondona, 5<sup>th</sup> generation member, adds, “Grondona [the family business] is in the DNA (...). He further recalls, “Since I was a child, a 10-year-old boy, I used to see my father making natural small dough over the weekends”. Andrea also remembers, “I used to go to the production area in the summertime and observe each part of the production.” Suggesting that “it is key to involve the next generation since the beginning”, he points out the important role the family plays in increasing the awareness of the next generation, leading the way by example.

The emotional connotations, with passion at its peak, drive the family members in different stages of their life cycle.

Andrea not only expresses pride about the company’s achievements but takes responsibility in pursuing the journey of the family business which he joined it in 2012, while illustrating with these words, “I am very proud to refill the luck”. This pride is both expressed towards the past achievements and the next generation achievements. Gildo recalls seeing his father Francesco Grondona, 4<sup>th</sup> generation member, crying upon the inauguration of a new plant with an automatic line by the 5<sup>th</sup> generation. He observes, “my father was proud as he could not imagine such development to happen”, while alluding to the initial scepticism his father had around the risk of losing the family DNA by engaging in this direction. This critical moment shows the fine boundaries between artisanal production and technology that the family managed to master. Gildo further insists, “we managed to keep doing the artisanal products with the same philosophy”.

A philosophy connected to the products’ excellence that builds on three key values: *tradition, harmony, and simplicity*<sup>15</sup>. “The things we do define us”, according to Orlando Grondona (2020, p. 9), referring to “the excellence of the products which speak for themselves” as he borrows the reflection of Gianfranco Soldera<sup>16</sup>.

The excellence characterizing Biscottificio Grondona’s products was consistent over the generations. As Andrea Grondona observes, during an interview with The Henokiens (2021), this

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<sup>15</sup> <https://www.biscottificiogronдона.com/en/philosophy/>

<sup>16</sup> “You don’t need many words to describe an excellent product, because it speaks for itself”.

consistency explains the longevity of the company and is reflected by a mix of essential values for the family, connected to the territory, the tradition, and the identity<sup>17</sup>.

The tradition refers to family members successively passing on their wisdom and craftsmanship to the next generation of visionaries.

The harmony between men and nature connects to the art of cultivating with respect the natural mother sourdough called “Madre Bianca”<sup>18</sup>, which is still used to this day.

The simplicity is about achieving maximum richness in taste and quality with a minimum of ingredients.

The third dimension of Grondona’s philosophy is about culture. In three words - *honesty, common sense, and logic* - Orlando Grondona (2020, p. 9) conveys the key values that his grandfather and father handed down, above all by example, and which he believes most of the Biscottificio Grondona’s collaborators share and represent.

This philosophy has stood the test of time, as a red thread of the family business continuity to date. The perspective on continuity bears however a distinctive perspective in terms of long-term view and performance, which is likely different from other companies in the same industry. While growth has been an integral part of strategy, the profit maximization objective that other competitors tend to seek is not the utmost focus of Grondona. Family businesses are known for the pursuit of financial and socio-emotional wealth objectives (Berrone et al., 2012). Grondona seems to exemplify these scholarly assertions.

As Orlando Grondona puts it in the preface of the 200-year anniversary book, “We have done a lot together, following a simple precept: produce in the best way you can, drawing on the knowledge you have at your disposal. Maybe it's not the formula for getting rich; but it certainly allows you to survive with dignity and satisfaction, outside the fashions and trends of the moment.”

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<sup>17</sup> [https://www.henokiens.com/content.php?id=21&id\\_portrait=67&lg=en](https://www.henokiens.com/content.php?id=21&id_portrait=67&lg=en)

<sup>18</sup> The reader is invited to read section 2.2 for more details.

## 2.2 A Centre of Gravity Sustaining the Competitive Advantage: The White Gold

*“We have great taste in our blood”.*<sup>19</sup>

Looking back at the *“White Gold”* tale leads us to take a closer look at the secret that six generations, defining themselves as *“the guardians of tradition”*, have been keeping in the treasure chest. Their objective was to ensure the great taste is transferred not only within the family but also to generations of consumers of Grondona’s products.

Along with a note of humour, the family maintains on the company’s website, *“Grondona’s best-kept secret is not our self-control that keeps us from devouring the entire stock of our own produce, but the use of mother yeast (or sourdough) to make our delicacies”*. The Grondona’s mother yeast is also referred to as the *“white mother”*, which conveys the *“white”* colour to *“the gold”* metaphor of the tale, and in turn alludes to its precious value. Transposing this metaphor to management studies invites us to reflect on the mother sourdough as a competitive advantage that was sustained over time by the Grondona’s successive generations. From a strategic perspective, Grondona’s mother sourdough holds all the properties of a *sustained competitive advantage*, as defined by researchers: a *valuable, rare, and imperfectly imitable resource, with no strategically equivalent substitutes* (Barney, 1991).

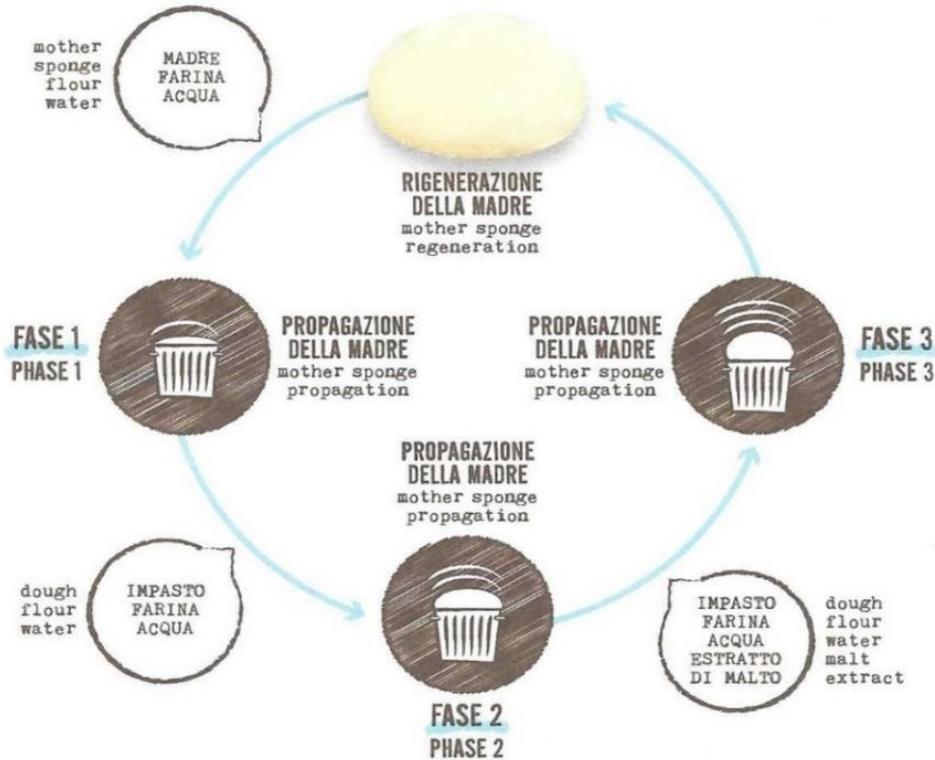
In fact, the family claims, *“it is the stubbornness in the use of the mother yeast that gives our cookies their great taste”*. For nearly two centuries, the Grondona’s have kept their sourdough *“alive”* through daily refreshment, without the addition of other foreign yeast. The sourdough used by Grondona consists of a mixture of flour and water, fermented by two species of yeast and one of lactic acid bacteria. Each morning, it is collected and treated with a (now rare) technique that was passed from generation to generation, emphasizing the scarcity property of the sourdough. This is in contrast with the bakery yeast, which is predominantly used by competitors, and, unlike sourdough, is a preparation consisting of cells of *Saccharomyces*

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<sup>19</sup> <https://www.biscottificiogrondona.com/en/>

cerevisiae without bacteria. While Grondona’s sourdough is regularly monitored, its properties are since recently also analysed in collaboration with universities.

**Figure 20: The sourdough working cycle**



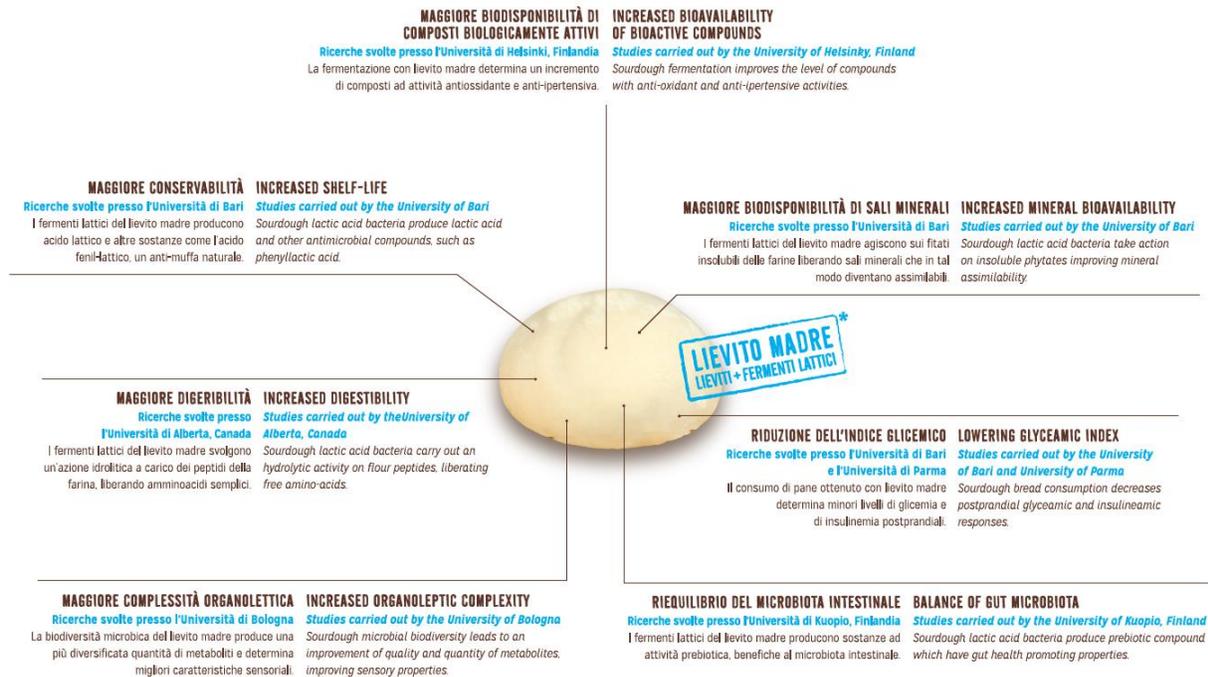
Source: Picture Courtesy of Biscottificio Grondona

Moreover, Grondona’s sourdough is strongly connected to the Ligurian territory. Changes in the environment would change its properties, therefore altering its subsequent taste, conveying the *imperfectly imitable* nature of this resource and excluding the possibility of a strategically equivalent substitute.

Day by day, the mother yeast has been refreshed every 6 to 8 hours for more than two centuries, without ever adding the baker’s yeast to speed up the process and reduce the production costs. It takes up to 52 hours of processing to give Grondona’s products their unique taste. As such, it provides an unmatched airy, light texture and a rich and full flavour to the products and makes them easy to digest due to its organoleptic features.

According to research conducted by the University of Florence, the incorporation of the sourdough in the products leads to positive effects on the quality, taste, and shelf life of the product.

**Figure 21: The beneficial properties of the sourdough**



Ecco perchè utilizziamo esclusivamente lievito madre

L'identità del lievito madre Grondona e Bonifanti è oggetto di monitoraggio costante da parte dell'Università di Firenze

*That's why we only use sourdough*

The identity of the Bonifanti and Grondona sourdoughs is subject to constant monitoring by the University of Florence

**\* SOURDOUGH**  
 YEAST + LACTIC ACID BACTERIA

Source: Picture Courtesy of Biscottificio Grondona

Such beneficial effects are also recognized and appreciated by consumers who choose to buy Grondona's products rather than the competitors' products.

The Grondona biscuit factory has joined the Certified Italian Excellence Institute to guarantee the excellence of the products and has joined the "Narratori del Gusto" to be able to narrate it. This was a long path through which the company engaged in the establishment of a group of sensory judges, to give objective control to production and a sensorial profile generator for each product: a new contract with its customers built on a scientific basis. But the company did not just stop



## 2.3 An Expert Selection in the Orbit: The Finest Ingredients

With the mother yeast as the centre of gravity of its production, Grondona dedicates a special care, based on long-standing expertise, to the selection of the ingredients of the traditional Italian cookies. In addition to the mother yeast, what makes Grondona's products unique lies in these ingredients.

Grondona never compromises on using the finest ingredients available on the market even if they are more expensive. "Quality is a family value which is fundamental to reach without compromise". Emphasized and reiterated multiple times in the interviews with the family members, this statement is enacted in two ways.

First, the family engages in the continuous search for the best raw materials where they grow, not the cheapest, and constantly checking them to guarantee their origin. For this reason, a system of traceability has been developed for the entire production chain.

Second, the family constantly uses natural ingredients, excluding genetically modified ingredients, preservatives, colourings, emulsifiers, and artificial flavourings.

A selection of the main ingredients' motives of selection and characteristics is presented herein<sup>20</sup>.

- *Butter and Oil*: Grondona still follows the ancestors' recipes by only using the butter obtained from fresh cream without lactose and the cold-pressed Italian extra virgin olive oil, in line with the authentic Italian tradition and without adding other oils.
- *Manitoba Flour*: The Manitoba flour is selected to facilitate the long leavening. It has a more complete taste than other types of flour and is rich in proteins compared to regular flour, making it ideal for strengthening the sourdough starter.
- *Fresh Eggs*: Grondona only uses Italian eggs from farms with free-range hens.
- *Italian Nuts*: The nuts make up the core of Grondona Italian fine pastries. Hazelnuts are not bought as powder but as originally refined whole nuts from Piedmont, then carefully

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<sup>20</sup> The descriptions are based on the interviews as well as Biscottificio Grondona's website, brochures, catalogues, and 200-year anniversary book.

peeled and roasted for maximum taste on Grondona's premises. Pine nuts are sourced from Italy, the extra "Pisa type", long and thin, more expensive but tastier, in line with the uncompromising search for quality.

- *Sultana Raisins*: Grondona's raisins come from the best grapes in Izmir, where they are hand checked and selected.
- *Orange and Citron Peels*: The peels are used whole, not pressed, with all the essential oils.
- *Madagascar Vanilla*: Grondona uses only the real vanilla beans, selected and pure from Madagascar, without the addition of any flavourings.
- *Candied Fruit*: Considered as natural and healthy, the candied fruit of pears, apples, peaches, orange peels, and pineapple are selected for the quality perceived through all the senses: the colour, the perfume, and the intense flavour.

To illustrate, flour, top quality butter, sugar, fresh eggs, arabica coffee, milk, honey, Madagascar vanilla pods and a pinch of salt, make up the ingredients of "Biscottoni Cappuccino", one of Grondona's specialties which belongs to family recipes.

**Figure 24: Illustration of Grondona's products ingredients: The Biscottoni Cappuccino**



*Source: Illustration compilation based on Biscottificio Grondona Facebook posts*

In the expert eyes of the food technologist Mauro Gobbi (2020), as much as mine, the visit of Grondona's factory is intriguing as it reserves a few other surprises. These include the lemon juice freshly squeezed daily on site, next to the pastry production line, intended for the pastry doughs, thus replacing the natural flavours usually used in bakery companies.

From the inside out, the Grondona’s quality process is also reflected in limiting the actual shelf life of one year and a half to merely 8 months to guarantee the perfect taste and crispness of the products for the consumer. As Orlando Grondona observes, “together with our production family – managers, employees, and workers – we eat our products every day. A path that continues, without losing the wonder of the beginning” (LaFrecciaWeb, 2020).

Still, the recipe for success of this bundle of characteristics revolving around the ingredients lies in the recipe of Grondona’s products since they are inspired by tradition.

## 2.4 A Milky Way: The Recipes Inspired by Traditions

Grondona’s talent of selection extends from the ingredients to the recipes: only regional recipes, traditional specialties, that go along with natural pastry production. The recipes coming from traditions are handed down from the great grandparents’ generation to the current generation since 1820 and have “the taste and scent of the Ligurian land” (LaFrecciaWeb, 2021).

*Figure 25: Traditional Grondona products with the historical packaging*



Source: Pictures compilation from Biscottificio Grondona social media and website

“Pandolce Antica Genova®”, “Canestrelli Antica Genova®”, “Biscotto della Salute” and “Lagaccio Antica Genova®” are some of the exemplary products of Grondona that stood the test of time, as they are still produced today with the same traditional recipes. Their historical packaging featured in the previous figure brings us back in time up to the 1940s<sup>21</sup>.

Beyond the packaging, Grondona’s iconic products have also a story to tell.

The “Galette 1803” is one example of an ancient recipe dating back to 1803, when Mr Edward, a whimsical pastry chef in London, enriched the sailors’ biscuits transforming them into sweet biscuits. With the love for traditions, Grondona reinterpreted it, putting all its passion and experience, to the benefit of sailors in the Genovese port region. This is how a simple but rich and full of taste biscuit is born, according to Biscottificio Grondona.

**Figure 26: The iconic product of “Galette 1803”**



*Source: Picture Courtesy of Biscottificio Grondona*

Recipes represent the fundamentals of the art of pastry making. They are followed with great attention to detail. Based on these processes, Grondona has developed and extended its product range by combining traditional ingredients with its expert sense of taste<sup>22</sup>.

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<sup>21</sup> Featured by order from left to right : Pandolce Antica Genova® (1980), Canestrelli Antica Genova® (1965), Biscotto della Salute (1951 and 1946), Canestrelli Antica Genova® (date unknown), and Lagaccio Antica Genova® (1962).

<sup>22</sup>More details about the extended range of products that are respectful of tradition as well as about the change in packaging building on the traditional branding features are provided in Section « 3.1 Tradition and Innovation ».

## Act 3. The Grondona Art of Navigating Paradoxes: Towards a Balancing Act

As a long-lasting family business, Biscottificio Grondona was and still is exposed to significant challenges at the intersection of the family, the business, the ownership, and the wider environment. What are the paradoxical tensions and rationales that stand out? How did Grondona manage to successfully navigate through them? I now invite you to a deep dive into the underlying factors balancing Grondona's tradition and innovation, internationalization and attachment to the roots, emotional and rational logics.

### 3.1 Tradition and Innovation

To the eternal question for the next generation, “are you an agent of change or a continuator of family tradition?”, one answer remains motionless. Tradition and innovation at Grondona have been two sides of the same coin for more than 200 years. Since the early beginnings, family members were pioneers in the exploration of the infinite possibilities that the White Mother and the quality ingredients can offer.

On the one hand, the stubbornness and the honesty are still found today in the recipes of confectionery and biscuits of Ancient Genova (labelled as “Antica Genova®”) which have been kept intact<sup>23</sup>. On the other hand, the succeeding generations relentlessly kept on exploring the various uses and purposes of flour and yeast and exploiting new opportunities for expanding their products lines.

“The continuous search for the finest raw materials in world markets” (Andrea Grondona, 2021) may come, however at a price, as heightened competition and uncertainties rage. Recent wartimes and economic instabilities led to soaring costs of raw materials, therefore to more temptation for producers to sacrifice the quality of ingredients. Grondona's building blocks (identified in Act 2 of the case) remained unshakable though. Orlando Grondona insists that

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<sup>23</sup> <https://www.biscottificiogrondona.com/en/>

“coherence is very important at Grondona, no matter the circumstances”. He adds that “maintaining the same line of thought requires courage. Finding partners who understand such fights for quality products certainly help”.

Considering the socio-economic, digitalization, and environmental challenges, innovation at Grondona was played out at different levels in a balancing act with tradition: *the products (variety and composition), the production process, the packaging, and the marketing and communication.*

First, on the *products’* level, Grondona was continuously in search of new and quality tastes that express the soul of its traditional know-how while infusing them with the family values. As such, the succeeding generations developed and extended the product range by combining traditional ingredients with their own sense of taste<sup>24</sup>. A taste which has received awards and nominations, attesting the success of the Grondona “recipe” of innovation through tradition.

**Figure 27. Grondona’s award-winning Great Taste product: “Ciambellone”, a typical dessert for community celebrations, banquets; and family lunches.**



Source: *Biscottificio Grondona Christmas Catalogue (2022) and Website*

Among these products stand the “Ciambellone” which received an award-winning star by the Great Taste in 2018. Grondona still uses a manual process to make this product, respecting the tradition of Italian pastry. This dessert is made soft by traditional natural leavening, with natural

<sup>24</sup> <https://www.biscottificiograndona.com/en/philosophy/origin-of-grondona/>

yeasts obtained from the sourdough refreshed daily. Following a traditional recipe, the selected and genuine ingredients are carefully processed – 100% brown sugar, raisins, orange blossom water, vanilla pods and real candied orange peel – to make the flavour unique<sup>25</sup>.

The “Baci di Dama” is another Grondona’s product, originally sought of as an Italian traditional pastry of Northern Italy meaning “Lady’s kisses”. According to the legend, it was born from the fantasy of a cook of the Savoy family in the autumn of 1852, after Vittorio Emanuele II asked him to develop a new sweet, which was then served on the royal tables of Italy. As the legend continues to unfold, home-made Baci di Dama reappeared at the kitchen table of Elena Grondona then made it successfully to the first small Grondona shop.

Grondona revisited the main Baci di Dama recipe in its own way, using the finest natural ingredients, Piemontese Hazelnuts and the purest fondant chocolate among others. The special secrets of production have conveyed to Grondona’s Baci di Dama a recognition that extends the Italian royalties with the Great Taste Award in 2018.

**Figure 28. Grondona’s award-winning and nominated products: Baci di Dama and Pandolcini Antica Genova®**



*Source: Picture on the left featuring the Baci di Dama product which received the Great Taste Award (2018) as courtesy by Biscottificio Grondona, and pictures on the right featuring two nominated products (including Baci di Dama) by the Case Author at the SIAL exhibition in Paris (2022)*

<sup>25</sup> <https://www.biscottificiograndona.com/it/prodotto/ciambellone-2500g/>

The Lunette is another example of an innovative Grondona product launched in Italy in 1975, inspired by the first voyage of Orlando Grondona, fifth generation member, to the United States. Reinterpreting the American chocolate chip cookies in the Italian style, Grondona introduced a hint of coconut with pure chocolate, creating an unusual encounter between the authentic Ligurian tradition and the fresh flavours of exotic places.

Through the Lunettes, Grondona extended Orlando's experience by embarking customers on a voyage of delicacy beyond the boundaries of time and age.

*Figure 29. Lunette, the chocolate cookie by Grondona linking discovery with taste*



*Source: Picture Courtesy of Biscottificio Grondona*

Innovating with tradition can also be the fruit of collaboration with external partners. On Christmas 2022, Biscottificio Grondona engaged in an unprecedented partnership in the Ligurian region with Amaro-Camatti, the Ligurians' most beloved and the world's best bitter.

Blending two products issued from the Genoese tradition, sweet and bitter, gave birth to the Camatti-style pandolce, an innovative product with an inimitable taste celebrating Liguria with a recipe that encapsulates its typical flavours, combined with the unmistakable fragrance of an infusion made from herbs, flowers and roots.

In this new version, the candied fruit, raisins from Smyrna, and pine nuts characteristic of pandolce recall the history of Genoese seafarers and are combined with the secret recipe for the bitter "useful on sea voyages"<sup>26</sup>.

**Figure 30. Amaro-Camatti Pandolce Genovese, a product of collaboration between Amaro-Camatti and Biscottificio Grondona**



*Source: Picture from Biscottificio Grondona Facebook Post*

Second, at the *production process* level, Biscottificio Grondona made the choice of technology at the service of tradition. It has managed to “combine family traditions with refined industrial technology without losing history and deeper meaning”<sup>27</sup>.

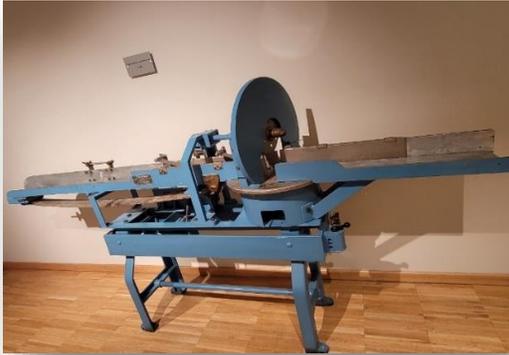
As Orlando Grondona puts it, digital transformation is not synonymous with distortion or alteration, but adaptation to a new story, without ever losing track of one’s identity (Zanon, 2020).

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<sup>26</sup> <https://www.amarocamatti.it/en/camatti-and-grondona-bitter-pandolce-for-christmas-2022/>

<sup>27</sup> <https://www.biscottificiogronadonna.com/en/philosophy/origin-of-grondona/>

*Figure 31. Technology at the service of tradition: From the early use of automation to date*



*Source: Picture on the left by Author of the Case (2023) featuring an ancient machinery displayed at the premises of Biscottificio Grondona and picture on the rights as courtesy of Biscottificio Grondona featuring current automatization processes at the factory*

Gildo Grondona explains, “we are guided by our ethics and DNA. Rather than moving from artisanal products to industrial products, we chose to use automation of the production process while maintaining the same philosophy”.

Orlando Grondona recalls how his father has always believed in innovation while looking to invest in machinery that fits the production and not the other way round so as not to distort the final product. He adds, “the product’s ingredients and quality never change; the new machines are there just to support the production” (Zanon, 2020). “A robot moves boxes regardless of their contents, and yet what matters is what’s inside” (LaFrecciaWeb, 2020).

Orlando further acknowledges that the Grondona family managed to win a difficult bet: combining family management, where the owners get their hands dirty with flour, refined industrial technologies, and artisan care in processing the production, along with significant presence in terms of distribution (Zanon, 2020).

The result is that Grondona makes the same quality products, with methods in step with the times. As the headline of an article dedicated to Biscottificio Grondona suggests, “tradition and technology united to recreate the flavours of the past” (Il secolo xix, 2014).

According to the food technologist Mauro Gobbi (2020), technology also extends to the packaging of Grondona's products.

Third, Grondona's innovation operates at *the packaging* level, whether in terms of technology processing, design, and composition in line with the changing environment.

Gobbi (2020) stresses the ability of Grondona to maintain the high quality and tradition of the products by trying to reduce costs not in the raw materials or in the production processes, because this could compromise the quality, but by mechanising the manual operations of packaging.

As for the packaging design, Grondona was a first in the pastry industry to use blue in its packaging. Gildo and Orlando Grondona made a breakthrough with their visionary outlook which was well-received by customers at a time when experts recommended yellow packaging like most of the pastry products at the time. With a sense of humour, Andrea Grondona recalls some foreign customers asking for "Tiffany's cookies" in reference to Grondona's cookies. This alludes to the blue-coloured packaging that Grondona adopted coupled with the clients' perception of Grondona's high quality products abroad as part of luxury.

In 2023, Grondona decided to change its packaging look to address the increasing environmental challenges. Francesco Grondona, sixth generation member and current CEO, explains, "we made a move beyond recyclable packaging and reduced the packaging material by 30%."

Grondona engages in making the products better for the environment without losing sight of their traditional quality.

As put forth in the social media communication, "sustainability and tradition meet!" with this move being "a first step towards a greener future!"<sup>28</sup>.

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<sup>28</sup> These citations are attributed respectively to Biscottificio Grondona's LinkedIn post in March 2023 and Facebook post dated June 1, 2023.

Figure 32. New packaging of Biscottificio Grondona's products towards a greener future



Source: Biscottificio Grondona Facebook post<sup>29</sup>

Fourth, the innovation extends to the *marketing and communication* level while being nested in the Grondona story that continues today as yesterday.

Figure 33. Historical graphic features of Grondona's products presentation



Source: Picture Courtesy of Biscottificio Grondona

<sup>29</sup> The translation reads: "Reducing the package, not the product!"

*Figure 34. New Grondona's products presentations inspired by historical graphic features*



*Source: Pictures compilation from Biscottificio Grondona Catalogue (2023) and social media*

Some distinctive graphic features that were unique in the past have been updated recently so that the brand keeps up with the communication requirements of a company in the modern times, as seen in the previous two figures.

The type of packaging in the past inspires the present. An interesting illustration is Grondona's rounded gift boxes (the old version on the top of the next figure) proposed with two options, either filled with Genovese pastries or with the Lagaccio Antica Genova® (the two consecutive versions follow the old one).

Figure 35. The old inspiring the new Grondona's gift boxes



Source: Pictures compilation from Biscottificio Grondona social media (first picture in order) and Catalogue (2022; 2023) (second and third pictures)

Moreover, albeit some initial resistance, the fifth and sixth generations decided to consolidate the presence of Biscottificio Grondona on the web through online communication along with online sales. The new website was recently completely renovated with versions available in Italian, French and English. The online shop also became operational, allowing delivery of orders all around the world. According to the latest records, the website is visited by over 40,000 users per year, indicating the expansion of the pool of customers of the brand nationally and abroad.

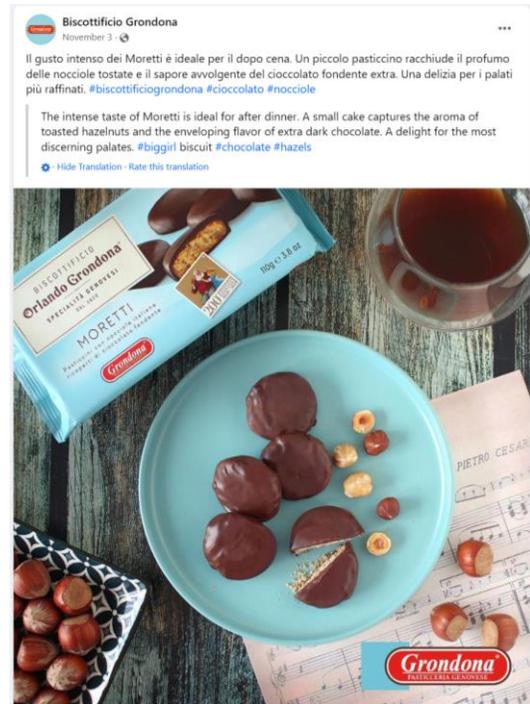
Grondona also remains in step with the times, using the most important online Social Networks, such as Instagram (nearly 3K followers), Facebook (nearly 9K followers) and LinkedIn (nearly 2.5K followers), with regular posts and interactions with the followers.

The marketing and communication along these channels range from *the products announcements*, to sharing *historical insights and recent achievements*, *promoting causes* supported by Grondona, and *celebrating different occasions* with the customers.

**Figure 36. Illustrations of social media posts promoting Grondona’s products: from making announcements to sharing insights and tips**

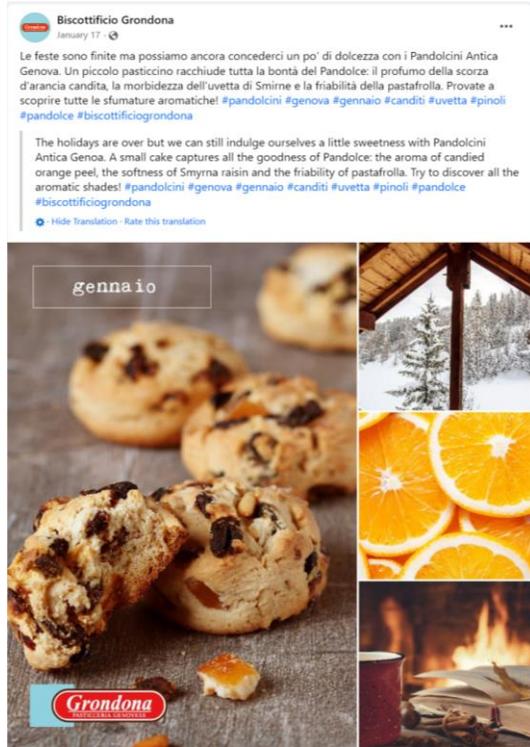


Announcing the arrival “La Colomba” product

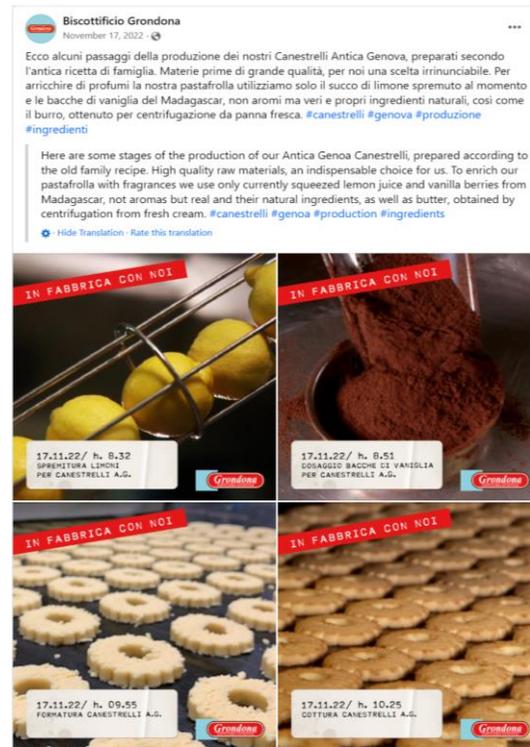


Degustation suggestion and description of the “Moretti” product

**Figure 36. Illustrations of social media posts promoting Grondona's products: from making announcements to sharing insights and tips (continued)**



Suggestion and description of “Pandolcini Antica Genoa” for the month of January



The production process of “Canastrelli Antica Genoa” in pictures

**Figure 37. Illustrations of social media posts in celebration of various occasions**



Celebrating Mother's Day

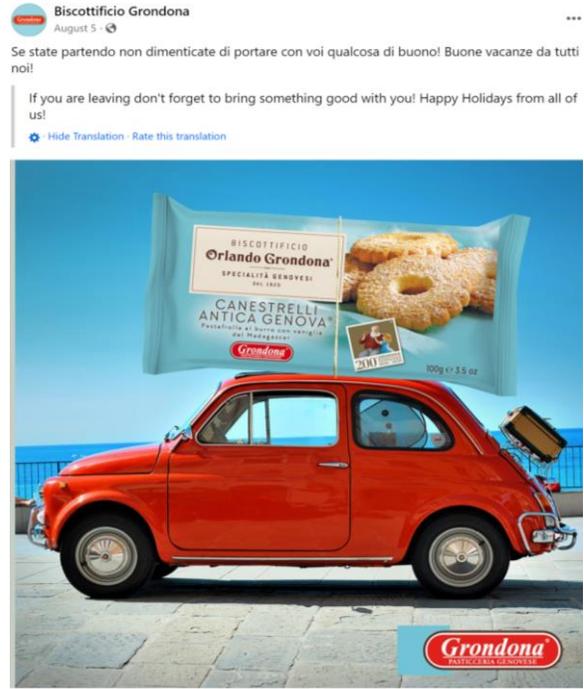


Celebrating the 2020 New Year

Figure 37: Illustrations of social media posts in celebration of various occasions (continued)



Celebrating Mid-august



Celebrating the Summer Holidays



Celebrating star constellations



Celebrating Valentine's Day

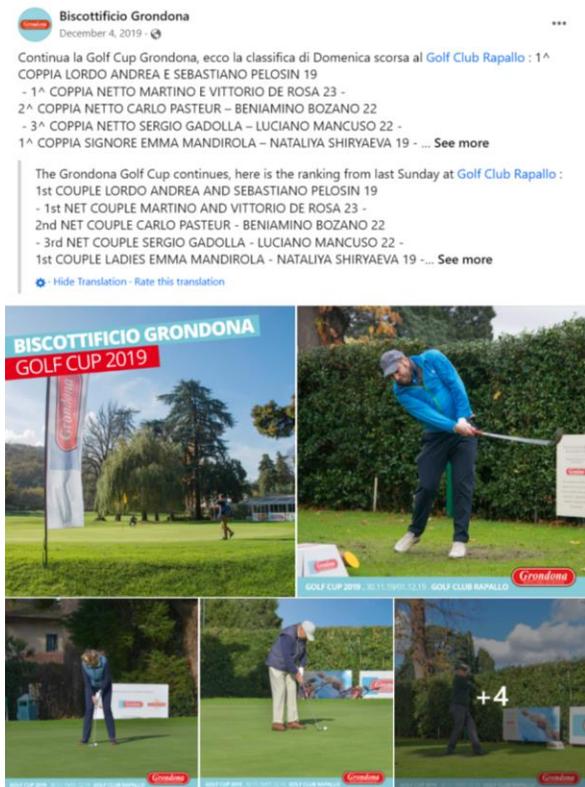
Figure 38. Illustrations of social media posts sharing about Grondona's events and activities



Whoopi Goldberg visiting Grondona's booth at the Summer Fancy Food in NY



Information to visit Grondona's booth at Tutto Food Exhibition Milano



Grondona's Golf Cup 2019



20th edition of Grondona Cup

Grondona continues investing in advertising and brand promotion in traditional ways too. It has created advertising campaigns on local TV channels of reference and sponsored a well-known program on the territory. It promotes its products through poster campaigns in Genova, articles and advertisements in newspapers, dressing buses and other television commercials, as well as its participation to local and international fairs and markets.

These efforts contribute to the recognition of Grondona on the public scene, as shown recently following the publication of the article “Grondona: the white gold of Val Polcevera and the art of biscuits” by IlGolosario in 2022. Awarded with the title “Champion of Golosario” at the 25<sup>th</sup> anniversary of the IlGolosario renowned guide to the thousand and more good things in Italy, Grondona was invited on stage among 100 companies that are champions of Italian quality.

*Figure 39. Biscottificio Grondona, Champion of Golosario 2023: Award and ceremony*



*Source: Pictures from Biscottificio Grondona and Golosaria Facebook Posts*

This fine balance between digital and traditional communication allows Grondona to reach and communicate with customers of all generations and digital preferences, balancing its digital and traditional brand image. As Orlando Grondona reveals, “Our skill (...) was not in inventing a new process but in finding a balance between past and future” (Zanon, 2020).

Looking into the innovative future of Biscottificio Grondona, Francesco Grondona, sixth generation member and current CEO, explains “The history is a guarantee of quality (...). [At the same time] the quality of our products is also about sustainability. Beyond the product packaging, we invest in solar panels on our factories’ roofs and in new machines that consume less energy,

among other green solutions (...). Sustainability is about healthy products for the customers and for the environment. We plan to engage in further certifications efforts to bring the family business to the next level with the B-Corporation certification.”

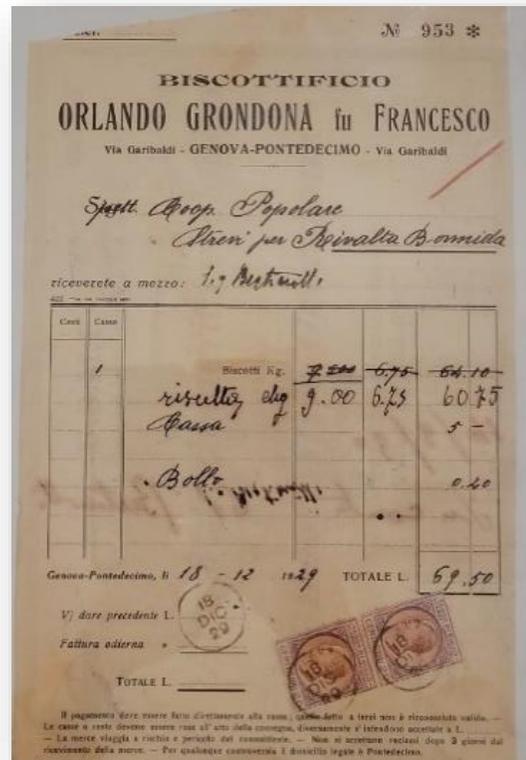
The history of the future imbued with entrepreneurship that is respectful of the history of the past is certainly promising and yet to be written by the sixth and the subsequent generations.

### 3.2 Internationalization and Attachment to the Roots

With around a hundred employees, 120 sales agents, 30 foreign distributors and 22 million Euros of annual revenues (out of which 25% from export), Grondona stands as an international SME.

This raises the question of its growth strategy, managing tensions between internationalization and regional development with the attachment to the roots as a red thread.

**Figure 40: Invoice of Grondona dated 18 December 1929**



Source: Picture Courtesy of Biscottificio Grondona

The Grondona roots are embedded in Ligurian terrain; “a region known for its roughness, openness, rigor, and poetry”<sup>30</sup>. From these roots stem the Grondona family’s work and their one-of-a-kind traditions. Still today, the Grondona family strongly believes in the relationship: “Land, Tradition, Territory, and Identity”. An identity that was constructed over the centuries regionally but that the family is proud to perpetuate internationally with special care and under certain conditions.

Since the early 1990s, the internationalization strategy of Grondona has been focused on exports, by selling its original products in countries around the globe and producing for other international brands.

**Figure 41. Illustrations of early exported products by Biscottificio Grondona**



*Source: Pictures by the Case Author at Biscottificio Grondona’s premises*

Pursuing these business development efforts, the Grondona family decided to expand the production by purchasing other historic Italian brands, while maintaining the same line of conduct. This entailed unnegotiable factors that mattered in the decision-making process on three strategic levels: *acquisitions, exports, and regional development*<sup>31</sup>.

The Grondona family aimed at value creation which was not only intended to be financial but also socio-emotional, through all *acquisitions* made in the neighbouring localizations.

<sup>30</sup> [www.biscottificiogrondona.com](http://www.biscottificiogrondona.com)

<sup>31</sup> The following sections are based on interviews with family and non-family members of Biscottificio Grondona and Bonifanti as well as on information from the website of Biscottificio Grondona.

First, the family acquired Duca d'Alba, a historic company of Lower Piedmont, characterized by its ancient recipes and attention to the nutritional aspects of its high-quality biscuits.

*Figure 42. The Duca d'Alba historic brand*



Through this acquisition in 2005, the family expanded its distribution channels by introducing new product lines which use virgin olive oil and are sugar free, dedicated to specialized shops, while being compatible with Grondona's quality criteria. Belonging to tradition, Duca d'Alba products grew from the love for the local confectionery culture and from a region that is internationally known for the production of exquisite delicacies and great wines.

*Figure 43. Illustrative picture of the Duca d'Alba's region of origin*



*Source: Picture Courtesy of Biscottificio Grondona*

In addition to the local territories' characteristics, historical research on the ancient art of confectionery has led to the rediscovery of recipes and forgotten processing methods that have led to the creation of Duca d'Alba biscuits today.

With the Duca d'Alba production, Grondona has enriched its products lines with specialties that are consistent with its founding principles as well as the family origins of recipes.

These products have also incomparable ancient flavors thanks to the high quality of rigorously selected raw materials, attention to simplicity and the respect for local traditions.

*Figure 44. Illustrations of Duca d'Alba products*



*Source: Picture Courtesy of Biscottificio Grondona*

In 2007, the family added to its portfolio Bonifanti, a family business producing mainly Panettone and Colomba cakes.

*Figure 45. The Bonifanti brand*



Since 1932, Bonifanti has been following traditional recipes with an obsessive attention to the quality of the ingredients and using the same natural yeast from the white mother. It has also always made the same difficult choice than Grondona: managing a much longer and articulated production process that respects the natural times of slow fermentation by using only pure and natural ingredients, not contaminated by artificial or chemical aromas which would modify the delicate environment where sensitive microorganisms live.

The final Bonifanti product is therefore aromatic and tasty, softer, and more digestible. As is the case of Grondona, Bonifanti's only interest was to make a quality product<sup>32</sup>.

*Figure 46. Illustrations of Bonifanti's Panettone and Colomba cakes*



Source: [www.bonifanti.com](http://www.bonifanti.com)

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<sup>32</sup> This is reflected in the recently awarded Bonifanti Panettone Classico Glassato which received two gold stars by the Great Taste Award (2023).

The opportunity of this acquisition emerged as the Bonifanti founding family - in lack of a family successor to take over - was looking for a reliable buyer who understood the core processes and interests of the business. The Grondona family saw in Bonifanti a value-fit in terms of family values, tradition, and quality products. Cherry on the cake, the export portfolio of Bonifanti was a valuable asset that could be leveraged to open new markets in line with Grondona's internationalization strategy.

Looking back at Grondona's decision-making of the acquisition of Bonifanti, Fabbri Giuseppe, administrative and finance director of Biscottificio Grondona (since 1997) and CEO of Bonifanti (since 2014), referred to both companies as "sleeping giants". Several synergies were identified at that time to unleash the potential of both companies in terms of market development and internationalization. These included the history, the know-how of the traditional characteristics of the products, the commercial skills, the consolidation of the suppliers and distribution networks, as well as the strengthening of the relationships with the banks.

The mutual development of social capital extends from the export agents to the suppliers and the customers. As Maria Paola Groppo, manager of the purchasing office at Bonifanti, observes, the collaboration with long-standing and trusted suppliers of Grondona and Bonifanti has been beneficial for both companies, whether in terms of sourcing the best quality of raw materials or gaining negotiation power. Francesca Zarattini, export sales assistant at Bonifanti, adds, "our strength lies in the loyalty of the (B2B and B2C) customers, which builds on the trust they have in the product".

Both companies do not only have similarities but also complementarities in terms of diversity of products lines. Marco Camia, the export sales manager, explains, "whereas Bonifanti's products were mainly sold during Christmas and Easter times, Grondona's products were sold all year round. When promoted together, the international reputation and subsequent higher demand for the Panettone products - especially during festivities - had the potential to benefit Grondona's export sales. The other way round proved to be true during regular periods of the year".

Following this acquisition, Grondona and Bonifanti's products were always featured alongside each other at international exhibitions.

*Figure 47. Joint exhibitions of Grondona and Bonifanti at international food fairs*



*Source: Pictures Courtesy of Biscottificio Grondona featuring on the left the Fancy Food Show in New York – U.S.A (2023) and on the right the ISM Cologne Exhibition in Germany (2023)*

The display of Grondona’s and Bonifanti’s products alongside was also extended to points of sales abroad, as shown at the Galeries Lafayette Gourmet in France during Christmas times.

*Figure 48. Joint displays of Grondona and Bonifanti products in foreign points of sales*



*Source: Biscottificio Grondona Facebook post*

Overall, the value created by these joint efforts, based on common values and complementarities of both companies, seems undisputable.

Such exhibitions contribute to the international visibility of Grondona and the pride of the Ligurian region, reaching renowned celebrities such as the Oscar-winning American actress Whoopi Goldberg, one of the few celebrities to have achieved an EGOT<sup>33</sup>. Visiting a food exhibition in New York, the actress was invited by Rosanna Piturru to taste the specialties of Grondona's products, namely the typical Ligurian canestrelli, the pastry biscuits and the shortcrust pastry with cocoa. As put in the article by Genova Today (2023), "in her pantry, there will also be a small piece of Liguria".

**Figure 49. Actress Whoopi Goldberg, canestrelli and traditional Genoese sweets**



*Source: Genova Today (2023)*

The most recent acquisition of the Grondona family is Bocchia, which has been since 1958 a symbol of excellence in coffee roasting in Genova. As stated on its website, "Grondona has acquired Bocchia for its history". While in line with the previous acquisitions, this powerful statement motivates a quick historical detour from the cultural, family and business perspectives.

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<sup>33</sup> i.e. to have won the four main awards in the field of American entertainment: an Emmy, a Grammy, an Oscar and a Tony Award.

Culturally speaking, drinking coffee is part of an Italian social ritual founded on sharing. Friends and families gather around a cup of coffee to talk and have a moment of communion. This is also an occasion to enjoy delicacies with the drink, which makes it relevant from a coffee bar perspective to add the production of artisan delicacies.

*Figure 50. The Bocchia brand*



Still run by the same family since 1958, Bocchia was founded by Tosello Bocchia. He opened a small but well-stocked grocery store in Genova and started the creation of his own blends with a roasting machine. In the next years, he started experimenting and dedicating himself with passion to high quality coffee beans.

His son Franco later shared his enthusiasm and supported him in developing the business over the years. Offering a wide range of coffees, he expanded the business to the Riviera di Levante, travelling within Italy and abroad, to find artisanal products that go well with the new blends.

Franco Bocchia was afterwards supported by his daughters Emanuela and Raffaella who enthusiastically continued to lead the family business following the ownership control by Grondona in 2017. Grondona's activities extended to 5 coffee shops and 4 coffee bars, where you can also find Grondona's biscuits, with a particular presence in touristic areas of the Liguria region<sup>34</sup>.

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<sup>34</sup> Recco, Rapallo, Chiavari, Sestri Levante, and Golfo del Tiguglio.

*Figure 51. Illustrations of Bocchia's products*



*Source: Biscottificio Grondona's Catalogue (2023)*

As in the previous acquisitions, combining *family values* with *quality imperatives and territorial roots*, contributing to the development of *social connections*, and *complementing the products offering* were the key drivers of the successful growth strategy of Grondona, whether *nationally or internationally* spanning 35 countries around the world.

The “Grondona Bistrot” is the latest development initiated by Orlando Grondona, furthering the anchoring of the family business in its territorial roots with an international touch.

Inaugurated on October 26, 2023, the bistrot of gastronomic excellence spans 250 square meters in the renovated spaces of the building in Piazza Cavour in Genova, a symbolic place which is the former Fish Market.

Along with the Grondona's institutional colours which elegantly imprint the bistro through the display of the products (Liguria Food, 2023), the refinement of the space resonates with the original mosaic in glass tiles dating back to the 1930s, created by the Gianese factory in Venice based on a design by Pietro Dodero.

*Figure 52. The Grondona Bistro in Piazza Cavour - Genova*



*Source: Pictures Courtesy of Biscottificio Grondona*

Through this new venture, Grondona builds new relationships and tightens existing ones with the customers by extending the Grondona experience “with an international atmosphere from breakfast to aperitif”, as suggested by Mentelocale Genova (2023).

The symbolism of the space is coupled with its history as it stands at the center, between Porto Antico and the Levante Waterfront, a point of reference for Italian and international tourists, but also for the approximately 4,000 people who work in the area.

The Grondona press release suggests that “the dishes are destined to become a point of reference for Genoese people and tourists eager to rediscover the most authentic and intriguing flavours of our gastronomic tradition”.

In the bistro hosting 30 tables for around 60 seats, customers can enjoy breakfast, lunch, snacks and aperitif every day from 9 am to 8 pm. Ligurian specialties are served, prepared with the raw materials and ingredients that distinguish Grondona, Bonifanti, Caffè Bocchia and Duca d'Alba brands that make up the Group.

According to Orlando Grondona, featured in Mentelocale Genova and Sensory News (2023), “the aim is to create a quality lounge and offer our guests excellent and unforgettable dishes, precisely because they are prepared with ingredients and raw materials of the highest choice. In other words, we have brought the philosophy that distinguishes our products for over 200 years. We are sure that the public, both the local one and the tourists who will visit this space, rich in history and charm, will appreciate the choice of a menu made up of a few items, but full of emotions and substance”.

Thus, Grondona maintains its development strategy with a *fine balance between internationalization and territory roots*. Its latest entrepreneurial endeavour with the Grondona Bistro is an additional but probably not the last illustration of this well-managed paradox.

### **3.3 Rational and Emotional Logics**

At Grondona, the human factor embraces all stakeholders at once, whether in terms of *relationships quality, mutual sharing of knowledge and passion, or emotional and financial support*. The rational and emotional logics intertwine continuously to act in favour of the business, the family, and the wider community.

The culture of giving back to the community is engrained in Grondona’s purpose emotionally, beyond the financials.

This can take different forms, starting with Grondona’s engagements in the city of Genova and the region of Liguria. Among them, Grondona’s displays and participation in local fairs and markets are important occasions for the family and for the employees to meet with the local customers, build and consolidate relationships with the community, and reaffirm their attachment to the territory.

In this line, Andrea Grondona, sixth generation member, spends significant time representing the family business in the markets, whether during the Christmas period or other occasions. Reflecting on Andrea’s dedication, Marco Camia, the export sales manager, points out that such

initiatives, which require substantial investments with relatively little financial return, are “run from the heart”. He adds, “this is called passion”. The passion that family members have for their products is conveyed to the outer world not only B2B but also B2C with the C going beyond the customers to include the community, therefore the common good.

*Figure 53. Grondona’s manifestations at the Christmas market in Genova*



*Source: Pictures by Biscottificio Grondona (2023) and the Case Author (2022)*

The culture of giving back also extends to philanthropic engagements of the family in several causes over the long run.

*Figure 54. Illustrative philanthropic engagements: Grondona's support for research on children's diseases*



*Source: Pictures courtesy of Biscottificio Grondona*

As Andrea Grondona puts it, “philanthropy is connected to a sensitive side we have.” Among several initiatives, Grondona produces a special edition of heart-shaped cookies, in dedicated packaging designed for Telethon, in order to support research on rare genetic diseases.

In addition to having such initiative described as “the gift that gives hope to many mothers” (Telethon, 2023), Grondona received an award in 2021 for its charitable giving initiative for children’s multi-sclerosis (Figure 54). When the Covid-19 pandemic was raging in 2020, some of Grondona’s lines of production were maintained. As Francesco Grondona puts it, “we do not forget people who need help, who are in the front lines”. Dessert products were distributed to Hospital San Martino in Genova in support during the pandemic, triggering the local newspaper to name Biscottificio Grondona as “the angels of San Martino”.

Grondona also thrives to share sweetness and passion in other domains. In sports, Grondona engages in partnerships and sponsorships of tournaments, competitive challenges and associated activities.

*Figure 55. Illustrative engagements of Grondona’s in the sports domains*



Source: Pictures from Biscottificio Grondona social media posts and Tuttocampo (2022) online article

In golf, Grondona supports different tournaments in the Liguria region. In particular, Grondona is a historic sponsor of the Rapallo Golf and Tennis Club since 2007.

In soccer, a notable example is the Grondona Cup, now in its 22<sup>nd</sup> edition<sup>35</sup>, organized in collaboration with the Athletic Club Albaro, a local youth soccer tournament allowing children from the most prestigious clubs in Genova and the province to play. For the 200-anniversary of Biscottificio Grondona, the Club paid homage by offering its yellow-black-green shirt personalized with the number “200”. Reflecting on this recognition, Andrea Grondona declared, “for us it is important to support events linked to the territory, children and sport (...). Thanks to Athletic for this t-shirt which recalls our over two hundred years of life, all in the name of work and tradition” (Tuttocampo, 2022).

Grondona also supports the Ravano Tournament, presented in its social media posts as “an important opportunity to pass on to primary school children the passion for team sports. An initiative that aims to spread values of sustainability, healthy lifestyle and respect for the environment”. This event is the biggest Youth School Tournament in Europe, promoting sport and its values. It involves around 6500 children and 12 Sport Federations, with many sports disciplines represented, including football, rugby, volleyball, basketball, cycling, sailing, and tennis.

*Figure 56. Illustrative engagement of Grondona in the family-run marathon in Genova*



*Source: Pictures from Biscottificio Grondona social media*

<sup>35</sup> Excluding a two year-pause due to the Covid-19 pandemic.

Grondona was also one of the main sponsors of the 2023 family run marathon in Genova. As Grondona puts it in its social media following the end of the marathon, “it is difficult to contain the emotion of this weekend in the name of sharing and passion for sport. The Genova Half Marathon as a setting for the taste of Ligurian cuisine! Where there is Liguria there is Grondona!”.

In addition, Grondona has a history of sharing its knowledge coupled with passion for its fine products to a variety of audiences whether students, associations or experts.

The below picture features the recent visit of the Grondona factory by aspiring chefs from the training school “Monza & Brianza Community Foundation”.

***Figure 57. Illustration of Grondona’s engagement in sharing knowledge and passion: Factory visits and seminars tailored to a variety of audiences***



*Source: Pictures from Biscottificio Grondona social media*

Marco Camia, the exports sales manager observes, “it is also important to educate the export agents about our products so that they can convey what we do to the customers”. This is in line with the statement by Biscottificio Grondona, “more than 120 sales people are proud as our organization devotes time to the training of agents who are the true spokesman for the direct consumer and familiar with the process steps and the processing of natural sourdough.”

**Figure 58. Illustration of Grondona's engagement in sharing knowledge and passion: Dedicated program to distributors and dealers from Australia at the factory premises (2023)**



*Source: Picture from Biscottificio Grondona social media*

As mentioned by Andrea Grondona in the social media, “today great guests came at Biscottificio Grondona S.p.a, our friends, distributors and dealers of Grondona in Australia. As they visited the biscuits factory in Val Polcevera, it was hard for us to hold the emotion. It was a great opportunity for our team to organize an exclusive event to meet and share with them our latest achievements, news and items for the Australian market and exchange ideas. We would like to thank them for their support and trust and for being part of our growth.”

This statement illustrates the uniqueness of the connections developed between Grondona and their external agents, whether through dedicated events, meetings at exhibitions, and other informal reunions, intertwining emotional and economic dimensions at once.

Taking the knowledge sharing experience to another level, the Sweet Academy was launched on March 31<sup>st</sup>, 2023. As suggested by Fabbri Giuseppe, CEO of Bonifanti, it comes as the culmination of a historical journey of research into excellence, shown by the certification of many of Bonifanti's products by the Certified Italian Excellence Institute. He adds, it is precisely from Bonifanti's legacy and research whose value and weight are confirmed by independent competent people that the Sweet Academy was born.

*Figure 59. Launch of the Sweet Academy*



*Source: Picture courtesy of Biscottificio Grondona*

Fabbri Giuseppe further explains that when training starts in a manufacturing company, a virtuous circle is generated in which knowledge is codified and translated into good practices to be transferred externally, until it reaches the customer. The initiative of the Sweet Academy extends though the transfer of knowledge beyond the customers, to the students of the taste and the amateurs.

More specifically, “it is designed to sales agents, so that the story of products of excellence is even more reknown; to consumers, so that they can get to know the manufacturing processes of our products and develop sensory competence – to become "connoisseurs"; to teachers and students, so that the culture of leavening baked cakes, made with only sourdough, is extended and developed; and customers, so that they can touch the truth of our stories – and because we want to cultivate the relationship built over the years.”<sup>36</sup>

To the question, “what is the power of an academy that comes from a company?”, Fabbri Giuseppe provides an answer that underscores the importance of the non-financial logic in a stakeholders’ perspective.

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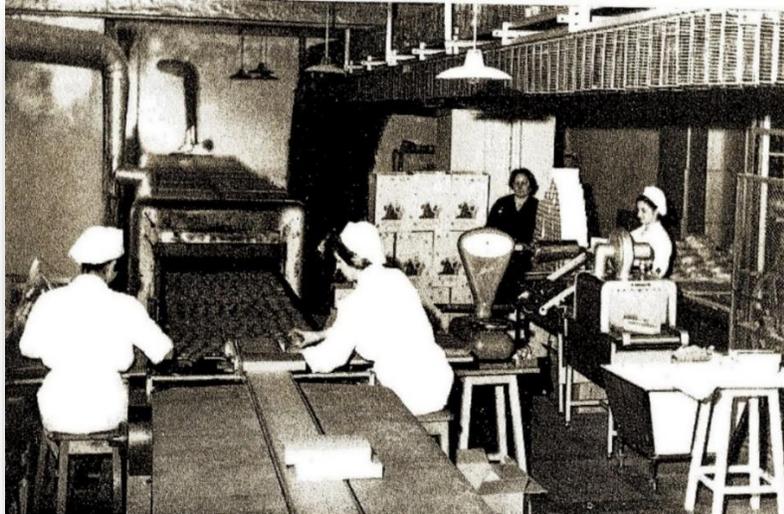
<sup>36</sup> The sources are a compilation of LinkedIn posts and a youtube video by Fabbri Giuseppe : <https://www.linkedin.com/in/fabbri-giuseppe-8523b724/> and <https://www.youtube.com/watch?v=xxWroh19F5E>

The power lies in generating “a virtuous circle in which customers actually enter the business community”. He further explains, “for years we have been thinking about how to disseminate the sensory and digestive benefits of using pure sourdough, without transmitting it as a marketing message or an exclusively self-referential value. We finally found the answer in a scientific academy.”

At Grondona, the culture of giving also extends beyond the external stakeholders to the internal ones, the human resources.

Orlando Grondona writes in the preface of the 200-year anniversary book, “Mario, Angiolina, Samuele. They were the first names I heard, the first faces I recognized, when I was just a kid, and I saw them collaborate with my grandfather, who had hired them in his time; along many others. Yes: they collaborated and didn't work, because anyone could immediately sense their pride and desire to do well in their respective tasks.”

*Figure 60. Old illustration featuring employees at the Biscottificio Grondona factory*



*Source: Picture courtesy of Biscottificio Grondona*

Time has passed at Grondona. More than 200 years already but the strong human connections at the employees' level, the pride and the collaboration do not seem to have changed much.

On the one hand, employees still recognize the value of working for the family business and display pride and loyalty. Those I had the opportunity to interview commonly shared about the warm atmosphere that prevails and the positive culture that motivates them at work. They particularly expressed pride of being part of the Grondona journey and their attachment to its values and products.

On the other hand, the Grondona family recognizes the value of its employees and displays its pride for their achievements and attachment to their development, whether male or female. As mentioned in the social media post celebrating International Women’s Day (2020), “we want to thank all the women who are part of our story; thanks to their work our company has grown and managed to achieve important milestones”.

***Figure 61. Illustration celebrating Grondona’s female employees: Past and present***



*Source: Biscottificio Grondona social media post (March 8, 2020)*

These assertions seem to be also true not only in the historical Biscottificio Grondona business but also the acquired businesses. Andrea Grondona notes, “we invest and strive to create a common culture beyond the historical origins of each company so that employees feel that we are one big family”.

**Figure 62. Joint photo of Grondona and Bonifanti export teams at the Tuttofood Milano Exhibition (2023)**



*Source: Biscottificio Grondona LinkedIn post*

In the same line, Fabbri Giuseppe shares about the importance of human resources to achieve business sustainability, illustrating the activities at Bonifanti in this direction. As mentioned in his LinkedIn post, “a company is first and foremost the people who live in it. Being able to create a positive environment can really contribute to the smooth running of a business. Just a few weeks ago [June 2023], we dedicated an entire day to sustainability, not only in environmental terms. We started from the ethical theme, deepening the enhancement of people and their talents and the optimization of processes and resources. But it wasn't just theory: we put ... hands in the dough! To put ourselves to the test, we divided ourselves into teams to prepare the perfect pizza: great attention to the ingredients, to the processing, to amalgamate the knowledge of the team.

All this, with one difficulty: each team was entrusted with the "secret ingredient", linked to one of the goals of the 2030 Agenda that our company is pursuing. It was a memorable day of reflections on the future of the company, teamwork and lots of fun.”

***Figure 63. Illustration of employees’ engagement: Andrea Grondona and Bonifanti’s employees during the Sustainability team building activities (2023)***



*Source: Picture courtesy of Biscottificio Grondona*

In light of the positive work-family culture, it is not unusual for employees to be working in the Grondona and Bonifanti for several years, up to around 25 years. As I was meeting them during my visits to the factories, some were introduced and openly referred to by the family as the “Pillars of Grondona”. As a matter of fact, they have inherited the knowledge from previous generations and have been sometimes working in the business from generation to generation.

Grondona’s employees are a source of invaluable know-how to the family business and acknowledged as such by the Grondona family. This recognition of the employees’ loyalty and competencies is paramount.

**Figure 64. Non-family employees as pillars of the family business**



*Source: Photos by the Case Author featuring Fulvio Carabelli at Biscottificio Grondona factory (on the left side) and Ivano Milaneseo at Bonifanti factory (on the right side)*

These observations of both *mutual recognition* and *support of the employees and the Grondona family* convey a fertile ground for a sustainable family business. They resonate with the words of Orlando Grondona in his preface of the 200-year anniversary book, “I am convinced that work is a way to improve mankind and that through it people can obtain benefits and gratifications for themselves and future generations. And therefore, (...) I feel it is my duty and right to thank all those who, albeit in silence and without showing off, have contributed to ensuring that this company reaches the venerable age of 200 years.”

## Concluding Remarks: Charting the Future with Consistency

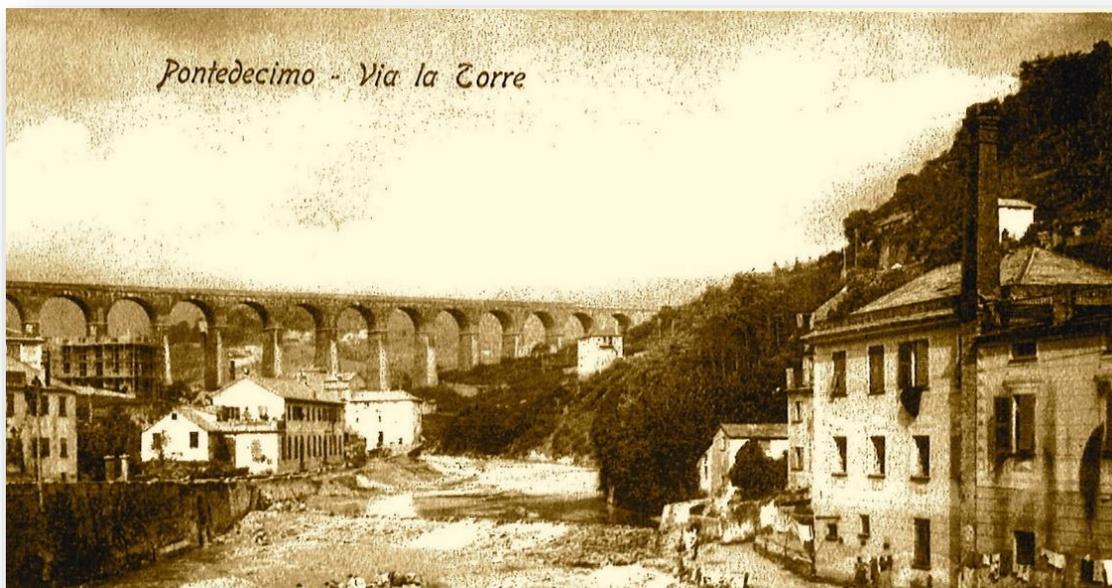
*“My dream is to perpetuate the business to the son of my son and to learn that he has the same dream” (Orlando Grondona)*

The opera music is still playing in the background. A thousand and one aromas now permeate our habitat. A myriad of thoughts uplifts our minds, hearts, and souls in admiration and enchantment. The journey of exploration of Biscottificio Grondona is about to come to an end.

Reading the future of Biscottificio Grondona is still not possible yet, however. One last story is missing. Touching, inspiring, and foresightful.

Let’s travel back in time. One beautiful image: A river. A factory. A family. A community. All interconnected.

*Figure 65. Via La Torre - Pontedecimo*



*Source: Photo courtesy of Biscottificio Grondona*

1993. An unexpected turn of events. A flood. A devastation in the factory, the family, and the community.

Recounting the story, Gildo Grondona feels very emotional. “The water was 1.80 m high. Production lines were destroyed.” Orlando Grondona recalls, “I told my brother, we have no choice but to leave. Everything is flooded with water”.

Next chapter of the story.

The employees commit to work without certainty about being paid.

The clients commit to keep the orders and wait.

The suppliers commit to delay the payments and wait.

The banks commit to provide loans.

The community commits to help draining the water and rebuilding the factory.

The government commits to providing financial aid.

The ecosystem gave the family the power to continue. It took only 22 magical days for the factory to restart. And you know by now how success and growth unfolded since.

This is a miniature story of Biscottificio Grondona, as part of a legacy of more than 200 years of resilience, built on an unshakable philosophy of values, and embedded in interlocking bonds with all stakeholders from generation to generation.

*Consistency in striking a fine balance between innovation and tradition, internationalization and attachment to the roots, rational and emotional logics* embodies the Grondona’s key to master the challenges at all times.

The closing goes to the Grondona Grand Masters.

“The business in 1820 by Giuseppe Grondona was destined to grow or rather, to leaven, in a natural way” (Gildo Grondona).

The show must go on with the 6<sup>th</sup> and 7<sup>th</sup> generations and beyond.

“Being custodians of a tradition does not give us the alibi to stop being surprised...” (Orlando Grondona).

The new Acts of the Grondona Opera are yet to be written, played, and chanted by the next generations with their own share of surprises.

**Figure 66: The Grondona family in business in 2023**



*Source: Picture by the Case Author at Biscottificio Grondona’s premises (2022)  
From the right to the left: Andrea Grondona, Gildo Grondona, Orlando Grondona, Massimiliano Grondona and daughter Beatrice Grondona, Francesco Grondona*

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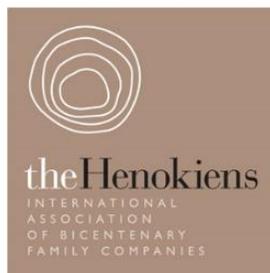
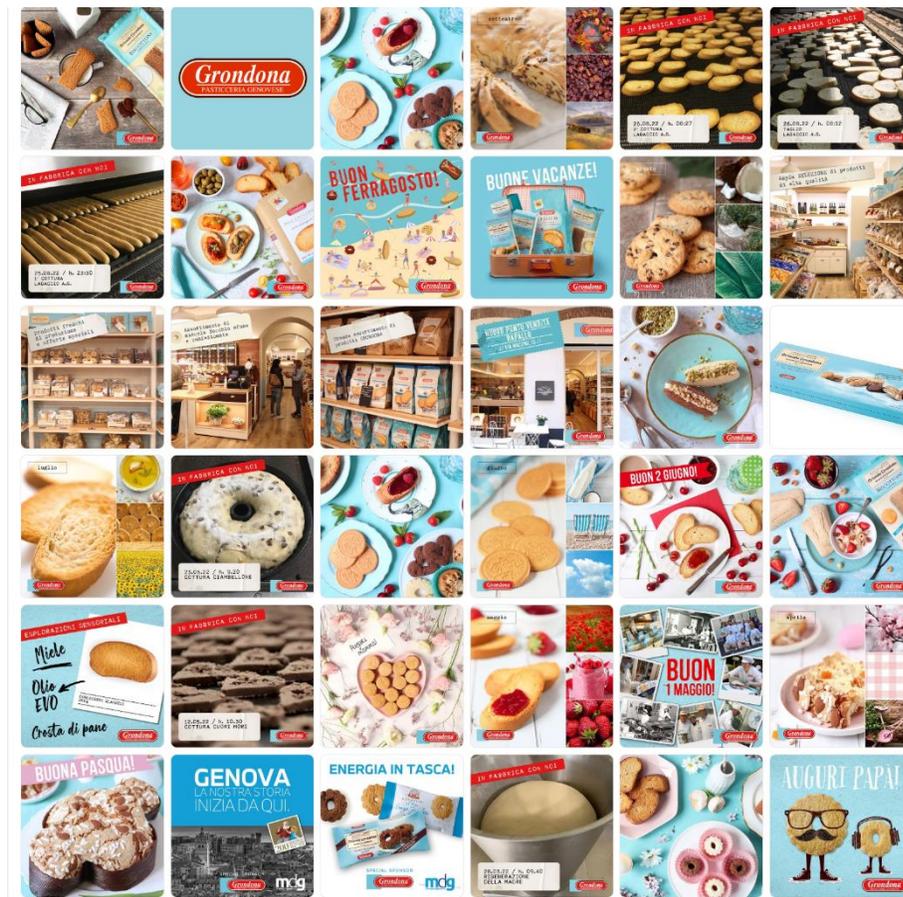
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The Henokiens Association, [www.henokiens.com](http://www.henokiens.com)

# Lessons from a 203-year-old family business

*Rania LABAKI*



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