



Politecnico di Milano

Master of Management Engineering

Family Business Succession:

A Business Case Study on HEAT S.r.l.

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INDEX

1. Introduction.....	4
2. Literature review	5
2.1 Family Business and Family Business Plan	5
2.1.1 Family Companies	5
2.1.2 Governance	8
2.1.3 Strategy, Management and Business Plan	11
2.1.4 Innovation	14
2.2 Succession	15
2.2.1 Definition and general overview	15
2.2.2 Drivers and Obstacles	17
2.2.3 A formal existing model: Three succession patterns	25
3. Business Case Study: HEAT S.r.l.....	28
3.1 Introduction to the company: Strategy and Operation through the years.....	28
3.2 Governance and Structure: The family	29
3.3 The Problem: Is the company ready for the 2nd Generation?.....	33
3.3.1 Actual Owners	33
3.3.2 Key Dilemmas	34
3.4 The Options: Where do the company should go?	38
3.4.1 Sell to multinationals or other external buyers: PROs and CONs.....	41

3.4.2 Continue with family members: PROs and CONs	43
3.4.3 Continue with non-family members: PROs and CONs.....	44
3.4.4 Close the company and declare bankruptcy: PROs and CONs	45
3.5 The Solution: Where do the company should go?	47
3.6 What's next?.....	55
4. Conclusions.....	57
5. Bibliography.....	61

FIGURES

Figure 1: Three-Circle Model	5
Figure 2: Family Company characteristics	7
Figure 3: Succession Drivers	18
Figure 4: Three succession pattern model	25
Figure 5: Family genealogical tree	29
Figure 6: Three-circle model HEAT S.r.l.	32
Figure 7: Interview Model	40
Figure 8: Pierangelo's results	48
Figure 9: Stella's results	50
Figure 10: Francesca's results	52
Figure 11: Total results	54

1. INTRODUCTION

Family Businesses are becoming nowadays subject of many studies due to the influence of family issues on the goals, strategies, and operations of companies. More than 90% of worldwide companies should be considered family-based and the heterogeneity of them raised the necessity to find common practices and behaviours to manage in the best way the two main blocks, family, and business.

The objective of this report is to analyse the features that characterize a succession in a family business, taking into account the figures involved and the main points to be kept into consideration. Many theories tried to standardize the common features that can be found in different family businesses, but, due to the heterogeneity of them, some specific considerations and assumptions need to be implemented.

In the report will be studied the case of the HEAT S.r.l., a small-medium Italian enterprise, founded and managed by Pierangelo, the incumbent who is going to soon retire himself. The company involves three owners, Pierangelo and his two brothers, and their families too, especially their sons, who should be the second generation that will continue the business over the years.

A solution for the implementation of a successful succession will be proposed to the HEAT S.r.l., selecting from four main alternatives:

- Sell the company to multinationals or external buyers,
- Continue with family members,
- Continue with non-family members
- Close the company and declare bankruptcy.

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2. LITERATURE REVIEW

2.1 Family Business and Family Business Plan

2.1.1 Family Companies

The subject of the analysis is one of the oldest types of enterprises that has never been thoroughly investigated over the years: from the first composition of a company to an actual start-up, around 70-90% (Family Business Research Group - Politecnico di Milano, *Introduction to family companies - Family Business*) of the worldwide companies, nowadays, could be defined as a **Family Business**. It is not impossible to give a precise definition of what a Family Business really stands for, because, from a standard company, it should be simply added the family component. Family issues imply **intangible assets**, such as family dedication and commitment towards the company, and these aspects imply a more diligent protection of company traditions and values.

According to many studies (De Lema, D. G. P., & Duréndez, A. (2007). *Managerial behaviour of small and medium-sized family businesses: An empirical study*. International Journal of Entrepreneurial Behaviour and Research, 13(3), 151–172.), family firms should meet specific requirements to be differentiated from a non-family business:

- **Ownership:** Ownership and control of the business should be in the hands of the family;
- **Management:** Management is strongly influenced by family issues and usually composed by family members: Chief Executive Officer (CEO) is or is not a family member, and the extent to which family members participate in the Top Management Team (TMT);

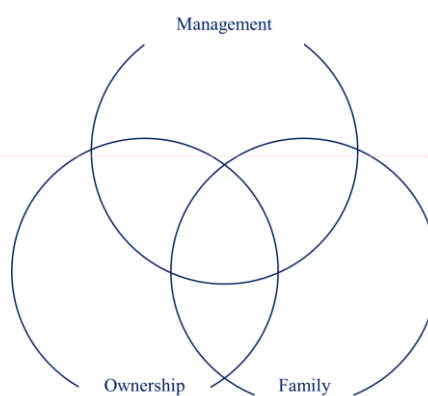


Figure 1: Three-Circle Model

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- **Family:** Family presence in terms of culture and intention of transmitting the business to next generation of family members.

Many studies (Family Business Research Group - Politecnico di Milano, *Introduction to family companies - Family Business*) used a circle model (two- and three- circle models) to define the strategic system entity named Family Business. The starting prototype (two-circle) defines the Family Business as simply Family + Business circles, with a strong intersection where the Family Firm concept is placed. However, the model has been extended into three main circles representing the three main requirements seen before:

- **Ownership:** control and power to dictate the operations and functions of the company with a strong interaction with the family and guiding the management.
- **Management:** coordination and administration of the company with a strong interaction with the family and following the ownership guidelines.
- **Family:** presence of **family essence** into each unit of the business to build a family company identity, mainly through ownership and management.

The model focuses on people's involvement in the company, explaining who is who and who does what. It is a stand-state picture with the names of the company's members inside the different sections of the circles, with no specifications on temporal changes or synergies: sometimes boundaries are not so marked, to give a real distinction among the three circles.

De Massis, in 2012, analysed in its study “Family business studies - An annotated bibliography” (Family Business Research Group - Politecnico di Milano, *Introduction to family companies - Family Business*) six main components that characterise and define a family company:

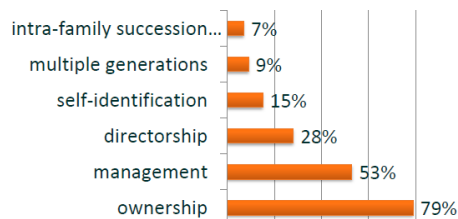


Figure 2: Family Company characteristics

Management and Ownership are a recurrent issue that mainly characterize a family business: the six components should be aggregated to return to the three main blocks: intra-family succession, multiple generations and self-identification should represent the Family circle, directorship and management are clearly representative of the Management circle, and lastly the ownership is self-explaining.

There is **heterogeneity** among different Family Businesses due to the level of family involvement (Ownership & Management) and the family essence in the firm. Domingo García Pérez de Lema and Antonio Duréndez, in their empirical study on “Managerial behaviour of small and medium-sized family businesses”, agreed that Family businesses are those in which the family owns at least 50% of the company, controls it, and occupies most managerial roles. (De Lema, D. G. P., & Duréndez, A. (2007). *Managerial behaviour of small and medium-sized family businesses: An empirical study*. International Journal of Entrepreneurial Behaviour and Research, 13(3), 151–172.). This key factor, integrated with the intention of the family of transmitting the business to the next generations, is strongly common in Small-Medium Enterprises (SME). Small companies have sometimes a low defined separation among ownership, management, and family, mainly due to the size of the business: usually it happens that the owner is also the CEO and the founder of the company where later has been enlarged with other family members.

2.1.2 Governance

The distribution of power and influence in a company is known as ownership. Because of the associated familial relationships and social statuses, this construct becomes more problematic in the context of the family firm. Looking beyond the firm's ownership and governance structure and into the dynamics of the family system itself is one method to understand the many and often conflicting motives among family members/owners and non-family members. Businesses are the result of a long-term social process involving a wide range of participants, including households and families as owners (Goel, S., Mazzola, P., Phan, P. H., Pieper, T. M., & Zachary, R. K. (2012). *Strategy, ownership, governance, and socio-psychological perspectives on family businesses from around the world*. *Journal of Family Business Strategy*, 3(2), 54–65.). Internally, the owning family has its own governance structure and process, and the corporate system may reflect family patterns and dynamics.

Different theories (Family Business Research Group - Politecnico di Milano, *Introduction to family companies - Family Business*) try to describe the behaviours of owners and managers inside a family business:

- **Agency theory:** The link between family owners and non-family managers with diverging interests and asymmetric knowledge that results in control costs is investigated using **Agency theory**. The most prevalent problem studied is related to stockholders who have a diverse stock portfolio and are risk apprehensive when it comes to particular business acts, whereas managers are assumed to be risk averse since their own wealth is tied to the company. This risk disparity is seen to encourage opportunistic conduct on the part of managers, and it is at the foundation of conflicts of interest between owners and managers (De Massis, A., Kotlar, J., Campopiano, G., & Cassia, L. (2015). *The Impact of Family Involvement on SMEs' Performance: Theory and Evidence*. *Journal of Small Business Management*, 53(4), 924–948.). Family involvement in management may reduce the costs incurred by the agency to discipline the agents' behaviour.

Because some family owners may be actively involved in management, this is likely to happen naturally. Family engagement in management may improve the performance of a business (De Massis, A., Kotlar, J., Campopiano, G., & Cassia, L. (2015). *The Impact of Family Involvement on SMEs' Performance: Theory and Evidence*. Journal of Small Business Management, 53(4), 924–948.). As a result, agency theory implies that family-owned and managed businesses are among the most efficient types of businesses. When the **Top Management Team** is viewed as a problem-solving organization that must reduce uncertainty, the top management team's ability to produce cognitive conflict becomes a significant predictor. In this aspect, family members' mutuality may manifest itself as a willingness to accommodate other team members for the “good” of the team, and it may result in the avoidance of a comprehensive evaluation of alternatives due to the lack or limited representation of non-family management. As a result, excessive family participation in the TMT may result in a limited availability of varied knowledge and viewpoints that are considered functional and important for decision quality (De Massis, A., Kotlar, J., Campopiano, G., & Cassia, L. (2015). *The Impact of Family Involvement on SMEs' Performance: Theory and Evidence*. Journal of Small Business Management, 53(4), 924–948.). These arguments may be of particular relevance to SMEs that typically have limited availability of knowledge, skills and perspectives, and that may thus especially benefit from the aid of outsiders.

Behavioural theory is an extension of agency theory. According to behavioural theory, owners and managers do not have fixed and consistent risk preferences and are more concerned with managing the complexity and ambiguity associated with strategic decision-making than with resolving conflicts of interest. The behavioural hypothesis, on the other hand, highlights the negative implications of family engagement, such as a lack of self-control, which may lead to family owners being risk averse and unintentionally favouring actions that hurt the business and the family (De Massis, A., Kotlar, J., Campopiano, G., & Cassia, L. (2015). *The Impact of*

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Family Involvement on SMEs' Performance: Theory and Evidence. Journal of Small Business Management, 53(4), 924–948.).

- **Stewardship theory:** According to the stewardship perspective, family company owners and managers will operate as foresighted stewards of their businesses, generously investing in the business to increase value for all stakeholders. According to the stewardship approach, family management, either directly or in conjunction with family ownership, is profitable. However, if family managers stewardship is focused on the family rather than the company, profitability is likely to suffer (Sciascia, S., Mazzola, P., & Kellermanns, F. W. (2014). *Family management and profitability in private family-owned firms: Introducing generational stage and the socioemotional wealth perspective*. Journal of Family Business Strategy, 5(2), 131–137.).
- **Resource Based View theory:** The “bright side” of family ownership and management is posited by the **familiness idea**, which states that family enterprises vary from non-family firms in terms of the distinctive resources and talents they acquire. Such approach also considers how atypical resources may result in anomalous financial returns for the family business (Minichilli, A., Corbetta, G., & MacMillan, I. C. (2010). *Top management teams in family-controlled companies: “Familiness”, “faultlines”, and their impact on financial performance*. Journal of Management Studies, 47(2), 205–222.). According to the resource-based perspective, there is a favourable association between family management and profitability, which is attributed mostly to familiness. Family management, on the other hand, may drain resources from the firm for personal reasons and lack the essential human capital to run the family business successfully (Sciascia, S., Mazzola, P., & Kellermanns, F. W. (2014). *Family management and profitability in private family-owned firms: Introducing generational stage and the socioemotional wealth perspective*. Journal of Family Business Strategy, 5(2), 131–137.).

The prevalence of formal boards of directors in private small-medium family firms remains low. The **Agency theory** perspective shows the board of directors' functions as a control mechanism aimed at

mitigating moral hazard problems. The traditional owner-manager **agency conflict** in family firms is largely **mitigated because of the convergence of ownership and control**. Families with private knowledge of their own family dynamics may monitor their managers more effectively. **Stewardship theory** emphasises that family firms are an ideal context for **leading individuals to favour pro-organisational behaviours** and that the exercise of control lowers individual intrinsic motivation to behave as stewards. In contrast, **Resource Based View theory** argues that **boards** may bring new knowledge and **attract resources to the company**. In this respect, board advice is beneficial to the extent that the board's general business knowledge and capabilities complement the more firm-specific family members involved in the management team (Goel, S., Mazzola, P., Phan, P. H., Pieper, T. M., & Zachary, R. K. (2012). *Strategy, ownership, governance, and socio-psychological perspectives on family businesses from around the world*. *Journal of Family Business Strategy*, 3(2), 54–65.).

2.1.3 Strategy, Management and Business Plan

Family considerations influence the process of establishing and implementing business strategy in family firms. Due to their aversion to structural changes and strong local emphasis, family businesses are more introvert than extrovert, emphasizing efficiency above market expansion. The owner manager's personal network is typically a crucial resource for designing and implementing strategy. In truth, improving management competitiveness is the best method to ensure the longevity of a family business, but the owner-manager bears this obligation. Management decisions about the adoption of competitive advantages should focus on improving innovation through technological advancements and the development of high-quality products and processes (De Lema, D. G. P., & Duréndez, A. (2007). *Managerial behaviour of small and medium-sized family businesses: An empirical study*. *International Journal of Entrepreneurial Behaviour and Research*, 13(3), 151–172.).

From a strategic point of view, small medium family enterprises are risk adverse, less growth oriented and generally more conservative in their strategic behaviour than non-family companies. Lack of

resources is one of the key reasons for not pursuing a growth-oriented strategy since family owners prefer to avoid external financing due to the risk of losing control of their business. The process of financing the expansion of family businesses is, in fact, dependent on the accumulation of retained earnings. Conservatism, on the other hand, might harm the family business's long-term financial success and competitive position (De Lema, D. G. P., & Duréndez, A. (2007). *Managerial behaviour of small and medium-sized family businesses: An empirical study*. International Journal of Entrepreneurial Behaviour and Research, 13(3), 151–172.).

Because of the possibility for disagreement between the CEO and the rest of the family, family businesses avoid **strategic planning** (once the management has established the firm's goals, they form the basis for planning future development). Rather than contributing to the management of the business or providing other benefits, family owner-managers tend to perceive strategic planning as difficult and time-consuming. If dealing with emotional difficulties, like disciplining family agents, owner-managers may avoid strategic planning (De Lema, D. G. P., & Duréndez, A. (2007). *Managerial behaviour of small and medium-sized family businesses: An empirical study*. International Journal of Entrepreneurial Behaviour and Research, 13(3), 151–172.). As a result, family businesses suffer management challenges because founders frequently choose relatives to leadership roles despite their lack of experience. Family businesses often give permanent jobs to relatives simply because they share a surname, which can lead to unproductive workers and a reward system that fails to recognize goals met. **Altruism poses a threat**, particularly in the case of family businesses, due to a lack of professionalism in management, because decision-making is based on owner-managers' desire to pass on their wealth to their descendants rather than on rationally informed justifications.

Professionalization, according to some owner-managers, is an unneeded costly expense. SME usually lacks a deep understanding of accounting principles, for example, and this makes difficult to control managerial actions. All medium-sized businesses have some level of accounting controls, and management practices in small family businesses are often unstructured, with just a tiny number of

small businesses engaging in management processes. Small family businesses submit regular income and expense reports in many cases; however, they use budget forecasting less than non-family businesses. Activities connected to planning and monitoring business management are given less weight in family enterprises. Because professionalism eliminates agency costs arising from benevolence and self-control, family businesses are less productive when managed by family members than when handled by external professionals. (De Lema, D. G. P., & Duréndez, A. (2007). *Managerial behaviour of small and medium-sized family businesses: An empirical study*. International Journal of Entrepreneurial Behaviour and Research, 13(3), 151–172.).

Family businesses, as previously understood, differ from non-family businesses in terms of the resources and talents they develop. In terms of goals, family management can be diverse: the family business literature distinguishes between financial and non-financial goals and acknowledges that the relative importance of non-financial goals can vary (Minichilli, A., Corbetta, G., & MacMillan, I. C. (2010). *Top management teams in family-controlled companies: “Familianness”, “faultlines”, and their impact on financial performance*. Journal of Management Studies, 47(2), 205–222.). All non-financial features of the enterprise that suit the family’s affective demands, such as identity, status, ability to exercise influence, and family dynasty perpetuation, are referred to as non-financial aims (**Socioemotional Wealth**). Because family managers respond after assessing how their decisions will affect their socioemotional endowment, they frequently make judgments that are not solely motivated by financial performance, particularly when socioemotional wealth is at risk (Sciascia, S., Mazzola, P., & Kellermanns, F. W. (2014). *Family management and profitability in private family-owned firms: Introducing generational stage and the socioemotional wealth perspective*. Journal of Family Business Strategy, 5(2), 131–137.). Within and among family businesses, there are differences in strategy, ownership, and governance practices, and each of these factors is fraught with emotion. Family members’ emotional support is recognized as critical when they start, emerge, operate, and build businesses, as well as exit and transition their positions to succeeding generations (Goel, S., Mazzola,

P., Phan, P. H., Pieper, T. M., & Zachary, R. K. (2012). *Strategy, ownership, governance, and socio-psychological perspectives on family businesses from around the world*. *Journal of Family Business Strategy*, 3(2), 54–65.).

2.1.4 Innovation

Firms that are owned and controlled by families operate differently, especially when it comes to technical innovation. The family is likely to want the company to last for generations, not simply until the next reporting cycle or until it can be sold to another operator. When presented with risky chances, this makes them more risk cautious, reflecting the overlapping nature of the family and business, and they may resist new opportunities that could erode the value of their assets. Family businesses are less inventive and involved in Research&Development (R&D) than non-family businesses. Because R&D costs are sunk costs with uncertain returns, family businesses tend to choose conservative innovation strategies with lower R&D spending, rather than riskier R&D projects; family businesses prefer to invest in tangible assets. Compared to non-family SMEs, family SMEs invest less on innovation (Xiang, D., Chen, J., Tripe, D., & Zhang, N. (2019). *Family firms, sustainable innovation and financing cost: Evidence from Chinese hi-tech small and medium-sized enterprises*. *Technological Forecasting and Social Change*, 144 (November 2017), 499–511.).

2.2 Succession

2.2.1 Definition and general overview

The succession process is defined as “the actions, events, and developments that affect the transfer of power and managerial control across generations” (De Massis, Chua & Chrisman, 2008). Only approximately **30%** of successful enterprises survive the shift **to the second generation**, and **less than 10%** survive the move **to the third**. Then only **about 3%** of family businesses survive **to the fourth generation and beyond** (Family Business Research Group, Politecnico di Milano, *Succession planning and generational change - Family Business*). These results make succession one of the biggest challenges faced by family businesses.

There is a growing understanding that succession incorporates specific contextual elements (i.e., individual, organizational, and familial) and several stakeholders to consider. The main figures to be considered are the following (Mokhber, M., Gi Gi, T., Abdul Rasid, S. Z., Vakilbashi, A., Mohd Zamil, N., & Woon Seng, Y. (2017). *Succession planning and family business performance in SMEs*. Journal of Management Development, 36(3), 330–347.):

- **Incumbent:** the business’s founder and a family member who had ceded or was about to relinquish a top management position to a new family member.
- **Successor:** a family member who had taken over or was about to take over the leadership position from the incumbent.
- **Family:** the members of a family involved in the business (excluding the incumbent and successor) who brought with them familiness: family’s values, members, and aspirations over the business, particularly in defining its strategic goals and daily management activities.
- **Non-family members:** non-family company workers-independent individuals who bring abilities to the table that other characters may not have.

From the Incumbent point of view, the desire to pass on a business (usually through an estate plan), the ability to carry out that desire, and finally the willingness of proposed heirs to accept the responsibility can all be viewed as three distinct components that challenge successful transition. Entrepreneurs frequently have a tight grip over their firms. Because of the enormous risk involved, firm founders initially maintain 100% ownership in order to protect future generations from that danger (Family Business Research Group, Politecnico di Milano, *Succession planning and generational change - Family Business*). The capacity of the family company to determine the number of successors, describe the criteria, and designate the successor is also part of succession planning. This might be followed by informing the selected successor and all other stakeholders of the choice, as well as successor training and the design of a post-succession company strategy (Mokhber, M., Gi Gi, T., Abdul Rasid, S. Z., Vakilbashi, A., Mohd Zamil, N., & Woon Seng, Y. (2017). *Succession planning and family business performance in SMEs*. Journal of Management Development, 36(3), 330–347.).

Future generations may, of course, have employment interests that are vastly different from those of their fathers and mothers. They might be uninterested in continuing the business or unwilling to work in it (Family Business Research Group, Politecnico di Milano, *Succession planning and generational change - Family Business*). Generally speaking, the result of succession is influenced by distinct beginning conditions in terms of personal qualities of successors (e.g., gender, education, or age) and organizational features of the family firm (Porfirio, J. A., Felício, J. A., & Carrilho, T. (2020). *Family business succession: Analysis of the drivers of success based on entrepreneurship theory*. Journal of Business Research, 115(November 2019), 250–257.).

Family firm succession creates, also, a dilemma in choosing between a family heir and an external successor. On one hand, family successors have a clear blood tie and are frequently active in company management from an early age, having a long-term view of the business. Non-family successors, on the other hand, are typically viewed as having higher managerial qualities, which can lead to greater performance and development potential following succession (Yeh, Y., & Liao, C. (2020). *The impact*

of product market competition and internal corporate governance on family succession. In Pacific-Basin Finance Journal (Vol. 62, p. 101346).

Succession planning plays an important role in the success of a family business, and good succession planning is beneficial to the sustainability of a family business (Luan, C. J., Chen, Y. Y., Huang, H. Y., & Wang, K. S. (2018). *CEO succession decision in family businesses – A corporate governance perspective*. Asia Pacific Management Review, 23(2), 130–136).

2.2.2 Drivers and Obstacles

There are a variety of reasons why successions fail such as uncertain succession plans, inept or unprepared successors, and family disputes among members. The choice of a successor, on the other hand, is frequently predetermined by blood. It is a matter of swiftly recognizing the adverse consequences of a succession and assisting the incumbent in dealing with them, rather than choosing the appropriate replacement (Miller, D., Steier, L., & Le Breton-Miller, I. (2003). *Lost in time: Intergenerational succession, change, and failure in family business*. Journal of Business Venturing, 18(4), 513–531).

It is tough to anticipate family business succession success, not only because defining success is challenging, but also because there are so many variables that may be used to quantify it. Considering the leading actors presented in the previous paragraph and the two key issues related to professional relationship and personal relationship still analysed, some of the main drivers influencing a succession can be summarized as follow (Mokhber, M., Gi Gi, T., Abdul Rasid, S. Z., Vakilbashi, A., Mohd Zamil, N., & Woon Seng, Y. (2017). *Succession planning and family business performance in SMEs*. Journal of Management Development, 36(3), 330–347):

Protagonist	Variable	Personal variables		Professional variables	
		Component	Variable	Component	Component
Incumbent	Attitudes	Identity	Leadership	Personality	
		Education	Fairness and justice	Communication style	
	Outside interests and experiences	Family-business structure	Consistency		
	Leadership		Formalized structure		
Cultural shadow	Succession planning	Nonfamily involvement			
Successor	Mortality	Family support	Education/experience	Size	
		Personal adaptability		Formal education	
	Nepotism and ethnicity	Protocols	Nurturing	External experience	
		Culture	Credibility	Early involvement	
Family	Commitment	Family-business socialization	Fairness and justice	Relationship	
		External influences		Mentorship	
	Gender	Protocols	Family-business knowledge	Acceptance	
	Age	Culture		Transparency	
Nepotism and ethnicity	Family history	Kinship logic	Family-business structure	Consistency	
				Gender roles	Formalized structure
Nonfamily members	WPC/FWC	Adaptable family culture	Fairness and justice	Nonfamily involvement	
		Spousal support		Size	
	Nepotism and ethnicity	Protocols	Family-business structure	Transparency	
		Culture		Consistency	
				Formalized structure	
				Nonfamily involvement	
				Size	

Figure 3: Succession Drivers

- **Personal factors** (Mokhber, M., Gi Gi, T., Abdul Rasid, S. Z., Vakilbashi, A., Mohd Zamil, N., & Woon Seng, Y. (2017). *Succession planning and family business performance in SMEs*.

Journal of Management Development, 36(3), 330–347.):

- Attitudes. How succession is influenced by the incumbent’s perception of the family company as part of the overall family narrative or as a component of the incumbent’s individual identity or the role it played in forming that identity. Level of formal education and the quantity of external experiences are, also, two factors that influence the incumbent’s thoughts on succession.
- Cultural shadow. The degree of influence exercised on the family business, as well as whether the incumbent is participating in the firm, is referred to as the cultural shadow. The impact of the shadow on the next generation of leaders is influenced by the

incumbent's leadership style. Succession planning is a good strategy to counteract the shadow's harmful effects.

- Mortality. The merging of the incumbent's identity with his or her job in the family firm is noted as a possible roadblock to successors taking over decision-making tasks. The readiness of the incumbent to leave his or her role in the family business is linked to his or her sense of power and identity in that function. Succession is opposed when the incumbent's identity is inextricably linked to the family company.
- Ethnicity and nepotism. Ethnic and familial ties are a source of opportunity for comparable people and a source of possible hurdles for others ("in-group" and "out-group" members). The values and devotion of the family unit, as well as how they are incorporated into the family-business culture, are referred to as family culture. An essential requirement, as well as a significant impediment, is the existence of a meritocratic family culture. A family business may face a difficulty in determining whether to hire family members or non-family members, or whether to promote existing employees or hire people from outside the company to suit both family and business demands. An increase in employee loyalty and the board of directors' familiarity with the candidates are two examples for an internal succession choice. The use of a new leadership style that may lead to organizational change is, nevertheless, the primary justification for an outsider succession option (Luan, C. J., Chen, Y. Y., Huang, H. Y., & Wang, K. S. (2018). *CEO succession decision in family businesses - A corporate governance perspective*. *Asia Pacific Management Review*, 23(2), 130).
- Commitment. Commitment is a state of mind that drives someone to take a specific action. The commitment of the next generation to join the family firm and assume charge is a prerequisite for efficient intergenerational succession. According to research, the degree of the successor's socialization and engagement in the family

business, as well as his or her variety of external experiences, have a direct impact on the successor's dedication to the family firm. Family businesses will be able to compete if they are able to take advantage of the trust among family members inculcated at the start of the business. Conflicts tend to erupt and may have a devastating effect during the succession process in the family-owned business. Positive relationship and communication are needed for effective succession.

- Gender. In the succession planning stage, gender plays a critical role. Other factors, such as birth order, nationality, and industrial environment, interact with it. The stereotypical attributes of gender associated with women, such as loving and family-oriented dispositions, might compromise a daughter's capacity to head a family company. Family acceptance, culture, role-tradition, and the family's expectations of boys as natural successors all contributed to the possibility of gender prejudice.
- Age. Gender transition is influenced by age, with male succession happening earlier than female succession (23-33 years of age for male successors vs 45-50 for female successors).
- Family culture. The interconnections between the family and business subsystems provide the organizational identity dimension of familiness. A good contribution to the family business is a family culture marked by cohesiveness, intimacy, emotional connectedness, and cultural flexibility.
- Family history. Early childhood experiences in the family business have a direct influence on successors' perceptions of their leadership roles in the company.
- Work-family conflict (WFC)/Family work conflict (FWC). The conflicting demands of an individual's work and home life are termed as WFC. Based on conventional expectations of female roles and obligations focused on household tasks rather than the

family company, the successor's gender can impact the extent and character of WFC/FWC.

- **Professional factors** (Mokhber, M., Gi Gi, T., Abdul Rasid, S. Z., Vakilbashi, A., Mohd Zamil, N., & Woon Seng, Y. (2017). *Succession planning and family business performance in SMEs*. Journal of Management Development, 36(3), 330–347.):

- Leadership style. For the succession process, the incumbent's leadership style is crucial. Personality, corporate and family history, past leadership approaches, the external environment, expectations, emotional awareness, and empathy all have a direct impact. The impact of incumbents' leadership styles on successors' attitudes, norms, and perceived behavioural control in family businesses, as well as the extent to which these characteristics influence a successor's judgments of the quality of the succession process are relevant factors.
- Justice and fairness. Non-family employees suffer because of nepotistic decision-making. It has been stated that ensuring that non-family personnel feel appreciated in the organization requires a transparent open family business culture. Non-family employees, in particular, will be more accepting and supportive of the succession process if it is made more open and clearer. Finally, the more consistent and less family-centric choices are viewed, the more non-family employees are willing to accept the results.
- Family business structure. During succession, having a formalized corporate structure provides a sense of certainty and stability. The right family business governance structure is critical to the company's long-term viability. The scale of the family firm also plays a role in its formalization.
- Education/experience. Researchers discovered that successors with a postsecondary education were more effective family company executives than those without a college

diploma. Successors' leadership skills were considerably enhanced by a comprehensive business background. A family business relies on the successor's ability to apply what he or she has learned in school and further education to the day-to-day operations of the company. Work experience is also necessary for the heir to keep the family business running. Outside of the family business, work experience is a key advantage for the heir because the sharing of inside knowledge will ensure that the next generation has a firm grasp of the family's organization (Mokhber, M., Gi Gi, T., Abdul Rasid, S. Z., Vakilbashi, A., Mohd Zamil, N., & Woon Seng, Y. (2017). *Succession planning and family business performance in SMEs*. Journal of Management Development, 36(3), 330–347.).

- Nurturing. The incumbent-successor connection is critical to the transfer of family-business expertise and culture from generation to generation. The incumbent-successor connection serves as the foundation for successful mentoring and the transmission of distinctive family-business experience.
- Credibility. The distinctive expertise of the family firm must be recognized for a successor to have credibility in the eyes of family business members. The family-owned corporate culture must be opened to accept leadership changes and power transfers. Credibility of the successor is a fundamental factor also for external stakeholders: intra-family succession may not take place if major customers and suppliers are unable to create a personal and trusted commercial connection with the possible successor, even though those customers and suppliers are critical to the family firm's survival (Lockamy, A., Carson, C. M., & Lohrke, F. T. (2016). *An evaluation of key determinants preventing intra-family business succession*. Journal of Family Business Management, 6(1), 64–80.).

There are, of course, several **external variables** also influencing transition success, such as market demand conditions, the state of the economy, buy-out offers from potential suitors, and financial pressures from lenders and other resource suppliers (financial factors can be also interpreted as internal factors related to the financial resource limitations of the family business, and the opportunity cost of obtaining external financing) (Morris, M. H., Ne, D., & Williams, R. W. (1999). *Factors Influencing Family Business Succession*. International Journal of Entrepreneurial Behaviour & Research, 2(3), 68–81.).

The research “Ten most prevalent obstacles to family-business succession planning” made by Thomas Hubler, in 1999, underlined the main **obstacles** to a failing succession (Hubler, T. (1999). *Ten most prevalent obstacles to family-business succession planning*. Family Business Review, 12(2), 117–121.):

- Poor Expression of Feelings and Wants: The ones who are most concerned in family-owned businesses do not voice their views and desires. One of the most important determinants of poor, ineffective communication is this omission. Many family companies lack the competence, expertise, or confidence to articulate their sentiments and desires in the face of the other. Although family members have emotional expectations of one another, but they are hesitant to communicate these expectations.
- Differences seen as a Liability rather than an Asset: Differences are essential for a fulfilling and busy existence. Differences are frequently taken as “You don’t love me” and “You don’t care” in family-owned enterprises. In their desire to maintain family peace in the setting of family-owned enterprises, family members frequently unknowingly create the precise problem they are attempting to avoid by refusing to confront their business disputes.
- Indirect Communication: It is one of the most pervasive issues in family companies. When disagreements arise, as they frequently do in succession planning, it always leads to a problem if people do not communicate directly with others.

- Entitlement: It is frequently regarded as a problem affecting the young generation. That is true when members of the young generation utilize their name to gain an edge over others in the organization. When this happens, morale suffers as a result.
- Scarcity: It is one of the most difficult challenges to deal with when it comes to succession planning for family businesses. What makes it so pernicious is that it is undetectable due to the family's underlying premise that "there isn't enough to go around". This problem frequently arises in discussions about money, positions, and power.
- Other-Oriented regarding Change: Change is one of the most challenging things of life. It is common in family-owned enterprises for people to expect others to change for anything positive to happen. This anticipation is a tragedy waiting to happen. One of the most difficult aspects of succession planning for family companies is assisting customers in accepting full responsibility.
- Control: The question of control is crucial to the success of owner-entrepreneurs. The fact is that not only the entrepreneurs, but also the entire family, must cope with the issue of control. For an entrepreneur who has spent the most of his or her life working in the family firm, this is a huge concern. Entrepreneurs are motivated by their aspirations. As a strategy to successfully deal with the issue of control, it is both conceivable and reasonable to assist entrepreneurs and their families in generating new ambitions in connection to their family, their business, their communities, their leisure time, and their charities.
- Lack of Forgiveness: It is hard to go through life and run a family company without stomping on each other's toes unwittingly. Families that are unable to forgive one another for their mistakes plainly have a difficult time doing business together (Hubler, T. (1999). *Ten most prevalent obstacles to family-business succession planning*. Family Business Review, 12(2), 117–121.).

2.2.3 A formal existing model: Three succession patterns

The aim of the **Three succession patterns model** (Miller, D., Steier, L., & Le Breton-Miller, I. (2003). *Lost in time: Intergenerational succession, change, and failure in family business*. Journal of Business Venturing, 18(4), 513–531.) is to analyse the main components of a Family Business (Strategy, Organization and Culture, Governance and Performance) impacted by three different ways of facing succession (Conservative, Wavering and Rebellious).

	Conservative	Wavering	Rebellious
Strategy	Stagnation, risk aversion, insularity	Indecisive, inconsistent, start–stop	Revolutionary change—often for its own sake
Organization and culture	Tradition-bound, bureaucratic, centralized	Confused culture, conflict-ridden units	New units, new values, chaotic organization
Governance	Old guard still powerful	Mix of old and new managers	Significant turnover; new sheriff in town
Performance	Loss of market share, dying markets	Abortive projects, shrinking margins	Cost and expenditure overruns

Figure 4: Three succession pattern model

- Conservative successions:** In conservative successions, the new CEO is still reliant on the previous one in many aspects, even after the latter has retired or died. As a result, the parent’s shadow stays. A time of strong leadership might be followed by a period of conservatism, with plans and organizations stuck in the past. Adaptation is met with a lot of opposition. Managers are more concerned with internal issues such as efficiency, operations, and quality than with changing market demands. Values and interpersonal patterns haven’t changed in a long time. The same people are employed and promoted over and over again. Furthermore, the same hierarchy, rituals, remuneration methods, and ways of communication continue to exist. Furthermore, many members of the senior management team remain in place—old advisors to the founder, long-serving board members, and so forth. The founder frequently remains on the board, second-guessing and monitoring his successor. Such successions appeared to be more common in companies that had been strong and consistent performers, had a lot of market power, or weren’t facing a lot of competition. They also seemed to be more likely in situations

where the previous CEO was powerful and well-liked, where most of the previous management team and board remained in place, and when the previous or new CEO had financial control.

- **Wavering successions:** Indecisive successors are known for their indecisiveness. They want to make an impact at their companies but aren't sure how. On one hand, they adhere to the founders' policies and traditions. On the other hand, they want to wield power and assert their independence. Furthermore, they oscillate between these mindsets, expressing scepticism and undoing their own actions. Lesser and often ineffective attempts are grafted onto older tactics and traditions to develop strategies. A leader could, for example, make business acquisitions, launch new products, or explore new markets, but these projects are too incompatible with the existing strategy or market emphasis to be successful. The existing organization is usually preserved, but new units may be introduced, such as new divisions or project groups made up of newly hired staff. These groups, on the other hand, are not well integrated with the rest of the company and regularly clash. Furthermore, they are useless since they function on the perimeter. Many seasoned directors and managers are remaining on board, but several fresh hires are coming on board to take command of the new projects. One of the most serious consequences of wavering successions is that the company is never able to settle on a viable new strategy.
- **Rebellious successions:** A new CEO opposes the legacy of the previous generation in rebellious successions. The past and its customs are being completely erased. Because renegade kids usually elect not to get into business or are discouraged from doing so by the elder generation, rebellious successions are fewer than conservative or wavering successions. However, if rebels gain control, they want to conduct things differently from the incumbent. Far-reaching changes in the firm's product-market breadth and functional business strategies describe strategy. Significant acquisitions, divestitures, expansions, product or market changes, and adjustments in functional emphasis are just a few examples. They are motivated more by

the new CEO's desire to make an impression and get away from the past than by a careful assessment of fresh chances. Changes in beliefs and goals, as well as positions and reporting connections, communication patterns, information systems, remuneration, and recruiting practices, are all prevalent. However, the adjustments are unrelated to the company's demands. In addition, significant changes in the top management team and among board members are common. Managerial turnover, debt, alienation of established clientele, and a lure towards businesses that are outside of core strengths, are all consequences of rebellious successions. They're also more likely to happen when there's a "father-son" dispute, when circumstances or the board keep the prior CEO out of the picture, and when performance has been bad and the need for change is obvious (Miller, D., Steier, L., & Le Breton-Miller, I. (2003). *Lost in time: Intergenerational succession, change, and failure in family business*. Journal of Business Venturing, 18(4), 513–531.).

3. BUSINESS CASE STUDY: HEAT S.R.L.

3.1 Introduction to the company: Strategy and Operation through the years

HEAT S.r.l. was founded in 1990 by the entrepreneurial spirit of Pierangelo, from Bergamo (Italy), who moved to Milan (Italy); the company at the beginning was nothing more than a room in a building, where the first customers for thermo-hydraulic assistance in Milan begin to be marked with paper and pen.

The company started to grow as a customer service collaborating with a group of boiler manufacturers, through collaboration contracts, acquiring customers on behalf of them.

With the boom of heating systems, HEAT S.r.l. saw its size and turnover growing rapidly over the years and the two younger brothers, Adriano and Sandro, were introduced into the company. Gradually everything began to take shape: accounting and office were initially managed by the companions of the brothers themselves, in a small warehouse in Milan. Different technicians were, also, included in the staff, and third-party figures helped in periods of greater workflow. From a small warehouse the HEAT S.r.l. became a real consolidated reality in the Milanese territory within the 5 years following the opening and it begins to take shape a real company.

At the end of the 90s, HEAT S.r.l. faced the bankruptcy of the main supplier to which it provided services. Consequently, Pierangelo decided to start collaborating with other companies, also managing customers in total autonomy. This led to the idea of expanding the services offered, introducing the possibility of installing boilers in addition to assistance.

In 2004, the supply companies have been incorporated by a giant of thermo-hydraulics and HEAT S.r.l. finds itself working directly with this great reality. The main benefit was not the introduction of additional customers, but the brand of this giant, recognized as a guarantee of quality and reliability.

Over the years, HEAT S.r.l. has also decided to integrate the service and installation of water heaters, as a further high-quality product provided by the collaborating company. As a result, the operational dimensions increased and HEAT S.r.l. started to be recognized as a quality service centre, which today boasts a large customer base and a certified and quality work way.

In the interview submitted to Pierangelo, he declares: *“In the future new technological systems with high efficiency and compatible with renewable energy will replace the current use of boilers and gas water heaters”*. HEAT S.r.l. will innovate itself ensuring flexibility for the integration of these new products without reducing the quality of the services offered and maintaining the constant growth that has always characterized the company.

3.2 Governance and Structure: The family

The chapter aims at analysing the internal structure of the HEAT S.r.l., initially focusing on the family members and their role into the business. The family structure can be seen in the following genealogical tree:

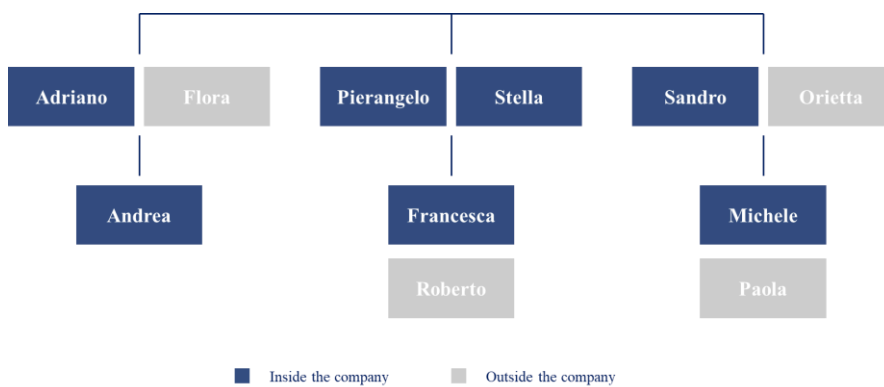


Figure 5: Family genealogical tree

As previously said, the founder of the HEAT S.r.l. is **Pierangelo**, an entrepreneur coming from Bergamo, who decided in 1990 to start the business in Milan. Professionally speaking, Pierangelo is an On-field entrepreneur, which built his entire knowledge and competencies with a strong formation based on years and years of practice. His role in the company, considering the three-circle model analysed in the first chapters, can be defined as Owner, Manager and Family Member together: he owns the majority of the shares, he manages all the operations of the company both from a technical and human perspective and, of course, he is part of the family.

From a Stewardship theory perspective, Pierangelo strongly fits in the figure of the steward, because, having also the main managerial role, he acts as a responsible steward taking care of all the assets who guarantees the maximum benefits for the company. Considering the history of the HEAT S.r.l., Pierangelo guaranteed the sustainability of the business over the years with lots of collaborations with suppliers. From a Resource Based View theory perspective this means that he has been, and still is, the main asset of the company, capable to attract new resources to the company and bring solid knowledge. Pierangelo lacks only of the innovative perspective, from a technological point of view, and this impacts the HEAT S.r.l. in slowing down the adaptation process to innovative and more efficient ways of working.

Pierangelo's brother, **Adriano**, is the second Owner of the HEAT S.r.l. who firstly joined the company. He benefited of the On-field mentorship of his brother to learn the technical skills that he owns. Nowadays, Adriano is retired, but he is still keeping the shares of the company, with spot collaboration if something relevant needs to be solved. He mainly covered the role of senior technician inside the company, without a specific managerial role.

Pierangelo's brother, **Sandro**, is the third and last Owner of the HEAT S.r.l. and the youngest of the three brothers. He had the same formation of Adriano, benefitting of the mentorship of both his brothers, which made him a strong resource from an operating point of view. Nowadays, Sandro covers

the role of Chief Technician, taking care of the formation of the operating technicians to guarantee the high-quality standards that HEAT S.r.l. brings to its customers. From a Stewardship theory perspective, this can be attributed to the behaviour of a steward too. Sandro acts in line with the interests of the company, cooperating with all the technicians being also a leader and mentor for them.

Pierangelo's wife, **Stella**, is not an Owner of the HEAT S.r.l., but keeps a fundamental role in managing specific activities. She comes from accounting high schools and joined the company in 1995 with the role of Accounting and Financial Manager. Nowadays Stella is responsible for all the accounting issues of the HEAT S.r.l. and is considered as the reference for all the formal, legal, and financial problems that may arise inside the business. From a theoretical point of view, she can be considered as a steward too, because she covers a managerial role responsible for the fair and legal operations of the company, which is an intrinsic and mandatory guideline for maximising the benefits of the business.

In the literature review's chapters, the Agency theory has been analysed, underlying the problems that may arise from the different point of views of the Owners and Managers of family and non-family members in the business. It is important to underline that this specific theory cannot be applied to the HEAT S.r.l. case, because the roles of Owners and Managers are mainly covered by the same members and all of them are part of the family; everyone keeps the same goal in guaranteeing and maximising the sustainability of the company.

Pierangelo's daughter, **Francesca**, has been included in 2018 into the company. She has a master's degree in marketing and communication and, nowadays, she covers the role of employee whose main activities are related to the internal office. Francesca spent two years outside the HEAT S.r.l. working for different multinationals to acquire some experience and bring them into the family business. In the interview submitted to Pierangelo he underlined that she might cover in the future a managerial role responsible of the office colleagues; in the following chapters her role will be further analysed.

From the genealogical tree can be seen that also **Andrea** and **Michele**, respectively Adriano and Sandro's sons, are involved into the business. They entered the company as technicians and their formation has been based on On-field practice as their relatives. Pierangelo declared: *"They will become expert from a technical point of view, but from a managerial perspective the company requires different competencies to face the complex external environment"*. This will not exclude that they should become responsible of specific activities into the company, but from the actual perspective it seems that they are not ready to be managers for the HEAT S.r.l.. From a theoretical point of view Andrea and Michele will inherit, one day, the shares of Adriano and Sandro respectively, becoming owners of the company.

From a family point of view, to be mentioned, there is also **Roberto**, the second son of Pierangelo. He has a master's degree in management engineering and nowadays is working for a multinational company. Roberto received a proposal from the owners of the HEAT S.r.l. to join the company and he is still evaluating that. Pierangelo see his son as a potential manager for the business because he should have the right competencies and profile for the company; in the following chapters it will be further analysed his role.

Flora and **Orietta** have never been involved into the HEAT S.r.l., while **Paola** is still too young to consider a potential future into the company.

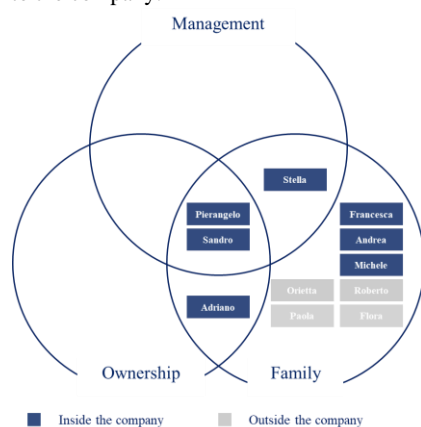


Figure 6: Three-circle model HEAT S.r.l.

From a company structure perspective, recently in the HEAT S.r.l., it has been introduced **Carmine**, a non-family member who worked as technician from 2005 to 2015 into the company. He built an own business from 2016 and nowadays it has, also, been reintroduced into the company as a consultant who helps in organizing the technicians work and is responsible for the sales. Pierangelo declared that he should cover a managerial role too in the future with a strong incentive based on a small quantity of shares given by the three owners to avoid agency problems and avoid the drop-out of this relevant figure; in the following chapters it will be further analysed his role.

The company is finally composed by non-family members who cover the roles of technicians and office employees: in detail there are three more office employees operating with Stella and Francesca and six more technicians operating with Sandro, Andrea and Michele. In addition to this permanent staff there are other figures such as: a plumber, other 3 external technicians who help in the maintenance service during periods of high influx, and an external technician who takes care of air conditioners during summer periods.

3.3 The Problem: Is the company ready for the 2nd Generation?

3.3.1 Actual Owners

The HEAT S.r.l. is facing a strong challenge and the owners have to decide what should be the best option for the future. Pierangelo nowadays is 64 years old and, considering his country's legislation, he has the possibility to retire himself. He is continuing to manage the business, trying to find a solution to leave the company, still guaranteeing a future for his family and also for the business.

Adriano, Pierangelo's brother, retired one year ago, but he still owns the share of the company, while Sandro, the last brother and owner, has 4 more years to reach the retirement age.

The three brothers did an admirable job in building what the HEAT S.r.l. represents today, but the most important challenge has come: is the HEAT S.r.l. ready for the Second Generation or needs to find another solution?

3.3.2 Key Dilemmas

Different dilemmas should characterize the challenge that the HEAT S.r.l. is facing. The following considerations try to summarize and catch the main point that Pierangelo and his brothers should consider in deciding the best solution for the future of the company, considering the main figures (the Incumbent, the Successor, the Family and the Non-family members) analysed in the chapter 2.2.1 Succession: Definition and General overview:

- **Incumbent intention, readiness, and ability to leave the company:** The first and main dilemma to be considered is the readiness of Pierangelo and his brothers to leave the business and pass it to a successor. Different personal and professional variables influence the specific dilemma:
 - Incumbent's Family interest: The readiness of the incumbent to leave his role in the family business for the relative scenario. How much should the Incumbent prefer the scenario in terms of Family Wealth?
 - Incumbent's Business interest: The readiness of the incumbent to leave his role in the family business for the relative scenario. How much should the Incumbent prefer the scenario in terms of Business Wealth?
 - Incumbent's Intention and Energy: The intention of the incumbent to invest time and energies in passing the ball. For which scenario the Incumbent is more willing to spent time and energies?

- Incumbent's ability to sell the company: Is the incumbent able to find someone who is willing to buy the company? Is the incumbent able to sell what he built over the years?
 - Incumbent's perception of possible family successors: Is the incumbent able to select and form a family member as successor? (Nepotism or Meritocracy factors?)
 - Incumbent's perception of possible non-family successors: Is the incumbent able to select and form a non-family member as successor?
 - Incumbent's ability to close the company: Is the incumbent able to close what he built over the years?
- **Successor intention, readiness, and ability to join the company:** A second key dilemma to be considered is the readiness of each possible successor to join and take the role of the incumbents to continue the business. Different personal and professional variables influence the specific dilemma:
 - Successor's Family interest: The successor interest in family wealth. Is the successor in each scenario interested in family wealth and continuity?
 - Successor's Business interest: The successor interest in business wealth. Is the successor in each scenario interested in business wealth and continuity?
 - Successor's Intention and Energy: The intention of the successor to invest time and energies in receiving the ball. For which scenario a possible successor is more willing to spent time and energies?
 - Successor's characteristics, Gender, and Age: Family acceptance, culture, role-tradition, and the family's expectations of boys as natural successors all contributed to the possibility of gender prejudice. Gender transition is influenced by age, with male succession happening earlier than female succession. Is the successor seen with difference considering the Gender or the Age?

- Successor's characteristics, Education/Experience and Credibility: A family business relies on the successor's ability to apply what he or she has learned in school. External work experience is a key advantage for the heir because the sharing of inside knowledge. The distinctive expertise of the family firm must be recognized for a successor to have credibility in the eyes of family business members and for external stakeholders. Is the successor seen with a high level of education/experience and should he/she have credibility in the eyes of the incumbent and external stakeholders?
- Successor's characteristics, Nurturing and Family involvement: The incumbent-successor connection serves as the foundation for successful mentoring and the transmission of distinctive family-business experience. Early childhood experiences in the family business have a direct influence on how successor is perceived. Is the incumbent-successor connection strong or conflicting? Has the successor been involved during his/her childhood?
- Successor's ability to be accepted in the family-business: Should the non-family members be able to be accepted?
- **Family Wealth:** A family-business, differently from a standard business, has the strong positive and negative influence of the family to consider. Guaranteeing the Family Wealth is part of the strategy of the business and during a succession is a strong factor to be considered for the future. Two main variables characterize the specific dilemma:
 - Family continuity (Family culture): Family culture is marked by cohesiveness, intimacy, emotional connectedness, and cultural flexibility. Is the selected scenario able to keep the family culture over the years? Is the selected scenario guaranteeing family sustainability?

- Family conflicts: Work-family conflict (WFC): The conflicting demands of an individual's work and home life. Should the possible scenarios solve family conflicts, or they generate more and more conflicts? Acceptance of the possible scenario from family members?
- **Business Wealth:** The family-business is strongly influenced by the family component, but the subject of analysis is still the company. Business factors needs to be considered to see the challenge from all the perspectives. As for the Family Wealth, two similar variables characterize the specific dilemma:
 - Business continuity: Guarantee the business continuity over the years. Is business continuity guaranteed over the years?
 - Business conflicts (Agency costs): The link between family owners and non-family managers with diverging interests and asymmetric knowledge that results in control costs. An essential requirement, as well as a significant impediment, is the existence of a meritocratic family culture. Is the company meritocratic or hires only for nepotism? Are the possible scenarios cause of Nepotism or guarantee Meritocracy?

Each dilemma and each variable should have a different relevance in evaluating the possible scenarios; someone should give more relevance to professional factors instead of personal factors and vice versa.

In the interviews submitted to different relevant figures they have been kindly invited to give an opinion on how they perceive and how much a good succession is influenced by the specific variable and dilemma proposed.

3.4 The Options: Where do the company should go?

Different scenarios should characterize the HEAT S.r.l., especially considering the key dilemmas previously analysed. In the following model proposed, four main solutions have been taken into consideration.

The structure of the model considers on the Y Axis the key dilemmas previously analysed, with also a detailed column for each dilemma, specifying the variables for each. On the X Axis it has been firstly put the Relevance of each factor, both for dilemmas and variables, with a score point based on percentages for each line and a mandatory sum of all the percentages of 100%. On the same Axis the four main scenarios (analysed in the following chapter) can be found: Sell the company to multinationals or external buyers, Continue with family members, Continue with non-family members and Close the company and declare bankruptcy; each scenario is divided in two columns, dilemma perspective and variable perspective, with a score point from 1 to 10. Each point represents the fitting of each variable in the specific solution and how much the variable should benefit the family-business considering the specific solution (1 the lowest – 10 the highest).

The choice to split relevance and scenarios under two point of views is done to underline the different perception of the relevance of dilemmas and variables. The score is the same for both perspectives, but in calculating the total score, the weighted sum is different due to different relevance parameters.

All the key dilemmas considered can be evaluated under each scenario perspective, while some specific variables are not applicable to all the scenarios. The green variables can be considered for all the four main solutions, while the other variable's colours match with the specific scenario in which they should be considered (please see the table below).

Each score, as seen before, is weighted with the specific relevance score and for each scenario is calculated the total. The solution proposed will be, then, evaluated considering the maximum value obtained comparing the four scenarios.

Please consider that the construction of the model simplifies the research of the best solution, more and more variables should affect a succession process and different scenarios may be also possible.

The approach is then based on three interviews submitted to three different figures: Pierangelo, the incumbent who is going to leave the company, Stella, Pierangelo's wife who is responsible in managing the company and knows what the company needs from a business point of view to continue, and finally Francesca, a possible family member successor which is still involved in the business as said in the previous paragraph. Each figure has been kindly asked to give a score for each specific scenario, considering each specific variable.

Key Dilemma	Variables	Dilemma Reference (How much a good succession is influenced by the dilemma?)	Variable Reference (How much a good succession is influenced by the variable?)	Score 1st Scenario	Score 1st Scenario	Score 2nd Scenario	Score 2nd Scenario	Score 3rd Scenario	Score 3rd Scenario	Score 4th Scenario	Score 4th Scenario
				(Sell the company) DILEMMA (1-10)	(Sell the company) VARIABLE (1-10)	(Continue with family members) DILEMMA (1-10)	(Continue with family members) VARIABLE (1-10)	(Continue with Non-Family members) DILEMMA (1-10)	(Continue with Non-Family members) VARIABLE (1-10)	(Close the company) DILEMMA (1-10)	(Close the company) VARIABLE (1-10)
Incumbent intention, readiness, ability to leave	Incumbent's Family Interest			0	0	0	0	0	0	0	0
	Incumbent's Business Interest			0	0	0	0	0	0	0	0
	Incumbent's Education and Energy			0	0	0	0	0	0	0	0
	Incumbent's ability to sell the company			0	0	0	0	0	0	0	0
	Incumbent's perception of possible family successors			NA	NA	NA	NA	NA	NA	NA	NA
	Incumbent's perception of possible non-family successors			NA	NA	NA	NA	NA	NA	NA	NA
	Incumbent's ability to close the company			NA	NA	NA	NA	NA	NA	NA	NA
	Successor's Family Interest			0	0	0	0	0	0	0	0
	Successor's Business Interest			0	0	0	0	0	0	0	0
	Successor's Education and Energy			0	0	0	0	0	0	0	0
Successor's characteristics: Gender and Age			NA	NA	NA	NA	NA	NA	NA	NA	
Successor's characteristics: Education/Dependence and Credibility			NA	NA	NA	NA	NA	NA	NA	NA	
Successor's characteristics: Nurturing and Family Involvement			NA	NA	0	0	NA	NA	NA	NA	
Successor's ability to be accepted in the family-business			NA	NA	NA	NA	0	0	NA	NA	
Family continuity (Family culture)			0	0	0	0	0	0	0	0	
Family conflicts			0	0	0	0	0	0	0	0	
Business continuity			0	0	0	0	0	0	0	0	
Business conflicts (Agency costs)			0	0	0	0	0	0	0	0	
Total		0%	0%	0	0	0	0	0	0	0	0

Figure 7: Interview Model

3.4.1 Sell to multinationals or other external buyers: PROs and CONs

The first solution proposed that should be implemented for the HEAT S.r.l. case is an acquisition of the company from external buyers. Nowadays many companies tend to enlarge their businesses acquiring small-medium realities, also to differentiate their portfolio. Multinationals should be also interested in enlarging their customer base acquiring new companies.

HEAT S.r.l. has a solid business based on a service which should survive for a long, considering that maintenance and assistance are still necessary and mandatory on the huge number of boilers and heaters that people have in their houses. Also, the huge number of customers that the HEAT S.r.l. has should be an interesting factor for buyers.

One factor that should discourage external buyers in acquiring the HEAT S.r.l. should be the strong influence of the family component inside the business. The family has been a strength for the HEAT S.r.l. but also a weakness and external buyers are worried that the family presence should cause conflicts and problems in the future. Strictly related to the family factor there is also the possibility that many customers may leave due to the change of ownership. Sandro has been always able to build strong loyalties with new customers and they recognized the value of the family behind the business. This factor may discourage the potential buyers, because the actual number of customers in the HEAT S.r.l. may decrease easily.

From the internal perspective, considering the family and the business, some pros and cons should be listed as follow:

- **PROs:**
 - Pierangelo should spend less energy and time in forming his successors because the buyers will decide how and who will substitute the incumbent in managing the acquired business.

- Family members may have the possibility to stay in the business without having the risk of owning it, but simply as employees, which means guarantee benefits for the family.
- The business will be guided by a stronger and bigger company with a well-defined structure and a potential to keep the HEAT S.r.l. stronger. It depends if the buyer would leave independency to the acquired business, but the objective for the acquirer is to keep the numbers as is or increase them.
- Pierangelo and his brothers will gain from the sold of the business and they should re-invest the money for new businesses which would fit better the interests of their sons.
- **CONS:**
 - The nature of the HEAT S.r.l. would be probably lost and customers who have been loyal to the family-brand itself may decide to leave.
 - Interests of the successors may be to continue the business, especially if the Second generation would like to continue it in the name of the family and with an acquisition this issue may be lost.
 - The buyers should be not able to create synergies with the HEAT S.r.l., causing strong conflicts and bad performances of the business.
 - Many employees of the HEAT S.r.l. should not be also happy of the new ownership of the company and they may decide to leave, causing an under-staffing problem for the business.

3.4.2 Continue with family members: PROs and CONs

A second solution proposed for the HEAT S.r.l. is to complete a succession selecting family members as successors. Pierangelo's role should be covered by one of his son, Francesca or Roberto, or both of them, splitting the activities that the incumbent within the two. Adriano and Sandro's roles should be easily covered by the existing technicians inside the company and the shares that they own would be received by Andrea and Michele, respectively their sons.

Pierangelo would certainly continue to support the successors for many years, but one day, the entire business will be in the hand of them; a fundamental question that arises from this option regards the readiness of the successors in managing the company, both from a business point of view and a family point of view. Francesca and Roberto don't have the same experience of Pierangelo in managing a company, but the most important weakness for them is the lack of the entrepreneurial spirit that has been the key strength of the incumbent. One day they would need to face all the risks that the HEAT S.r.l. has, and their management ability should be ready to face and win potential threats that may undermine the stability of the company.

Anyway, the company should maintain his nature of family-business, continuing to operate as it is and even better if the successors would be better than Pierangelo. Stakeholders may not even perceive the succession, because the incumbent will mentor the successors teaching all the secrets that he learnt through the years.

- **PROs:**

- Family nature should be maintained, and family conflicts may not arise if the successors would be part of the family.
- Employees may perceive well the succession if they are loyal to the family.
- Successors interests in continuing the business, even in the name of the family, would be maintained and could be a strength for them in managing the HEAT S.r.l..

- A new and guided approach should strongly benefit the business, even performing well than the previous years.
- **CONS:**
 - The incumbent should not be able to be a good mentor for the successors, even considering the time and energies that he should spend.
 - The successors should not be ready to take the control of the company, due to the lack of entrepreneurial or managerial abilities.
 - The employees may see the succession as a nepotism factor instead of a meritocratic process and may leave due to dissatisfaction.
 - The business should not evolve due to the absence of a real and well-defined structure or lack of capacities, so a slow and continue decrease may bring to a failure.

3.4.3 Continue with non-family members: PROs and CONS

The third solution proposed for the HEAT S.r.l. is still to complete a succession but selecting non-family members as successors. A potential name for the role of Pierangelo successor is Carmine, who has been described in the previous chapters. He works in the company, supporting the business in managing the technicians and the office. He has a strong experience on his shoulders, and this should benefit the business. However, his role is not well-seen by all the family members of the HEAT S.r.l. because he is not part of the family, and they believe that he may not consider in the future the strong family components that always characterized the company.

Other external figures may be introduced in the company; a selection process should be implemented in order to find a manager who would substitute Pierangelo, but, as for Carmine's consideration, the new figure should not consider the real interest of the company also for family issues and this may cause conflicts and misunderstandings within the business.

- **PROs:**

- Selecting a non-family member should bring more expertise and knowledge in managing the business. The successors may guide the HEAT S.r.l. even better than Pierangelo, giving a more professional structure to the company instead of a family-based business.
- Carmine is still inside the company, so well known by all the employees, even if he has not the full approval of all of them, and he knows well all the processes of the business.
- The time and energy spent from the incumbent should be less compared to the ones spent to form less competent figures.
- The risk on the shoulders of the family should pass to the external figure.

- **CONs:**

- The external figure may not be accepted mainly from the family components of the HEAT S.r.l. and even from the other employees in the company that may leave.
- The nature of the family-business may be lost due to an inevitable professionalization of the company coming from the non-family successors.
- Customers may perceive the change of the family brand and decide to leave.
- The new figure may fail in guiding the company due to a mismatch in the objectives that the company has always had and his objectives
- Family wealth may decrease due to the absence of caring of it from the external figure.

3.4.4 Close the company and declare bankruptcy: PROs and CONs

The fourth solution proposed to the HEAT S.r.l. is to close the company and avoid the implementation of a succession of Pierangelo's role. It could be considered the most disruptive solution and probably the worst among the ones proposed. However, if Pierangelo and his brothers will not be able to select

and implement one of the other solutions proposed, there will not be other way for the company to survive.

- **PROs:**

- No more family conflicts, or at least few conflicts related to the regret of closing the company
- All the risk that Pierangelo took as entrepreneur will not fall on the shoulder of family members or other people
- Pierangelo will not have to spend time and energies to form his successor and should join his retirement

- **CONs:**

- Each employee will lose his job, even family members, so family wealth is not guaranteed over the years
- Pierangelo will see all his dedication put in building the company wasted
- The potential family successors will perceive the closure as a failure in not being able to substitute Pierangelo
- A business opportunity will be wasted because the company is strong and stable

3.5 The Solution: Where do the company should go?

The model described in the previous chapters has been used to structure the interview to three different components of the HEAT S.r.l.: Pierangelo, Stella and Francesca. The objective was to understand their point of view in terms of relevance of the different **dilemmas** in a succession and see which scenario should bring more benefits to the Family and the Business.

- **Pierangelo's results:**

As can be seen from the table below, Pierangelo, as incumbent in the succession business case, considers as the most relevant factor, in a succession plan, the figure of the successor, mainly considering his intention and ability to take the leadership of the company. In the interview he said: "The main challenge for me during this situation is to think who the best successor should be, especially in terms of competencies and expertise, because the company is standing and performing good, but to survive in the future, it needs a strong leader".

From the higher point of view of the dilemma, it seems that Pierangelo should prefer a family member as his potential successor, because he would like to preserve the family nature of the company and he believe that Francesca or Roberto should be able to manage the company and guarantee the wealth to themselves and to the family.

Form the deeper point of view of the variables, Pierangelo would prefer an external figure as his potential successor, because the risk will not impact the family and a stronger expertise can be found from a hired manager from the external.

Pierangelo also added that even selling the company should be a very good solution, because he and the family would gain from the transaction and all the risks will not fall on the shoulder of his sons.

Key Themes	Variables	Variable Description	Dimension Reference (How many respondents answered the dimension?)	Variable Reference (How many respondents answered by the variable?)	Score and Scenario (Self the company)		Score and Scenario (Continue with Family)		Score and Scenario (Continue with Next Family)		Score and Scenario (Continue with Next Family)		Score and Scenario (Close the company)	
					DILEMMA (LI-30)	VARIABLE (LI-30)	DILEMMA (LI-30)	VARIABLE (LI-30)	DILEMMA (LI-30)	VARIABLE (LI-30)	DILEMMA (LI-30)	VARIABLE (LI-30)	DILEMMA (LI-30)	VARIABLE (LI-30)
Incumbent intention, readiness, ability to leave (TRY TO IMAGINE THE POINT OF VIEW OF PERANGILO)	Incumbent's family interest	The outcome of the respondent to leave the role in the family business for the active scenario. How much should the incumbent prefer the scenario in the active scenario? The outcome of the respondent to leave the role in the family business for the active scenario. How much should the incumbent prefer the scenario in the active scenario?	20%	6%	8	8	8	8	9	9	4	4	2	
	Incumbent's business interest	The outcome of the respondent to leave the role in the family business for the active scenario. How much should the incumbent prefer the scenario in the active scenario?	20%	10%	3	3	6	6	6	6	2	2	2	
	Incumbent's ability to exit the company	How the respondent able to exit the company? How the respondent able to exit the company? How the respondent able to exit the company?	20%	10%	5	5	NA	NA	NA	NA	NA	NA	NA	
	Incumbent's family interest	How the respondent able to exit the company? How the respondent able to exit the company? How the respondent able to exit the company?	20%	10%	NA	NA	8	8	8	8	NA	NA	NA	
	Incumbent's business interest	How the respondent able to exit the company? How the respondent able to exit the company? How the respondent able to exit the company?	20%	10%	NA	NA	NA	NA	NA	NA	NA	NA	NA	
	Incumbent's ability to exit the company	How the respondent able to exit the company? How the respondent able to exit the company? How the respondent able to exit the company?	20%	10%	NA	NA	NA	NA	NA	NA	NA	NA	NA	
	Incumbent's family interest	How the respondent able to exit the company? How the respondent able to exit the company? How the respondent able to exit the company?	20%	10%	NA	NA	NA	NA	NA	NA	NA	NA	NA	
	Incumbent's business interest	How the respondent able to exit the company? How the respondent able to exit the company? How the respondent able to exit the company?	20%	10%	NA	NA	NA	NA	NA	NA	NA	NA	NA	
	Incumbent's ability to exit the company	How the respondent able to exit the company? How the respondent able to exit the company? How the respondent able to exit the company?	20%	10%	NA	NA	NA	NA	NA	NA	NA	NA	NA	
	Incumbent's family interest	How the respondent able to exit the company? How the respondent able to exit the company? How the respondent able to exit the company?	20%	10%	NA	NA	NA	NA	NA	NA	NA	NA	NA	
Successor intention, readiness, ability to join (TRY TO IMAGINE THE POINT OF VIEW OF A POSSIBLE SUCCESSOR)	Successor's family interest	Should the one family member be able to be a successor? Should the one family member be able to be a successor? Should the one family member be able to be a successor?	13%	13%	NA	NA	NA	NA	7	7	NA	NA	NA	
	Successor's business interest	Should the one family member be able to be a successor? Should the one family member be able to be a successor? Should the one family member be able to be a successor?	13%	13%	NA	NA	NA	NA	7	7	NA	NA	NA	
	Successor's ability to join the company	Should the one family member be able to be a successor? Should the one family member be able to be a successor? Should the one family member be able to be a successor?	13%	13%	NA	NA	NA	NA	7	7	NA	NA	NA	
	Successor's family interest	Should the one family member be able to be a successor? Should the one family member be able to be a successor? Should the one family member be able to be a successor?	13%	13%	NA	NA	NA	NA	7	7	NA	NA	NA	
	Successor's business interest	Should the one family member be able to be a successor? Should the one family member be able to be a successor? Should the one family member be able to be a successor?	13%	13%	NA	NA	NA	NA	7	7	NA	NA	NA	
	Successor's ability to join the company	Should the one family member be able to be a successor? Should the one family member be able to be a successor? Should the one family member be able to be a successor?	13%	13%	NA	NA	NA	NA	7	7	NA	NA	NA	
	Successor's family interest	Should the one family member be able to be a successor? Should the one family member be able to be a successor? Should the one family member be able to be a successor?	13%	13%	NA	NA	NA	NA	7	7	NA	NA	NA	
	Successor's business interest	Should the one family member be able to be a successor? Should the one family member be able to be a successor? Should the one family member be able to be a successor?	13%	13%	NA	NA	NA	NA	7	7	NA	NA	NA	
	Successor's ability to join the company	Should the one family member be able to be a successor? Should the one family member be able to be a successor? Should the one family member be able to be a successor?	13%	13%	NA	NA	NA	NA	7	7	NA	NA	NA	
	Successor's family interest	Should the one family member be able to be a successor? Should the one family member be able to be a successor? Should the one family member be able to be a successor?	13%	13%	NA	NA	NA	NA	7	7	NA	NA	NA	
Business Wealth	Business continuity	The last known family owner and next family manager with their age, gender, and experience. How likely are they to continue in control of the business? The last known family owner and next family manager with their age, gender, and experience. How likely are they to continue in control of the business?	20%	50%	5	5	6	6	8	8	8	8	8	
	Business wealth	The last known family owner and next family manager with their age, gender, and experience. How likely are they to continue in control of the business? The last known family owner and next family manager with their age, gender, and experience. How likely are they to continue in control of the business?	100%	100%	NA	NA	NA	NA	NA	NA	NA	NA	NA	

Figure 8: Perangello's results

- **Stella's results:**

Stella's results, as shown in the table below, differs from the two perspectives: from the dilemma's perspective she thinks that the best option should be to leave the power to someone coming from the external environment, because the new manager would have stronger capabilities and the willing to take the risk of the company itself. However, from this point of view, Stella thinks also that a family member should give a good support to the HEAT S.r.l. and this can be seen from the fact that the two options differ only of 1 point and something.

From the variables point of view, Stella deeply analysed the dilemmas and realized that she would benefit, and the company would benefit, from selling to a multinational because the possible family successors, her sons, would be protected from the risk of managing a business in the actual risky context and the family would also gain from the acquisition, so it would have money to reinvest in something less risky. Her position of Accounting and Finance manager of the company will be substituted if the company would be sold, and she will look for a less stressful work for the last years before her retirement.

Lastly, Stella perceived the figure of the incumbent and the successor as the most relevant factor to be considered in a succession phase, because the readiness of the first to leave and the selection of the best successor are, from her point of view, the keys for a good succession transition.

Key Themes	Variables	Variable Description	Determine Response (How many respondents answered the question? Influenced by the domain?)	Variable Response (How many respondents answered the question? Influenced by the variable?)	Score 1st Scenario (Self the company) DILEMMA (1-10)	Score 1st Scenario (Self the company) VAMBALE (1-10)	Score 2nd Scenario (Continue with Family) DILEMMA (1-10)	Score 2nd Scenario (Continue with Family) VAMBALE (1-10)	Score 3rd Scenario (Continue with Next Family) DILEMMA (1-10)	Score 3rd Scenario (Continue with Next Family) VAMBALE (1-10)	Score 4th Scenario (Close the company) DILEMMA (1-10)	Score 4th Scenario (Close the company) VAMBALE (1-10)
Incumbent intention, readiness, ability to leave (TRY TO IMAGINE THE POINT OF VIEW OF PIERANGELO)	Incumbent's family interest	The outcome of the interview is not in line with the family business for the active scenario. How much about the incumbent prefer the scenario in the active scenario?	100%	100%	5	5	5	5	3	3	1	1
	Incumbent's business interest	The outcome of the interview is not in line with the family business for the active scenario. How much about the incumbent prefer the scenario in the active scenario?	7%	7%	7.5	7.5	6	6	7	7	1	1
	Incumbent's financial interest	The outcome of the interview is not in line with the family business for the active scenario. How much about the incumbent prefer the scenario in the active scenario?	33%	100%	7	7	6	6	7	7	1	1
	Incumbent's ability to exit the company	How much about the incumbent prefer the scenario in the active scenario? How much about the incumbent prefer the scenario in the active scenario?	33%	100%	3	3	NA	NA	NA	NA	NA	NA
	Incumbent's possible family successors	How much about the incumbent prefer the scenario in the active scenario? How much about the incumbent prefer the scenario in the active scenario?	33%	100%	NA	NA	3	3	3	3	NA	NA
	Incumbent's possible successors	How much about the incumbent prefer the scenario in the active scenario? How much about the incumbent prefer the scenario in the active scenario?	33%	100%	NA	NA	NA	NA	1	1	NA	NA
	Incumbent's possible successors	How much about the incumbent prefer the scenario in the active scenario? How much about the incumbent prefer the scenario in the active scenario?	33%	100%	NA	NA	NA	NA	3	3	NA	NA
	Incumbent's possible successors	How much about the incumbent prefer the scenario in the active scenario? How much about the incumbent prefer the scenario in the active scenario?	33%	100%	NA	NA	NA	NA	3	3	NA	NA
	Incumbent's possible successors	How much about the incumbent prefer the scenario in the active scenario? How much about the incumbent prefer the scenario in the active scenario?	33%	100%	NA	NA	NA	NA	3	3	NA	NA
	Incumbent's possible successors	How much about the incumbent prefer the scenario in the active scenario? How much about the incumbent prefer the scenario in the active scenario?	33%	100%	NA	NA	NA	NA	3	3	NA	NA
Successor intention, readiness, ability to job (TRY TO IMAGINE THE POINT OF VIEW OF A POSSIBLE SUCCESSOR)	Successor's family interest	The outcome of the interview is not in line with the family business for the active scenario. How much about the incumbent prefer the scenario in the active scenario?	33%	14%	NA	NA	NA	NA	7	7	NA	NA
	Successor's business interest	The outcome of the interview is not in line with the family business for the active scenario. How much about the incumbent prefer the scenario in the active scenario?	33%	14%	NA	NA	3	3	NA	NA	NA	NA
	Successor's financial interest	The outcome of the interview is not in line with the family business for the active scenario. How much about the incumbent prefer the scenario in the active scenario?	33%	14%	NA	NA	3	3	NA	NA	NA	NA
	Successor's exit intention	How much about the incumbent prefer the scenario in the active scenario? How much about the incumbent prefer the scenario in the active scenario?	33%	14%	NA	NA	3	3	NA	NA	NA	NA
	Successor's possible successors	How much about the incumbent prefer the scenario in the active scenario? How much about the incumbent prefer the scenario in the active scenario?	33%	14%	NA	NA	3	3	NA	NA	NA	NA
	Successor's possible successors	How much about the incumbent prefer the scenario in the active scenario? How much about the incumbent prefer the scenario in the active scenario?	33%	14%	NA	NA	3	3	NA	NA	NA	NA
	Successor's possible successors	How much about the incumbent prefer the scenario in the active scenario? How much about the incumbent prefer the scenario in the active scenario?	33%	14%	NA	NA	3	3	NA	NA	NA	NA
	Successor's possible successors	How much about the incumbent prefer the scenario in the active scenario? How much about the incumbent prefer the scenario in the active scenario?	33%	14%	NA	NA	3	3	NA	NA	NA	NA
	Successor's possible successors	How much about the incumbent prefer the scenario in the active scenario? How much about the incumbent prefer the scenario in the active scenario?	33%	14%	NA	NA	3	3	NA	NA	NA	NA
	Successor's possible successors	How much about the incumbent prefer the scenario in the active scenario? How much about the incumbent prefer the scenario in the active scenario?	33%	14%	NA	NA	3	3	NA	NA	NA	NA
Family Wealth	Family continuity (Family company)	Should the next family member be able to be accepted?	12%	18%	9	9	4	4	5	5	1	1
	Family continuity (Family company)	Should the next family member be able to be accepted?	12%	82%	9	9	2	2	7	7	9	9
	Family continuity (Family company)	Should the next family member be able to be accepted?	12%	76%	9	9	5	5	5	5	1	1
Business Wealth	Business continuity (Agency)	Should the next family member be able to be accepted?	22%	24%	9	9	5	5	7	7	9	9
	Business continuity (Agency)	Should the next family member be able to be accepted?	22%	100%	9	9	5	5	7	7	9	9
Total			100%	100%	1747	2348	1836	1418	1842	1917	647	1129

Figure 9: Stella's results

- **Francesca's results:**

Analysing the results of Francesca as potential successor of the HEAT S.r.l., she considers the Business Wealth as the most important factor to be considered in a succession transition, not far from the roles of the incumbent and the successor, with a strong percentage of relevance too.

Her point of view both from dilemma and variables' perspective agreed in preferring the solution of continuing with a family member as successor of Pierangelo. She believes that her with the support of her brother Roberto could manage the company for the future, with a complementary division of responsibilities inside the company and the mentoring of their father.

She declared: "Often with my father we discussed together about the future of the company. I believe that with the right formation and the right support of my brother Roberto, we can manage the company, preserving its nature and guaranteeing Family and Business Wealth".

Instead of seeing the company in the hands of an external figure, Francesca would prefer to see the HEAT S.r.l. closed, this means that she would perceive very bad the hiring of Carmine or an external manager for the role of her father.

Probably, as potential successor of the incumbent, Francesca tries to sponsor herself, leveraging on the family factor that characterize the business.

Key Dimension	Validator	Validator Description	Maximum Likelihood Estimate (MLE) (95% CI)	Validly Measured (Likelihood Ratio Test)	Score 1st Scenario (Child the company) (1-20)	Score 1st Scenario (Child the company) (1-20)	Score 2nd Scenario (Continue with family) (1-20)	Score 2nd Scenario (Continue with family) (1-20)	Score 3rd Scenario (Continue with family) (1-20)	Score 3rd Scenario (Continue with family) (1-20)	Score 4th Scenario (Child the company) (1-20)	Score 4th Scenario (Child the company) (1-20)
Incumbent litigation, readiness, ability to have (TRY TO IMAGINE THE POINT OF VIEW OF PIERANGELO)	Validator's Business Model	The readiness of the business to have the child in the family business for a future scenario. How much potential to improve performance for the scenario?	25%	47%	3	3	6.3	6.3	6.3	6.3	4.3	4.3
	Validator's Business Model	The readiness of the business to have the child in the family business for a future scenario. How much potential to improve performance for the scenario?	25%	25%	3	3	9	9	9	9	1	1
	Validator's Business Model	The readiness of the business to have the child in the family business for a future scenario. How much potential to improve performance for the scenario?	25%	10%	6.3	6.3	7.5	7.5	7.5	7	4	4
	Validator's Business Model	The readiness of the business to have the child in the family business for a future scenario. How much potential to improve performance for the scenario?	25%	8%	NA	NA	NA	NA	NA	NA	NA	NA
	Validator's Business Model	The readiness of the business to have the child in the family business for a future scenario. How much potential to improve performance for the scenario?	25%	8%	NA	NA	NA	NA	NA	NA	NA	NA
	Validator's Business Model	The readiness of the business to have the child in the family business for a future scenario. How much potential to improve performance for the scenario?	25%	8%	NA	NA	NA	NA	NA	NA	NA	NA
	Validator's Business Model	The readiness of the business to have the child in the family business for a future scenario. How much potential to improve performance for the scenario?	25%	8%	NA	NA	NA	NA	NA	NA	NA	NA
	Validator's Business Model	The readiness of the business to have the child in the family business for a future scenario. How much potential to improve performance for the scenario?	25%	8%	NA	NA	NA	NA	NA	NA	NA	NA
	Validator's Business Model	The readiness of the business to have the child in the family business for a future scenario. How much potential to improve performance for the scenario?	25%	8%	NA	NA	NA	NA	NA	NA	NA	NA
	Validator's Business Model	The readiness of the business to have the child in the family business for a future scenario. How much potential to improve performance for the scenario?	25%	8%	NA	NA	NA	NA	NA	NA	NA	NA
Successor litigation, readiness, ability to join (TRY TO IMAGINE THE POINT OF VIEW OF A POSSIBLE SUCCESSOR)	Validator's Business Model	The readiness of the business to have the child in the family business for a future scenario. How much potential to improve performance for the scenario?	25%	9%	NA	NA	7	7	7	NA	NA	NA
	Validator's Business Model	The readiness of the business to have the child in the family business for a future scenario. How much potential to improve performance for the scenario?	25%	18%	NA	NA	NA	NA	NA	NA	NA	NA
	Validator's Business Model	The readiness of the business to have the child in the family business for a future scenario. How much potential to improve performance for the scenario?	25%	20%	2	2	8	8	8	6.3	1	1
	Validator's Business Model	The readiness of the business to have the child in the family business for a future scenario. How much potential to improve performance for the scenario?	25%	20%	3	3	6	6	6	2	4	4
	Validator's Business Model	The readiness of the business to have the child in the family business for a future scenario. How much potential to improve performance for the scenario?	25%	40%	3	3	10	10	10	7	1	1
	Validator's Business Model	The readiness of the business to have the child in the family business for a future scenario. How much potential to improve performance for the scenario?	25%	40%	8	8	7	7	7	8.3	10	10
	Validator's Business Model	The readiness of the business to have the child in the family business for a future scenario. How much potential to improve performance for the scenario?	25%	40%	8	8	7	7	7	8.3	10	10
	Validator's Business Model	The readiness of the business to have the child in the family business for a future scenario. How much potential to improve performance for the scenario?	25%	40%	8	8	7	7	7	8.3	10	10
	Validator's Business Model	The readiness of the business to have the child in the family business for a future scenario. How much potential to improve performance for the scenario?	25%	40%	8	8	7	7	7	8.3	10	10
	Validator's Business Model	The readiness of the business to have the child in the family business for a future scenario. How much potential to improve performance for the scenario?	25%	40%	8	8	7	7	7	8.3	10	10
TOTAL			100%	100%	1345	1779	1843	2144	6279	4143	106	864

Figure 10: Franciscó's results

The **solution proposed** for the HEAT S.r.l. is built combining the three interviews of Pierangelo, Stella and Francesca, making an average of the relevance of each dilemma and variable, and the sum of the scores given (please see the table below). The result shows that continuing with a family member would be the best option, from both the points of view of the dilemma and variables, and the most relevant dilemma is the figure of the successor, with all its characteristics. Each of the interviewed, with a different score in terms of benefits, sees a potential in the 2nd generation of the family, even if it is not the best option for everyone. In terms of readiness of the incumbent in preparing his successor, it seems that Pierangelo would be like to invest time and energy to form one or both of his sons, and from the other side, Roberto and Francesca, seem to be a good option for continuing the company: they have a strong educational background with two master degrees respectively and they have also work experience outside the HEAT S.r.l., which could be a benefit for the company. From the Family Wealth point of view the two potential successors would benefit from the support of the entire family and even non-family employees would accept them easily compared to other external figures. From the Business Wealth point of view, there are better options, but a good combination of mentorship from Pierangelo, Stella and all the members of the company, and the strong intention coming from the successors, would build a straight way for a successful succession.

Selling the company could be also a good option, as far as continuing with external figures. In the first solution it should also happen that all the family members would stay in the company and the role of Pierangelo in managing the company should be covered by one of his sons, agreed with the buyer of the HEAT S.r.l.. The second solution would probably guarantee a good future in terms of Business Wealth, but the family nature of the company would decline slowly over the years, destroying one of the main strength of the HEAT S.r.l..

Lastly the option of closing the company has been excluded immediately after the interviews, because none wants to see all the work done over the years wasted in few months.

3.6 What's next?

Assuming that the HEAT S.r.l. decides to implement a succession transition selecting the option of continuing with a family member, the following main steps are to be structured:

- **Selection of the family member:** Francesca and Roberto are the two main possible figures to be selected, because Andrea and Michele cover only a technician role into the company. It is not excluded a collaboration between the first two figures, and it would probably increase the possibilities of success for the future.
- **Structuring of a transition phase:** define roles and tasks to be assigned to one or two potential successors in the transition phase, in order to form them. Pierangelo covers a fundamental role in this phase, because all the knowledge and experience that he learnt over the years needs to be passed.
- **First exit of the incumbent:** slowly the incumbent would delegate all its tasks to the successors and see if everything works without relevant problems.
- **Shares distribution:** the incumbent and its brothers need to decide how to distribute the shares among the successors, in order to structure a flexible and efficient Board of directors. Pierangelo said: "It is fundamental that one figure would maintain the majority of shares in order to avoid bottlenecks on decisions due to business and family misunderstandings and conflicts".
- **The 2nd generation:** Pierangelo will completely exit the company and his brothers too. The HEAT S.r.l. should now be ready to continue with the 2nd generation. The 1st generation should be hired or exploited as consultant or on-call technical help, if needed.
- **Strengthen and Innovate the HEAT S.r.l.:** the 2nd generation has the imperative to continue in strengthening the company as it has been done in the past and innovate it.

Lastly, in the chapter 2.2.3 A formal existing model: Three succession patterns, there has been presented three different types of successions: Conservative, Wavering and Rebellious. Considering the potential of the HEAT S.r.l. to be innovated and other market that can be explored, the Wavering succession, selecting the solution proposed, may happen, because the new entrants should adhere to the founders' policies and traditions, but the potential to renew the business and make it more efficient and well performing is high. An important issue that the successors of the HEAT S.r.l. should keep in mind is that, renewing the company means to find a viable new strategy which needs to be strong as the strategy followed until now by the incumbents.

4. CONCLUSIONS

A family business succession is characterized by more variables compared by a change in the governance of a business: the family component plays a key role in the phase. The most important figure involved in the transition are:

- **Incumbent:** the business's founder and a family member who had ceded or was about to relinquish a top management position to a new family member.
- **Successor:** a family member who had taken over or was about to take over the leadership position from the incumbent.
- **Family:** the members of a family involved in the business (excluding the incumbent and successor) who brought with them familiness: family's values, members, and aspirations over the business, particularly in defining its strategic goals and daily management activities.
- **Non-family members:** non-family company workers-independent individuals who bring abilities to the table that other characters may not have.

A family business succession is mainly characterized by: **Personal factors** like how succession is influenced by the incumbent's perception of the family company, the degree of influence exercised by the incumbent on the family business, the Ethnic and familial ties that are a source of opportunity for comparable people and a source of possible hurdles for others ("in-group" and "out-group" members), the interconnections between the family and business subsystems (Family culture) and Work-family conflicts (WFC)/Family work conflicts (FWC); also **Professional factors** like the impact of incumbents' leadership styles on successors' attitudes, norms, and perceived behavioural control, nepotistic decision-making that may influence non-family employees, the family business structure (Governance and professionalization) and the successor characteristics (Education/experience,

Age/Gender, Nurturing and Credibility); and lastly several **external variables**, such as market demand conditions, the state of the economy, buy-out offers from potential suitors, and financial pressures from lenders and other resource suppliers.

The business case proposed sees the HEAT S.r.l. as family business who is facing the challenge of decide where to go in the future, because its owner, Pierangelo, nowadays is 64 years old and, considering his country's legislation, he has the possibility to retire himself. He is continuing to manage the business, trying to find a solution to leave the company, still guaranteeing a future for his family and for the business.

Four solutions have been proposed to the company, considering the main relevant variables that should be guaranteed for the future and the main variable that influence the figures involved into the transition: Sell the company to multinationals or external buyers, Continue with family members, Continue with non-family members and Close the company and declare bankruptcy. The solution proposed after the interview submitted to Pierangelo, Stella and Francesca is the one which sees a family member as successor for the role of the incumbent.

After the analysis of the business case, some main interesting conclusions can be underlined:

- The **relevance given to the family** in a family business is different from member to member, and even from company to company. Being a family business doesn't mean that the main goal is to guarantee the family wealth: family conflicts or problems may not be as relevant to be analysed or the business should not be so influenced by the family component. A first conclusion that should be found from the case study of the HEAT S.r.l. is that a study on a family company should start from the research of how many the family is really involved into the business. In the case previously analysed the figure of the incumbent doesn't give too much relevance to this variable, while the successor keeps it strongly relevant.

- Small-medium realities usually don't have a **standardize structure** with standard processes and roles, so a transition phase, like a succession, should be more difficult due to the need of understanding what successors have to cover to substitute the role of the incumbent. Selling the company to a multinational in the case of the HEAT S.r.l. would have given to the company a defined structure, so probably an easier transition process.
- The **entrepreneurial spirit** of the incumbent/founder/owner in small-medium enterprises is a characteristic that is difficult to be learnt, because it is something intrinsic in a person. The potential successors that should substitute the incumbent may not have this spirit and may lack in managing the company in the future if it is simply selected from the second generation of the family. Hiring someone from the external context, may guarantee to find the entrepreneurship needed to run the business. People born entrepreneur, not become entrepreneur.
- The **credibility of the potential successors** is perceived differently from the perspective of the incumbent or the successor. Mainly selecting a family member as the substitute of the incumbent in a succession transition should bring to the difference of the two points of view. The successor is aware of its potentialities even if he/she doesn't know very well if they fit for the tasks that he/she will cover, while the incumbent is aware of the tasks and not fully aware of all the potentialities of the new entrant. This mismatch creates a lack of credibility between the two figures and may discourage the incumbent in selecting a family member as its potential successor.

Not far from this perspective there is also the **perception of the risk** to be taken in managing a company, which may be perceived less relevant or strong from the point of view of the new entrant. The incumbent, on the other side, knows very well what it means guiding a company in a risky environment and, with a family common basis, means that he/she would be scared of passing all the risks on the shoulder of a family member. The incumbent, usually a

father/mother of the potential successors, doesn't want to put his/her sons in a dangerous situation, so he/she prefer to select another way, for example selling the company or finding an external figure.

However, the interest of the 2nd generation in taking the lead may be strongly relevant from the successors point of view, overtaking the risk consideration, or giving less relevance to it. This brings in the eyes of the incumbent more scare of the ingenuity that his/her successor may have, even if it is a demonstration of the commitment and interest that the new generation may have.

- The **readiness and intention of the incumbent** in passing the ball is equally relevant to the **readiness and intention of the successor** in receiving the ball. The two key figures in a succession transition are equally relevant, because from one side the incumbent needs to be able to transmit everything to the successor if he/she wants to see the company performing over the years, while the successor is relevant because he/she will take the lead, so all the variables, risks and benefits should be well known in order to perform even better than before his/her entrance.
- **Selling or closing the business is sometimes not so easy to do.** For the first option it could happen that buyers should be discouraged by the family component in the company which could generate particular conflicts or problem that would be difficult to be managed in a standard way. On the other hand, close the company would be difficult because the willingness of the incumbent in closing what he built over the years is very low, he would probably see wasted all the work done in an entire life, and this may be perceived like a strong personal failure.

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