

THE VALUE CREATION PROCESS IN FAMILY FIRMS. A DYNAMIC CAPABILITIES APPROACH

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Abstract

While most family-business research has focused on studies related with trans-generational value creation, a gap still exists in understanding how this value is generated across generations, especially in dynamic markets. The present research offers new insights through the lens of dynamic capabilities, which are generated by knowledge and in turn generate entrepreneurial performance for value creation in family business. Family inertia is considered to be a factor preventing the creation of dynamic capabilities. It depends on the family-business culture, where paternalism and entrepreneurial drive influence family inertia positively and negatively, respectively. Four family firms from Switzerland and Italy are part of this research.

Keywords: Knowledge, Dynamic Capabilities, Family Culture, Trans-generational Value.

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INTRODUCTION

While most family-business research has focused on studies related with trans-generational value creation (see for example Habbershon and Pistrui, 2002), a gap still exists in understanding how this value is generated across generations, especially in dynamic markets³. The resource-based view of the firm has been a useful framework to study the determinants of an organization's success even though it does not properly answer to our question. Indeed, having resources which are rare, valuable, inimitable and not substitutable (Penrose, 1959; Barney 1991) is not enough to stay competitive in dynamic markets (Sirmon and Hitt, 2003). A firm also needs specific capabilities to make better use of its resources (Eisenhardt and Martin, 2000). In line with Eisenhardt and Martin (2000), new value-creating strategies are generated by the combination of resources - i.e. by the firm's ability to acquire, integrate, recombine and shed them. This is captured in the concept of dynamic capabilities.

The contribution of this study to the existing literature consists of a detailed examination of the complex dynamic process through which dynamic capabilities are generated by knowledge and generate entrepreneurial performance in terms of entrepreneurial innovation and strategic adaptation to the market, thereby allowing a family firm to compete in situations of rapid change and create value over time. In addition, family inertia is considered to be a factor preventing the creation of dynamic capabilities. It depends on the family-business culture, where paternalism and entrepreneurial drive influence family inertia positively and negatively, respectively (Teece et al., 1997; Eisenhardt et al., 2000; Hall et al., 2001; Habbershon and Pistrui, 2002; Zahra and George, 2002; Sharma, 2005; Koiranen and Chirico, 2006). Through a qualitative research, we analyse three wine producing family firms from Switzerland (Iurlaro and Cervo) and Italy (Frescobaldi) and a liqueur family firm from Italy (Borsci).

The paper is organized as follows. After a review of the literature related to the determinants of family firm's value creation, the methodology of the qualitative research is presented. This is followed by the sample of four family firms interviewed. In this section, we first report the history of each firm and then the evidence gathered from the case studies. The paper concludes with the discussion and conclusions of the main findings and results of the study.

THEORETICAL FRAMEWORK

Knowledge, dynamic capabilities and value creation

Knowledge in family business is defined as pure knowledge and skill which family members have gained and developed through education and experience within and outside the organization 'industry-related, business and ownership knowledge' (Zahra et al., 2007; Chirico, forthcoming 2007). In particular, living within the family and working within the business from an early age allow family members to develop deep levels of firm-specific tacit knowledge (i.e. skill) (Zahra et al., 2007). In our study, we mostly emphasise tacit knowledge because of its centrality within an organization (see Grant, 1996a; Cabrera-Suarez et al., 2001). Knowledge is a significant source of competitive advantage which en-

³ Dynamic markets are those in which the competitive landscape shifts very quickly and change must be promoted in order to survive (Eisenhardt and Martin, 2000; Miller et al., 2003).

ables an organisation to be innovative and remain competitive in the market. It is identified as the most fundamental asset of the firm, which all other resources depend on (Polany, 1958, 1967; Nonaka, 1991; Nonaka and Takeuchi, 1995; Grant, 1996a; Smith, 2001).

The importance of knowledge is emphasised by Nonaka et al. (2000, 1) who argue that knowledge leads to competitive advantage because it enables an organization to innovate new products/processes/services, or improve existing ones more efficiently and/or effectively. Similarly, Prusak (1996, 8) suggests that “the only thing that gives an organization a competitive edge - the only thing that is sustainable - is what it knows, how it uses what it knows and how fast it can know something new”. Indeed, firms with superior knowledge can combine traditional resources and assets in new and distinctive ways, be innovative, enhance their fundamental ability to compete and do better than rivals (Grant, 1996a; Teece et al. 1997; Davenport and Prusak, 1998). In this respect, Cabrera-Suarez et al. (2001) emphasise the importance of knowledge as a source of competitive advantage in family business; and Bjuggren et al. (2001) indicates that there is a form of family idiosyncratic knowledge which makes intergenerational succession within the family more profitable than other types of succession.

However, since the manipulation of knowledge is particularly important in environments of rapid change (Grant, 1996a, b; Spender, 1996), having knowledge is crucial but not enough to remain competitive over time. An organization also needs dynamic capabilities⁴ to make better use of its resources (Eisenhardt and Martin, 2000). For instance, Habbershon and Pistrui, (2002) posit that the family ownership group has to develop entrepreneurial change capabilities in order to shed or redeploy resources which erode in value and become obsolete quickly in changing markets. Teece et al. (1997, 516) define dynamic capabilities as “the firm’s ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments. They reflect an organisation’s ability to achieve new and innovative forms of competitive advantage given path dependencies and market positions”. In other words, they are processes or “routines through which managers alter their resource base - acquire and shed resources, integrate them together, and recombine them” (Eisenhardt and Martin, 2000, 1107). The term ‘dynamic’ refers to the capacity of renewing the organisation to better suit the changing environment; while ‘capabilities’ refers to the ability to build and combine internal and external resources so as to achieve congruity with a changing environment. Following Teece et al. (1997) and Eisenhardt and Martin, (2000) *dynamic capabilities are here defined as processes embedded in firms designed to acquire, exchange and transform (integrate and recombine) internal and external resources in new and distinctive ways and, at times, shed them*. Dynamic capabilities are distinctive (i.e specific and unique: familiness) in family business since they result from the strong interaction among the family, its individual members and the business (Habbershon and Williams, 1999; Cabrera-Suarez et al. 2001). Product development and product innovation are examples of dynamic capabilities (see Deeds et al. 1996; Eisenhardt and Martin, 2000; Branzei et al. 2004). According to the literature, these dynamic processes lead to a new form of competitive advantage (Teece et al. 1997) named, in this study, *entrepreneu-*

⁴In the empirical data, dynamic capabilities are measured by: acquiring resources (capability to obtain resources from outside the family); exchanging resources (capability to obtain resources from inside the family); transforming resources (capability to integrate and (re)combine resources); and shedding resources (ability to get rid of obsolete resources).

*rial performance*⁵ given by entrepreneurial innovation and strategic adaptation to the market (Barney, 1991; Zahra and George, 2002). Consequently, *trans-generational value creation*⁶ in terms of financial results can be achieved (Lei et al. 1996; Pennings et al. 1998; Floyd and Lane, 2000; Hitt et al. 2001; Zahra and George, 2002).

However, mechanisms of knowledge acquisition and sharing, collective learning, experience accumulation and transfer guide the evolution of dynamic capabilities. For instance, Eisenhardt and Martin (2000) point out that dynamic capabilities rely on the existing knowledge and the creation of new knowledge. Zollo and Winter (2002) refer to experience accumulation, knowledge articulation and codification as generators of dynamic capabilities. They suggest that dynamic capabilities arise from learning. Finally, Zahra and George (2002) define absorptive capacity as a dynamic capability developed by past experience and prior knowledge.

Most of the advantages of family firms refer to these knowledge processes (Habbershon and Williams, 1999; Cabrera-Suarez et al., 2001; Sirmon and Hitt, 2003) through which knowledge is accumulated within the organization but also acquired from outside (Cohen and Levinthal, 1990; Zahra and George, 2002). In this way, knowledge is also updated to avoid obsolescence (Argyris and Schon, 1978). According to Chirico (forthcoming 2007), knowledge is best developed (i.e. acquired, created, shared and transferred) in a business (and family) environment in which family-business members involved in the succession (predecessors and successors) strongly value the following factors: working within the family firm: ties, cooperation and collaboration enhanced by trust; motivation and commitment; emotional attachments; academic courses and practical training courses; working outside the family firm; and employing/using talented non-family members (see Figure 1). The development process of knowledge can be well developed in family firms especially due to the high level of emotional involvement of family members and the socially intense interactions between family members and with external parties (see Tagiuri and Davis, 1996; Cabrera-Suarez et al. 2001; Sirmon and Hitt, 2003). For instance, Tagiuri and Davis (1996) argue that emotional involvement, the lifelong common history and the use of a private language in family businesses enhance communication between family members. This allows them, firstly, to *exchange knowledge* more efficiently and with greater privacy compared to non-family firms (Tagiuri and Davis, 1996; Cabrera-Suarez et al. 2001); secondly, to develop *idiosyncratic knowledge* (see Coleman, 1988; Bjuggren et al. 2001; Cabrera-Suarez et al. 2001) and *specific dynamic capabilities for resource-recombination* which remains within the family and the business across generations (see Deeds et al. 1996; Kusunoki et al. 1998; Habbershon and Williams, 1999; Eisenhardt and Martin, 2000; Habbershon and Pistrui, 2002; Koiranen and Chirico, 2006). Moreover, as pointed out by Astrachan et al. (2002) family relationships generate unusual motivation, commitment and loyalties, and increase trust although values, beliefs, traditions and commitment tend to decrease after the second generation. As a result, dynamic capabilities might be best gener-

⁵ In the empirical data, entrepreneurial performance is measured by the number of new products related to the core business of the firm "product-line extension"; the number of new products unrelated to the core business of the firm "diversification"; the expansion to new markets; and the adoption of new technology.

⁶ Trans-generational value is accumulated through continuous creation of business wealth (Habbershon and Pistrui, 2002). In the empirical data, it is measured through a deep analysis of the company balance sheet, focusing on the net asset value of the tangible assets and the estimated amount of intangible resources (goodwill).

ated in family firms at least during the first and second generation. Certainly, family firms also have some disadvantages (see for instance Tagiuri and Davis, 1996) for the creation of dynamic capabilities such as specific aspects related to the family-business culture which will be discussed in the next section.

The process described above can be clarified by an example. The ability to continually innovate product characteristics is a dynamic capability known as product development. It stems from the knowledge of the firm and leads to innovation and adaptation to the market (i.e. entrepreneurial performance). In particular, in rapidly changing environments, when the specific firm's products go, for instance, out of fashion, it is of vital importance to develop a product development process (that is a dynamic capability) designed to acquire, exchange, transform and at times shed resources in order to create new products according to the changing demand of customers. In this way, change is promoted and value creation can be generated.

Additionally, value creation may also positively affect the development of new knowledge through investments designed to acquire new knowledge and/or implement the existing knowledge (e.g. training, executive courses, employing/using external non-family members such as consultants and so on. See Lansberg and Astrachan, 1994; Nonaka and Takeuchi, 1995; Kaye, 1999; Chirico, forthcoming 2007), as shown in Figure 1.

The family inertia problem

However, the ability to introduce the 'novelty' and facilitate and support innovation strategies is hard to achieve, especially in a family business context. Family firms are often inflexible, resistant to change and based on path-dependent traditions and culture hostile to new proactive entrepreneurial strategies (Dyer, 1994; Gersick et al. 1997; Aronoff and Ward, 1997; Hall et al. 2001; Habbershon and Pistrui, 2002). The influence of organisational culture on entrepreneurial activities aiming at changing the resource-base of a firm has been extensively studied (e.g. Lant and Mezias, 1990; Grinyer and McKiernan, 1990; Detert et al. 2000; Hall et al. 2001; Koiranen and Chirico, 2006). Alvesson (1993, 2-3) defines 'culture' as a shared and learned world of experiences, meanings, values and understandings which inform people and which are expressed, reproduced and communicated in a partly symbolic form. The family-business culture stems from the combination of different patterns (see Dyer, 1986; Zahra et al. 2004) which result from the history of the family business, the social relations within the family business and the beliefs and values embedded in the family. For the purpose of this study, we focus on two specific family-business cultural aspects which are paternalism and entrepreneurial drive.

Paternalism is the practice of caring for others in a manner that is overly intrusive such as a father to a child⁷. It means that the owner protects the family-business members while denying them any responsibility and the freedom to express their ideas and make autonomous choices and changes. Decisions are often taken in the realm of family values rather than in the realm of the business. The ideology of paternalism is protective and dominating in a fatherly way with a strong attitude to preserve a family firm's traditions and not to make changes (Fotion, 1979; Dyer, 1986; Johannisson et al. 2000; Johannisson, 2002; Koiranen, 2004). To some extent, the organisation reflects its founder. Davis and Harveston, (1999) refer to 'generational shadow' as the enduring effect of previous business patterns on the subsequent evolution of the family firm. In particular, conservative strate-

⁷ "Paternalism comes from the Latin *pater*, meaning to act like a father" (Koiranen, 2004, 301).

gies, in which individuals tend to accept the ideas of their 'leaders' without question, are apt to be particularly dangerous in environments of rapid change where firms need to manipulate internal and external resources to stay competitive (Davis and Harveston, 1999; Miller et al. 2003).

In this situation, decisions are usually taken by top family members (Habbershon and Williams, 2002), who share a common idea about which direction the firm should be heading. Those authoritarian controlling owners exercise strong control over the decision-making process (Dyer, 1988; Zahra et al. 2004). Somehow, even during the subsequent generations, strong feelings may shape and limit family members' innovative initiatives and directly or indirectly restrict their choices so as to cause inertia (Drozdow and Carroll, 1997; Miller et al. 2003).

On the other hand, some researchers emphasise the concept of *entrepreneurial drive* (or *entrepreneurial orientation*) as the attitude to keep the family business changing through initiative and innovation (see Lumpkin and Dess, 1996; Koironen, 2004). Koironen (2006) has recently developed the concept of entrepreneurial drive in a family-business context as the mindset, united effort, energy and initiative characterised by entrepreneurialism (Johannisson, 2002). The typical constituents of entrepreneurial drive are sensitivity in opportunity recognition, proactiveness in opportunity seizing, industriousness, risk-taking, innovativeness and the pursuit of value creation (Miller, 1983; Bygrave and Minniti, 2000)⁸. Likewise, Habbershon and Pistrui (2002) believe that an entrepreneurial behaviour based on flexibility, innovativeness, proactiveness and risk-taking is needed to achieve superior performance for a family business. In this way, the firm enhances its capabilities of developing strategies to manage change and shedding or redeploying unproductive resources (Habbershon and Pistrui, 2002).

To sum up, paternalism, as opposed to entrepreneurial drive, may easily lead to inertia (Dyer, 1988; Lumpkin and Dess, 1996; Aronoff and Ward, 1997; Kaye, 1998; Detert et al. 2000; Hall et al. 2001; Koironen, 2004), and prevents the development of dynamic capabilities and new proactive entrepreneurial strategies. (Habbershon and Pistrui, 2002; Larsen and Lomi, 2002). *Family Inertia is here defined as the tendency of family firms to resist change even when it is needed to match the requirements of a changing environment. It is a function of paternalism and entrepreneurial drive in family business where paternalism and entrepreneurial drive influence family inertia positively and negatively, respectively* (see Figure 1).

In this light, the culture may limit the amount of strategic options available to a firm if it is not characterised by patterns that are change oriented (Hall et al. 2001). Hence, a family firm needs to develop an open family-business culture, in which firm members are encouraged to express their ideas and make autonomous choices and changes. In other terms, as plotted in Figure 1, the combination process of resources may be better developed within a family-business culture which facilitates entrepreneurial change (i.e. entrepreneurial drive) rather than tending to preserve the traditional way of doing business (i.e. paternalism) (see Lumpkin and Dess, 1996; Hall et al. 2001; Habbershon and Pistrui, 2002; Koironen, 2004). The dynamic family-business model as a whole is depicted in details in Figure 1.

⁸ In the empirical data, entrepreneurial drive is measured by proactiveness in utilising opportunities for the benefit of the family business; innovativeness to renew family business; willingness to take risks in family business; and willingness to enlarge the family business.

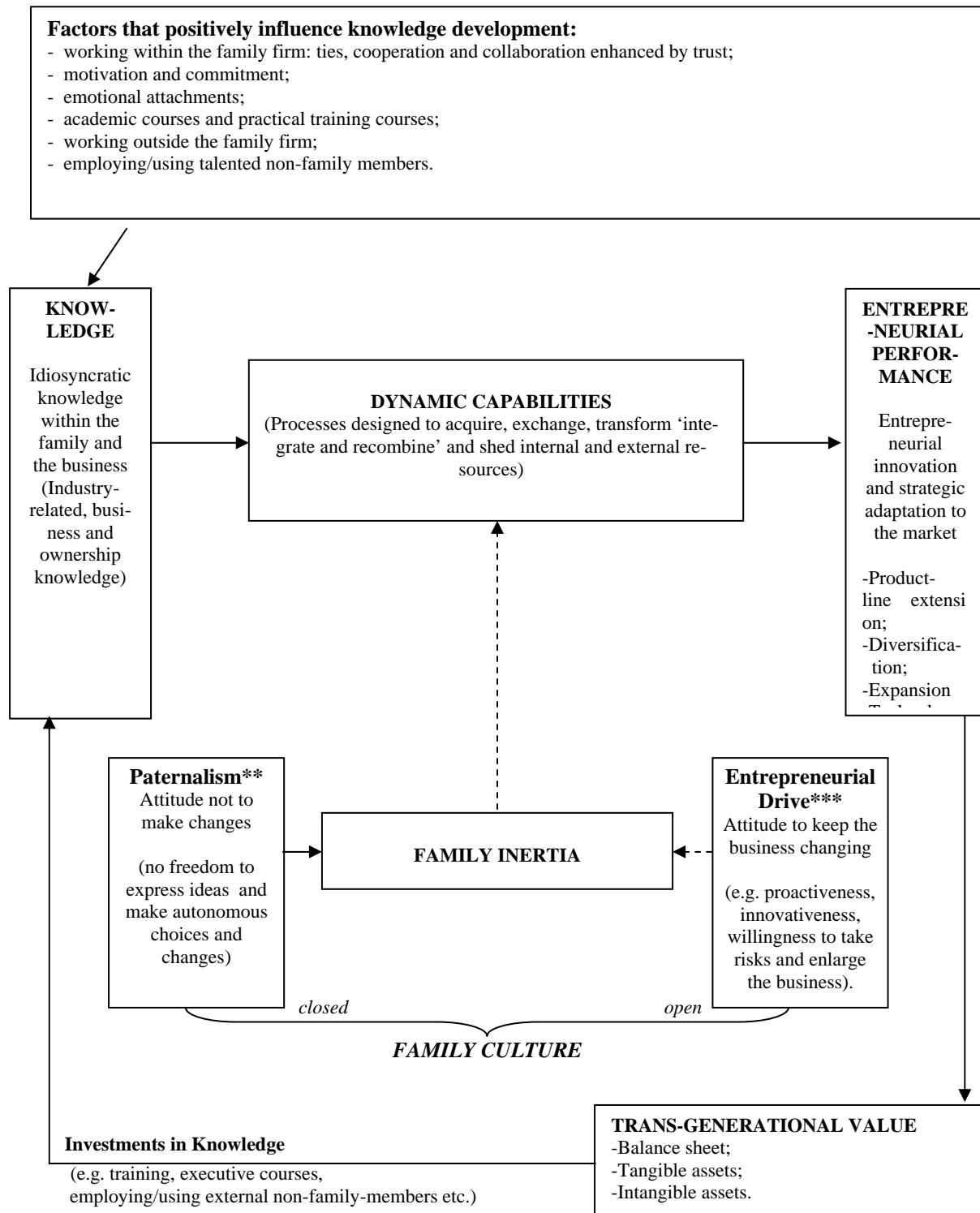


Figure 1: The dynamic family-business model: From knowledge to value creation*

(*) ____: positive relation; -----: negative relation.

(**) Paternalism influences family inertia positively and family inertia influences dynamic capabilities negatively. Consequently, paternalism influences dynamic capabilities negatively.

(***) Entrepreneurial drive influences family inertia negatively and family inertia influences dynamic capabilities negatively. Consequently, entrepreneurial drive influences dynamic capabilities positively.

METHODS

Research design

McCollom (1990) posits that qualitative research is particularly appropriate to the study of family business. The research design of qualitative research is a multiple-case embedded study. Multiple cases permit a replication logic where each case is viewed as an independent experiment which confirms or not the theoretical background and the new insights. A replication logic yields more precise and generalizable results compared to single case studies (Eisenhardt, 1989; Brown et al., 1997; Yin, 2003). We relied on informants at two levels of the generational hierarchy to yield a more accurate analysis. Moreover, the study conducted was improved by using several levels of analysis, i.e. an embedded design, including family, business and industry (Yin, 2003).

For the reasons explained below, we analysed two private Italian family firms from the Apulia (Borsci SA) and Tuscany (Frescobaldi) regions and two private Swiss family firms from canton 'A'*** (Iurlaro SA and Cervo SA). Firstly, the four companies had the potential of yielding interesting insights based on commonalities and differences emerging from comparison amongst them (see Table 1). Secondly, they all belong to the beverage industry with instances of related product diversifications. In particular, the Frescobaldi, Iurlaro and Cervo family firms belong to the wine industry, and the Borsci family firm to the spirits industry. In those manufacturing sectors, which are dominant businesses both in Italy and Switzerland, the family-business knowledge and traditions have been especially important through generations. Finally, in each generation family members of at least two generations have been always involved. Hence, this dataset is ideal for our study. Names given to the Swiss firms and some other information have been disguised for confidentiality reasons. Table 1 reports the case studies used in this paper.

Table 1: Description of case studies

Family business	Founded	Latest active generation	Country	Industry
Borsci SPA	1840	3 rd *	Italy	Spirits
Frescobaldi	1855**	3 rd **	Italy	Wine
Iurlaro SA	1944	3 rd	Switzerland	Wine
Cervo SA	19xx***	3 rd	Switzerland	Wine

(*) We consider only the last three generations of the Borsci family firm starting from the point when the artisan activity turned into an industrial business (around 1900).

(**) The Frescobaldi family has been active in agriculture and viticulture for at least 700 years and 30 generations. We trace the company's foundation to the year in which Vittorio degli Albizi (a Frescobaldi family ancestor) first introduced in Tuscany the specialised cultivation of chardonnay, pinot blanc, gris and noir, cabernet and merlot grapes. Moreover, we consider only the last three generations of the Frescobaldi family to facilitate comparison with the other three cases.

(***) Some information is not available for confidentiality reasons.

Data collection

Data were collected through personal interviews, questionnaires, secondary sources (newspapers, company internal documents, company slide presentations, company press releases, company web sites, company balance sheets and articles from magazines), conversations and observations in 2005. Semi-structured interviews were conducted separately with two respondents, an active family member of the latest generation, and another one of the previous generation, chosen on the basis of their central role within the organization. Interviews were conducted during several formal and informal meetings with an average length of three hours. During informal meetings, we also had the opportunity to talk extensively with other several family and non-family members. After each interview the research team discussed its impressions and observations taking notes. The interviews were always taped and transcribed word for word within six hours after the interviews. They were listened to by two or three members of the research team in order to check for consistency of interpretation.

The interviews were conducted in two parts. In the first part, open-ended questions were asked without telling the respondents about the constructs of interest in the study in order not to influence them. They had the opportunity to relate their stories of how trans-generational value has evolved over time. During this phase, probing questions were asked to obtain more details related to the stories discussed by the respondents. In the second part, closed-ended questions were asked about the trans-generational value creation process across generations and the role played by specific factors (e.g. knowledge, dynamic capabilities, family culture) on the process as a whole. It was a joint effort by members of the research team in order to test for consistency of interpretation. After interviews, telephone calls were made to confirm our understanding of the answers given by the respondents.

Data analysis

Four separate extensive case studies were built from data gathered from primary and secondary sources. Results were consistent with the initial theoretical framework and, in some cases, helped the research team to integrate it. For this reason, data analysis was undertaken using a combination of deductive and inductive methods. The whole process took about ten months to complete. The approach was integrated with a growing body of methodological literature on case study research and cross-case analysis in order to perform cross-case comparisons looking for similarities and differences.

Triangulation of multiple sources of evidence (primary and secondary sources) and the development of case study databases improved the reliability of the study conducted (see Eisenhardt, 1989; Stake, 1995; Miles and Huberman, 1994, Yin, 2003).

SAMPLE

Family-business histories

BORSCI S.p.A: 1840 was a milestone in the history of the Borsci family. It was in 1840 that Giuseppe Borsci, as a herbalist, improved the recipe for a liqueur inherited from his ancestors, creating an Elixir that has remained unchanged to this day. He called it *Elisir San Marzano*, taken from the name of the family's hometown, San Marzano (Taranto, Apulia, Italy). At the end of the nineteenth century, Giuseppe Borsci's son, Antonio, took over the artisan activity and turned it into an industrial business by starting a new factory in

San Marzano. Hence, in this study we conventionally consider Antonio's generation as the first one (generation 1 or G1) in the history of the Borscis. In 1950, Antonio Borsci's sons, Giuseppe, Pietro, Attilio and Venanzio (G2), took over the business. In 1964 they established a larger and more efficient factory, moving from San Marzano to Taranto. In the 1970s the company was incorporated into a new company (from SNC to SPA) and skilled non-family members were employed. The family firm's capital was, and still is, entirely owned by the four Borsci brothers (G3). Their sons have been working since the 1970s in the family firm and legally took over the business in 1997. They all sit on the Board of Directors. The Chairman of the Board of Directors is Egidio Borsci (Venanzio's son). In 2005, Borsci had 40 employees and annual revenues of 11 million euros. Borsci produces and/or commercialises several kinds of liqueurs and several related products such as Bon Borsci, Baba of Elisir San Marzano and Astrelio chocolate (the company 'Astrelio Maestri di Cioccolato S.p.A' was acquired in 2005). Borsci's main market is Italy, but company products are also exported to the US, Germany, Ireland, Australia and Japan. The family tree may be seen in Appendix I.

FRESCOBALDI: For 700 years and 30 generations, the involvement in agriculture and viticulture has been the predominant activity of the Frescobaldi family. In the 19th century Marquise Vittorio degli Albizzi, ancestor of the Frescobaldi, moved to Florence, to manage the inherited family properties. An experienced vine grower in native Burgundy, Vittorio was the first, in 1855, to introduce in Tuscany the specialised cultivation of grapes such as chardonnay, pinot blanc, gris and noir, cabernet and merlot. Marchese Lamberto Frescobaldi (conventionally G1, in this study) ran the business from 1928 to 1954, when Marchese Vittorio Frescobaldi (G2) took over. Together with his brothers Piero (who died in a racing car accident in 1964), Lamberto, Ferdinando and his wife Bona, Vittorio focused the company entirely on wine. In 1995, the newly appointed non-family CEO Giovanni Geddes della Filicaja created a joint venture between the Mondavi and Frescobaldi families to find the best vineyard sites in Montalcino, Tuscany, for the production of *Luce della Vite* wines. The latest generation of Frescobaldi (G3) has been gradually taking increasing responsibility since the late 1990s: Lamberto Frescobaldi (Production Manager), Tiziana Frescobaldi (PR Manager), Stefano Benini (Marketing Manager for North America) and Diana Frescobaldi (responsible for the growing initiative of Frescobaldi Wine Bars). For the purpose of the research, we consider the appointment of the external CEO as the take over point of G3: since then the company has been run in a more decentralised way, with some of the youngest members of the family (notably Lamberto) playing a major role in the management of the FB. Frescobaldi products are also exported abroad. The family tree may be seen in Appendix I.

IURLARO SA: In 1944, Carlo Iurlaro (first generation, G1) founded the wine firm "Carlo Iurlaro" in Switzerland. Since his sudden death in 1969, the firm has been run by his son, Claudio (G2). In 1975, Claudio bought the share of his sister, Milena. Claudio is currently CEO and Chairman of the Board. 70% of the capital is owned by him and 30% by his mother, Bice Iurlaro, who carries out managerial tasks (debt management) on a part-time basis. In 1997, Milena Iurlaro started working for the family firm as a part-time employee, managing Iurlaro Aziende Agricole SA. The latest generation (G3) is represented by Milena's son, Mattia, who was put in charge of Lucchini Giovanni SA and Tenuta Vallombrosa in 2003. The family firm is staffed with forty employees in production, administration, sales and vineyards. It owns 30 hectares of vineyards from which high quality wines are obtained. Cellars are located in the village of Lamone near Lugano, whereas vineyards are located in Comano (Vigneto ai Brughi), in Lamone (Tenuta San Zeno), in Vico Mor-

cote (Castello di Morcote), in Gudo (Tenuta Terre di Gudo), in Neggio (San Domenico), and in Castelrotto (Tenuta Vallombrosa). The firm also produces olive oil, grappa and honey. The group is made up of two companies: Iurlaro Aziende Agricole SA, which is in charge of the agricultural side and Iurlaro Carlo Eredi SA, which deals with the commercial distribution of the products through a wine shop and a commercial network across Switzerland. Iurlaro products are also exported to Germany, the United Kingdom, Sweden, Russia, and the US. The family tree may be seen in Appendix I.

CERVO SA: ‘Founder1’ Cervo and ‘Founder2’ Saccà founded the wine firm Cervo&Saccà in 19xx in Switzerland. Their activity was initially limited to purchasing wine from local producers, blending and re-selling it to restaurants and tourists. Founder1 died in 19xx and Founder2 retired a year later, in 19xx. Founder 1’s sons, ‘owner1’, ‘owner2’ and ‘owner3’ took over the business. The company is currently owned by the three brothers and by owner1’s son, Carlo. The third generation is represented by owner1, owner2 and owner3’s sons and sons-in-law. Carlo feels he belongs to the second generation and will be considered as such for the purposes of this research. The commercial distribution of products is carried out through a wine shop and a commercial network throughout Switzerland. Cervo products are not exported. The family tree may be seen in Appendix I.

Evidence from case studies

From a first reading of data collected through primary and secondary sources (see methods), it emerged that the Borsci, Frescobaldi and Iurlaro family firms are growing well; conversely, the Cervo family firm has been affected, during the third generation, by some problems which will be presented later in this study (see Table 2).

The **Borsci** family firm is in the third generation and is growing well. Evidence from data gathered shows that knowledge in production, management and ownership has substantially increased from G1 to G3. Dynamic capabilities (i.e. acquisition, exchange, transformation and shedding of resources) and entrepreneurial performance (i.e. product-line extension, product diversification, expansion to new markets and adoption of new technology) have followed the same path. Consequently, the Borsci family firm has been able to maintain and sustain trans-generational value across generations that made possible new continuous investments in knowledge (e.g. employing external experts like consultants, training courses etc...).

Knowledge was the key factor for the business’ success. The secret original recipe of Elisir San Marzano Borsci has been passed on from generation to generation since 1840, maintaining its uniqueness and originality. It is the result of a remarkable combination of ingredients selected with care and astute experience. Lorenza Borsci (G3) says: *“Our Company has a century-old tradition in creating blends of liqueurs. Our success depends on the knowledge gathered and handed down through the generations and acquired from outside”*. Knowledge has always been updated regularly to avoid obsolescence across generations. Giuseppina Borsci (G3) adds: *“Each generation brings something more which creates value in the business...The second generation was able to teach us directly and indirectly all the tricks of the trade in production, administration and distribution. We have also learned how to communicate and cooperate with each other thanks to them. The second generation did a great job of building and maintaining a positive and friendly envi-*

ronment within the family and the business. There is (and was) an easy flow of information within and between generations”.

As reported by one of the Borsci family members, although Egidio (G3) is the liqueur distiller, the ideation of new liqueurs is always a team project: the flavour of the liqueur, surveys (customers), shape of the bottle, label and so on. For instance, Egidio usually asks the opinion of the other family members, non-family members and workers for the ideation of new liqueurs. They taste the new liqueur and give feedback. Giuseppina says: *“It is a funny way to ideate new products and do business”.*

In the 1970s there was a ‘business restructuring’ through which a lot of problems in production and management were resolved in order to adapt the business to the changing market. The four brothers’ sons (G3) joined the family firm and skilled non-family members were employed (e.g. Mr Franco Rovida, sales manager for the company Ramazzotti). In this way knowledge in creating blends of liqueurs (product-line-extension and diversification) and in management significantly improved. Giuseppina claims: *“We have learned a lot from external experts who joined our business. I have personally acquired knowledge and developed new capabilities working with the new sales manager employed in the 1970s (Mr Franco Rovida). Today, the sales director and managing director are non-family members. They are truly an important asset. We are really learning a lot from outside through training courses and working and cooperating with external experts. Our motivation and commitment is still very high”.*

The family firm has always been open to acquiring knowledge from outside, but never more than today. For instance Borsci has cooperated with the supplier, Amarelli, in order to obtain the best flavour for their liqueur ‘Borsci Liquirizia’, made with the liquorice of Amarelli. Giuseppina says: *“Some entrepreneurs from the South of Italy think they know everything; but it is not possible. External assistance is needed. We continually invest money in acquiring knowledge from outside. Research was and still is important. The best place in which research can develop is the university. We have good relations with some universities and we draw advantage from their studies and surveys into our sector, into what we produce. For instance, we are cooperating with a professor on the creation of new kinds of Astrelio chocolate”.*

Hence, the strong social capital within and outside the family firm and the high level of emotional attachments of family members to the family firm have played a crucial role for the acquisition, creation, sharing and transfer process of knowledge across generations.

Resources exchanged inside and acquired from outside are continually combined (dynamic capabilities). For instance, new products related and not related to the core business are constantly conceived according to customers’ demand. Borsci advanced from 1 product in G1 to about 25 products in G3. Products were sold in Taranto and in some towns of Apulia during the first generation. Then, in G2 they were mainly sold in Apulia and in other regions such as Campania, Basilicata and so on. In the 1970s (G2 and G3) distribution spread to the South of Italy and then to the North, thanks to the ‘business restructuring’ mentioned above. Recently (G3), products are also being exported to the US, Germany, Ireland, Australia and Japan.

Borsci has also started a diversification process adding unrelated products to the core business of the firm over the last ten years. The main unrelated products are: Bon Borsci in

1996 (chocolate with Elisir San Marzano Borsci or Succ'agro Limoncello); Babà all'Elisir San Marzano in 2004; and Chocolate Astrelino in 2005. Giuseppina says: "*The philosophy of the firm is to produce and commercialise products of 'quality of excellence'*". The magazine 'Altro Consumo', a journal to protect customers, conducted research concerning the best 'Limoncello' produced in Italy. The Borsci Limoncello Succ'Agro was considered the best one. Moreover, technology is taken into high consideration by the Borsci family firm. Cutting-edge technologies were adopted particularly in G2 and G3. Some of the most significant features of Borsci include: (a) a fully equipped laboratory, both for research and development and for quality control; (b) 35 stainless steel storage tanks, to stock all ingredients and then mix them to obtain the liqueurs; (c) 4 assembly lines to bottle the liqueur. Fully automated operations go from the unloading of the pallets to the final packing. Working cycles are programmed and controlled by computers. Giuseppina recalls: "*30 years ago (G2) we had the most technological production lines in Europe. My father invested in technology from the beginning. Now, we invest even more because the market requires so*". Net income increased considerably from the foundation of the business to the 1970s with the 'business restructuring'. In the 1970s there was the boom in the liqueur sector but then the consumption of liqueurs decreased. Giuseppina points out: "*Liqueur is a luxury good, it is a fashion. In addition, recently, the introduction of the new euro currency caused inflation and consequently people became poorer... Anyway, net income has been stable in the last 20 years. Product-line extension, diversification and expansion to new markets enable the company to maintain stable sales figures*". Goodwill has also increased due to the acquisition of the Astrelino brand.

In addition, the Borsci family-business culture appears to be very open, not paternalistic (see Hall et al. 2001). Family members are encouraged to express their ideas, make autonomous choices and changes in order to foster and support double-loop learning. As mentioned above, Giuseppina recognises the excellent work done by the third generation to build and maintain a positive and friendly environment within the family and the business. She adds the following about family-business culture: "*Let's say that our family-business culture is very 'clear' and 'transparent' and we all have the possibility during formal and informal meetings to make suggestions and express ideas in order to better develop our business. My nephew, Roberto, who joined the business recently in 2005, is a very innovative and clever person; we expect great things from him, new ideas and fresh knowledge and inputs*".

Indeed, Borsci's family members are very entrepreneurial which means by definition "characterized by initiative and risk" (Oxford, 2005) or simpler being able to keep the business in change through initiative and innovation (Koiranen, 2004, 304-305).

Entrepreneurial drive (proactiveness in utilising opportunities, innovativeness, and willingness to take risks and enlarge the business) has increased over time, thus influencing positively the creation of dynamic capabilities and entrepreneurial performance (see Figure 1 and Table 2). For instance, Giuseppina says: "*We have always been proactive in utilising opportunities for the benefit of our family business*". Antonio (G1) was the real entrepreneur, who understood that he could transform the unprofessional activity of his father (herbalist) into an entrepreneurial activity. The University of Lecce conducted research (with the collaboration of the Treccani encyclopedia) where Antonio is listed as one of the most proactive entrepreneurs in Italy. He sold off his father's land and built a factory in San Marzano. Risks were very high but he was able to face them. The second generation was proactive, too. They understood that the factory in San Marzano was too small and, in

1964, they built a new, bigger and more efficient factory in Taranto. The factory was enlarged in 1975 and again in 1989. In spite of that, they were not proactive in expanding the business to the North of Italy and abroad.

Giuseppina says: *“Nowadays, we are still very proactive as entrepreneurs, for example we have developed a lot of new products and acquired the company, ‘Astrelino Maestri di Cioccolato S.p.A.’ (72 employees), which belongs to a different industrial sector. It was a risky operation (also because at the moment it has financial problems) but we believe in that firm and we are sure that we will benefit from this acquisition (information from Nielsen shows that the consumption of chocolate is higher in the South of Italy than in the North)... In addition, we are going to enlarge the firm with a new production line”*. The Borsci family firm had also the opportunity to sign two new franchising contracts with two shops in Ancona (2002) and Taranto (2004) for the commercialisation of ‘Borsci El Niño de Fuego’ from Cuba. They seized this opportunity immediately. Giuseppina points out: *“The history of Borsci entrepreneurs is continuing. After the second generation family businesses usually start to maintain what they already have. We did the opposite”*.

The link between the Borsci case study and the model in Figure 1 appears evident. As mentioned before, at the end of the 1970s some problems arose due to a rapid change in the market. In fact, the boom of the liqueur sector was followed by a drastic decline of the consumption of liqueurs in Italy. As a consequence, the Borsci liqueur (Elisir S. Marzano) seemed to be out of fashion by that time. A business restructuring process began. The business was incorporated into a new company (from SNC to S.p.A.) and the third generation joined the business. Skilled non-family members were also employed. A product development process was started and step by step the commercialisation of Borsci products was expanded to the North of Italy, as well.

The Borsci family firm was able to use its knowledge and acquire new knowledge from outside the organization to develop new dynamic product development processes when the market was changing. Thus, the company was capable of achieving and sustaining entrepreneurial performance (i.e. innovation and adaptation to the market) and generating new value in order to survive. Indeed, Borsci started to manufacture new products related and not related to its core business according to its customers’ changing demands. The family-business culture based on entrepreneurial drive positively influenced the process described above (see Figure 1 and Table 2).

The other three case studies also show the same positive relations between knowledge, dynamic capabilities, entrepreneurial performance and trans-generational value as shown in Table 2. Entrepreneurial drive has always played a crucial role in family business’ success. (Small) family firms from canton ‘A’ (Switzerland) usually do business within their region or, at least, in Switzerland for cultural reasons. In fact, the risk-taking attitude of (small) family firms in canton ‘A’ is quite low. Some studies show that canton ‘A’ is less entrepreneurial than other Swiss regions such as Central Switzerland, Zurich and Eastern Switzerland (Volery et al. 2005; see the Cervo family firm). The above-mentioned statements are contradicted by **Iurlaro SA**, one of the two Swiss family firms presented in this research.

Claudio Iurlaro (G2) says: *“The owner must be not autocratic but very innovative, proactive and alert in order to be competitive in a changing market (entrepreneurial culture). My father was also active but not innovative...In G1 there were not so many risks to face. At present (G2), risks are high but the willingness to face them is even higher... The willing-*

ness to enlarge the family business is very strong; we have bought new lands and acquired the Lucchini Giovanni SA in 2002. Furthermore, we are going to make a new investment (900.000 Swiss francs) to buy new wine-making machineries”.

Knowledge significantly increased from G1 to G2. The firm was small and not well developed in G1. Claudio says: *“I remember how I started working and now I know where I am. A lot of work has been done to achieve such results. I learned from my mistakes how to produce wine of high quality”.*

Consequently, the ability to acquire, exchange and transform internal and external resources (i.e. dynamic capabilities) has risen substantially over time (including the ability to shed resources).

Claudio says: *“We use our knowledge and the one acquired from outside to create new capabilities, for instance, in marketing and production. But since we operate in a dynamic market, we also need to continually combine our resources to produce new products according to the changing demand of our customers”.*

Entrepreneurial performance reached its maximum value in G2 with product-line extension, diversification, expansion to new markets and adoption of new technologies. Claudio states: *“I always look around, I always need to learn something more from outside about ‘the wine world’, in order to improve the quality of my products, expand the market in which I do business and adapt my firm to the changing market...Resources exchanged inside and acquired outside the family firm are transformed and utilised for the growth of the firm (dynamic capabilities). Entrepreneurial performance has increased across generations. Indeed, new kinds of wines are continually conceived and produced according to customers’ demand which always evolves. Diversification is also taken into high consideration (olive oil, grappa, honey)...In G1 it was not necessary to update resources. Today, every six months I personally check that firm resources are not obsolete so as to be competitive in the market...new technologies were adopted in G2 through huge investments for improving the production process and the quality of wine, the production of white wine and the distillation of Grappa. Innovation is important for our business”*...and then, he goes on: *“In G1 the business was limited to our region. Nowadays, the firm sells products in Switzerland and abroad (Germany, UK, Sweden, Russia and US)”.*

Trans-generational value, too, has considerably increased over time. Claudio claims: *“Net income increased by four times from G1 to G2 even though the amount of work increased by fifteen times. Sales rose from 1 million Swiss francs to 15 million Swiss francs a year from 1968 to 2004. The goodwill of the firm increased by ten times from G1 to G2 owing to the acquisition of the Lucchini Giovanni (Tenuta Vallombrosa), the higher value of its brands and the huge investments in technology and innovation. The total of the balance sheet increased by seventeen times from G1 to G2”.* In addition, income is always reinvested in the family firm (e.g. investments in knowledge). In fact, according to Claudio’s comments, knowledge and the creation of value are also expected to go on increasing in G3 (with Mattia, who joined the business in 2003). For instance, Claudio says: *“My nephew Mattia (G3) is acquiring and adding new knowledge by working in the family firm day by day in a learning-by-doing process. He is very motivated and committed to the family firm and works hard for it. He did several internships in wine firms and will do another one abroad soon. Moreover, he will attend a School of Oenology for two years in order to improve his competencies and add new value to the family firm”* (see Table 2).

The **Frescobaldi** family firm is also growing very well. The family firm has been able to increase its trans-generational value and reinvest money within the firm (e.g. for training courses). An in-depth analysis of the firm's balance sheet shows that the net income has increased by four times from 1995 to 2005.

Knowledge has also advanced from G1 to G3 mainly thanks to the high level of social capital within and outside the family firm and the high level of motivation and commitment of family members. This allowed the firm to efficiently combine resources over time.

Vittorio (G2) says: *“My father was convinced that capable employees are the key to sustainable success... he hired young and brilliant professionals to bring in new energy and ideas. The internal capabilities of the firm dramatically increased and advanced processes (dynamic capabilities) were implemented to adapt our business to the changing market”*. Lamberto (G3), who studied at the University of California at Davis (US) adds that: *“The experience in the US enriched my contact network around the world, so that when I am in South Africa, California or Chile I always find somebody else who studied at the same university. It's a community, a club. Actually, the network acts silently: Davis is so big that many agronomists and oenologists studied there, hence you keep in touch with them and learn from them...The collaboration with my brothers has worked really well...but as a matter of fact I have been very lucky because I have spent my life working in this company in a fair environment where I always have the opportunity to express my thoughts and bring and realise new innovative ideas”*.

As a result, dynamic capabilities and entrepreneurial performance have increased with positive effects on the creation of trans-generational value. For instance, new and different technologies have been continually adopted. The product-line extension and the expansion to new markets remarkably increased in the shift from G1 to G2 and from G2 to G3. Leonardo (G2) says: *“The product range has increased dramatically since I joined the company... in this sense we are market-oriented, we must adapt the wines of our land to every market”* and then he adds: *“When I started we had an importer in the US, UK, Australia and Belgium. Now we cover 68 countries... and we employ export managers, accountable for each macro-region. The expansion to new markets continues today (new countries, new market segments)”*. Lamberto (G3) and Leonardo (G2) continue commenting on the adoption of new technologies: *“Now we use a S400 account system to be able to instantly review the performance of each property and business area...In addition, we are now able to track the amount of stock in every importer's warehouse. This improved the management of our distribution worldwide... usually we know more about a certain market than our importer itself... it is a powerful technology”*.

It appears that the family-business culture is very open and not paternalistic. Everyone makes his/her own contribution to the family firm, thereby reinforcing the creation process of dynamic capabilities and entrepreneurial performance.

For instance Tiziana (G3) says: *“Vittorio (G2) runs my office with a MBO logic: I am free to propose new projects and ideas and to realise them the way I like, once approved”*. Indeed, the entrepreneurial drive of the company has always been very high. For example, the European FEUGA project opportunity was fully exploited by Vittorio in the late 1960s in order to receive funds to reconvert the company's production to wine (see Table 2).

The **Cervo** family firm is in the third generation (G3) and problems are growing mainly because of the stagnation in knowledge due to the low degree of social capital, motivation and commitment between members of the third generation, in particular, of Carlo Cervo's cousins and because of cultural problems (Chirico, forthcoming 2007).

In G1 the firm was small and not well-developed. 'Founder1' (G1) used to buy Merlot wine from producers and then mix and resell it to tourists and restaurants in the region. The main business was blending wine and marketing it. In addition, at the beginning of the century, technology and machineries to produce wine were not the best and the quality of Merlot was not so good. It was not easy to commercialise wine of good quality. Knowledge was poor at that time. For this reason, the family firm decided to buy grapes and make wine by itself, a process it has done since 1925. In G2, Founder1's sons made a lot of investments to improve the quality and the overall knowledge in wine making. The big growth of the family firm started in the 1960s. The quality of wine notably grew. Carlo (G3) says: *"In the 1960s, there was the 'BIG BANG' in our family firm. My father and my uncles (G2) were able to create a new label called 'xxx' which is still well known in Switzerland"*.

The overall degree of knowledge rose from G1 to G2 but has remained low and stable in G3. Knowledge has not decreased in G3 thanks to Carlo who is still very motivated and committed to the business. He states: *"My father worked with my grand father for 15 years learning all the 'tricks of the trade' from him. I have also learned and I am still learning a lot from my father...I have acquired new knowledge in business and wine making. In the last 20 years I have participated in different conferences related to the wine market. It is important to know how grapes grow and how to take the best from them in wine making"* and he goes on: *"I do my best to share and transfer all my know-how to my cousins (G3) even though sometimes it is not easy because young people are more disorganised, less concentrated, and have a lot of interests. Our relations are not very good...My cousins do not own the business, they just work for it"*. It appears that relations between family members are not strong and Carlo does not trust his cousins so much. Further, each member of the third generation works with his father (except for 'son3' and 'son4' who work with 'owner3') in a specific area of the business (see Appendix I). The third generation seems to be in the shadow of the second generation who owns the business along with Carlo (see Davis and Harveston, 1999). Indeed, decisions are always taken by the three Cervo brothers (G2) and Carlo. Carlo feels he belongs to the second rather than the third generation. Entrepreneurial drive (e.g. proactiveness and risk-taking) which is needed to achieve superior performance decreased in the shift from G2 to G3 and a paternalistic culture (very closed) appears to prevent innovation and adaptation to the market in G3 (see family inertia in Figure 1). Carlo says: *"We have always been proactive in utilising opportunities for our firm. For instance, my grand father (G1) decided to pass from purely commerce to wine production and G2 expanded the production. Anyway, nowadays there are not so great opportunities in our business. The harvest is limited...I do not like risks...risks must be very calculated...I always wonder, how far we can go without burning our fingers. Maybe, our closed culture is influencing our choices too much"*.

As a matter of fact, the creation of value has remained low and constant in the last generation as well as dynamic capabilities and entrepreneurial performance on average. Resources are not well-acquired, exchanged and transformed for the growth of the firm during G3. As a consequence, dynamic capabilities are hardly developed. Indeed, new products are slightly conceived and commercialised, including unrelated products to the core family

business (Nocino and Grappa). In addition, the expansion to new markets decreased in the shift from G2 to G3. Carlo says: *“The harvest is always the same (1 million Merlot grapes a year) and the production is stable, as well. We had the opportunity to do business abroad in the 1970s (Germany) but we were not successful (we had a small harvest in 1975 and an even smaller one in 1976)...we do not have the capacity...We mainly focus on our region producing wine for our region. It is not our philosophy to expand our business to new markets. Today, we produce and commercialise the right quantity of wine for our business in Switzerland”*.

Net income rose two-fold from the start-up of the business to the 1960s. It increased until 1985 and has remained stable over the last 25 years. The goodwill has followed the same path. The future appears to be very uncertain. Indeed, Carlo says further: *“I do not know about the future...when I retire and my father and my uncles die... ‘we will see’ if the Cervo firm will go on...I am not married, I do not have children, and my cousins’ sons are not interested in the firm...maybe the business will shut down after this generation”* (Table 2).

DISCUSSION AND CONCLUSIONS

The aim of this study was to investigate the dynamic process which leads to trans-generational value creation in family business. The four family firms analysed have shown that the level of knowledge (principally enhanced by high levels of social capital and emotional attachment to the business) and the family-business culture (entrepreneurial drive and/or paternalism) have been crucial for the family business’ success through the creation or destruction of dynamic capabilities and entrepreneurial performance in changing environments. In contrast with Astrachan et al. (2002), the family firms analysed (except for the Cervo SA) are still very committed and proactive for the wealth of the family business although they passed the second generation. For instance, Giuseppina Borsci underlines that *“the history of Borsci entrepreneurs is continuing. After the second generation family businesses usually start to maintain what they already have. We did the opposite”*. Instead, the Cervo case study reveals that a stable level of knowledge, presence of paternalism based on a closed culture and low level of entrepreneurial drive do not enable the firm to increase its level of value creation (see Table 2).

Results show that trans-generational value is achieved when the family firm innovates and adapts itself to the changing market in which operates. This kind of entrepreneurial performance needs dynamic capabilities as processes designed to acquire, exchange, transform and shed resources. In turn dynamic capabilities result from the existing knowledge and the creation of new knowledge within the firm, i.e., from mechanisms of knowledge acquisition, sharing, collective learning, experience accumulation and transfer. The family-business culture plays a central role in this process by facilitating entrepreneurial change (entrepreneurial drive) or tending to preserve the traditional way of doing business (paternalism).

Family firms need to understand that markets inevitably change and they have to be ready to develop new entrepreneurial dynamic capabilities in order to acquire and combine new resources and shed existing ones. We recognise the importance of family firms’ traditions but we believe that it is also essential to relearn and adopt new ways of doing business, particularly in dynamic markets (entrepreneurial culture, not paternalistic).

In this respect, Lorenza Borsci states: “*Our Company has a century-old tradition in creating blends of liqueurs. Our success depends on the knowledge gathered and handed down through the generations and acquired from outside. Anyway, our knowledge and our business are continually updated to avoid obsolescence in the changing market in which we operate; we are very open-minded*”.

Family business’ success can be achieved by developing entrepreneurial strategies which promote change and innovation (Miller, 1983; Habbershon and Pistrui, 2002). This requires an open culture (Hall et al. 2001) so as to support new challenging ideas, radical thoughts and actions or simple suggestions even though in contrast with the beliefs of the prevailing coalition (e.g. the founder). When the incumbent generation does not allow the new generation to participate in decision-making, change is prevented and inertia promoted (Dyer, 1988; Daily and Dollinger, 1993).

Hall et al. (2001, 205-206) claim that “some countries [cultures] might be more paternalistic than others, not letting other family members than the founder-owner-manager have an influence in the company...In turbulent and changing environments, traditional ways of thinking and acting will not be of much help to the organization”. To foster radical change, “it is, instead, essential to question old patterns of strategic action and to explore new ones in a process of continuous learning. Cultural patterns with a positive impact on entrepreneurial processes might be of crucial importance for further prosperity of family firms, especially in times of turbulence and uncertainty that many family business managers experience today”. In other words, successful multigenerational family firms are those in which more generations communicate with each other, exchange ideas, offer feedback and support mutual learning. The previous generation must have the flexibility to explore and accept the new way of managing resources and doing business of the new generation. This is of vital importance in developing new dynamic capabilities to modernise the organisation. But at the same time, the new generation must appreciate the previous generation’s knowledge and contribution to the firm (Handler, 1991, 1992; Davenport and Prusak, 1998; Eisenhardt and Martin, 2000; Cabrera-Suarez et al. 2001; Zahra and George, 2002; Kellermanns et al. 2004).

We recognise that good social relations are needed so as to allow the firm to transform culture into consensus. Indeed, “being entrepreneurial exists in the social relations of the organization” which underlines “the importance of the creation and accumulation of social capital for the family business” (Hall et al. 2001, 205-206). As suggested by Giuseppina Borsci, *family meetings* may help this process by developing perceived shared beliefs based on consensus after discussion and debate among participants, so as to lead to renewed collective actions (Ward, 1987; Habbershon and Astrachan, 1997; Sorenson, 1999). They may serve as a ‘collective encounter’ based on active communication where individuals reconsider old beliefs and negotiate new ones through dialogue in order to gain new perspectives about a problem. Dialogue is “a vehicle by which individual access a larger, collective pool of knowledge” that may facilitate the recognition of actual problems and the individuation of new opportunities (Habbershon and Astrachan, 1997, 43).

The present research encourages family businesses to enhance their own *knowledge* by developing it across generations and to be more *entrepreneurial* in order to facilitate the combination process of resources and achieve superior performance.

Analysing only four family businesses is a limitation of this study. Yet, it was necessary to simply test the general theoretical framework of the dynamic model in Figure 1, without drawing statistically significant conclusions. As a consequence, the model cannot be generalised to all family businesses, although its validity can be improved by introducing other case studies into the research. Furthermore, we admit that there may be other variables which affect the value creation process in family business (see Habbershon and Williams, 1999; Habbershon and Pistrui, 2002), even though our main goal was to examine only a part of the entire complex phenomenon. The intent was to focus the attention of family-business researchers on the knowledge, dynamic capabilities and cultural issues, which appear to be of great importance to family firms.

Despite these limitations, some preliminary contributions clearly emerge. First of all, while the construct of dynamic capabilities have received considerable research attention in the strategic management literature (e.g. Teece et al. 1997; Eisenhardt and Martin, 2000; Zollo and Winter, 2002; Winter, 2003), surprisingly only a few works have been devoted to the study of DCs in family firms (Salvato, Williams and Habbershon, 2002; Salvato and Melin, 2003; Koiranen and Chirico, 2006; Chirico, 2007; Salvato, Pernicone and Chirico, 2007). Hence, our research is the first endeavour directed to investigate the process through which trans-generational value is achieved through dynamic capabilities. Specifying those factors which affect value creation allowed us to expand the existing research on family business and offer some new insights for future research. We hope that our findings will be also valuable within non-family firms so as to make a modest contribution also to studies not specifically related with family organizations. For this purpose, non-family firms should be also analysed so as to compare if, definitively, the model presented is exclusive of family firms or not.

We see our research efforts as a point of departure for guiding and pushing forward further theoretical and empirical research. We trust that our model can serve as a framework for researchers and practitioners on how to facilitate the value creation process in family business, paying attention to its determinants. Its implications should be extended to help explain why some family firms survive through generations and others do not, especially in dynamic markets. Indeed, given the high relevance of these issues for both researchers and practitioners additional studies are clearly needed to test on a large representative sample the findings presented in this paper. Further research may be also aimed at studying the degree to which paternalism and entrepreneurial drive can act in concert to produce positive results. Additional studies may be also directed to deeply analyze how knowledge is accumulated within a family business (Nonaka and Takeuchi, 1995; Zahra et al. 2007), and most importantly, how it is acquired from outside (Cohen and Levinthal, 1990; Zahra and George, 2002) More relevant dimensions may be also added in the model. For instance, social capital could be better analysed in order to improve the quality of the present study. Furthermore, cultural differences between family firms in different countries could be also considered. For example, Switzerland as a culture (in particular, canton 'A') might be more paternalistic than Italy. Thereby, the model could be used to explore cultural differences in family businesses across regions and/or countries. Finally, since the model has been developed through interactive dynamic feedback loops, it would be exciting to formalise it in a proper computer simulation through system dynamics in order to test the findings of this research and look for new insights (see Forrester, 1961; Larsen and Lomi, 1999, 2002; Sterman, 2000).

Table 2: From knowledge to value creation

	Knowledge	Entrepreneurial Drive	Dynamic capabilities	Entrepreneurial Performance	Trans-generat. Value
B O R S C I	– Increase across generations.	– High and increasing entrepreneurial drive across generations.	– High and steadily increasing capability to acquire, exchange, transform and shed resources.	– Intense entrepreneurial activities across G1 and G2; – Intense entrepreneurial activities across G2 and G3.	– Significant increase from G1 to G2 – Followed by relative stability from G2 to G3 due to external factors (the crisis of the liqueur sector and the introduction of the euro currency).
F R E S C O B A L D I	– Increase across generations.	– Strong increase in entrepreneurial drive from G1 to G2; – High entrepreneurial drive from G2 to G3.	– Steadily increasing capability to acquire, exchange, transform and shed resources between G1 and G2; – High dynamic capabilities between G2 and G3.	– Intense entrepreneurial activities across G1 and G2. – High entrepreneurial activities across G2 and G3. Slight increase in product innovation.	– Significant increase from G1 to G2; – Increase from G2 to G3.
I U R L A R O	– Increase across generations.	– Dramatic increase in entrepreneurial drive across generations.	– Dramatic increase in the capability to manipulate resources across generations.	– Dramatic increase in entrepreneurial performance across generations.	– Very significant increase across generations.
C E R V O	– Increase from G1 to G2; – Stable, low from G2 to G3.	– Increasing entrepreneurial drive from G1 to G2; – Very low entrepreneurial drive in the shift from G2 to G3; – <i>Paternalistic culture.</i>	– Significant increase in the capability to manipulate resources between G1 and G2; – Stable, low between G2 and G3.	– High increase in entrepreneurial performance across G1 and G2. Slight market expansion. – Stable (or slightly decreasing: new products and new markets) entrepreneurial performance across G2 and G3.	– Significant increase from G1 to G2; – Followed by stagnation in the next generation (from G2 to G3).

Source: Adapted from Salvato, Pernicone and Chirico (2007)

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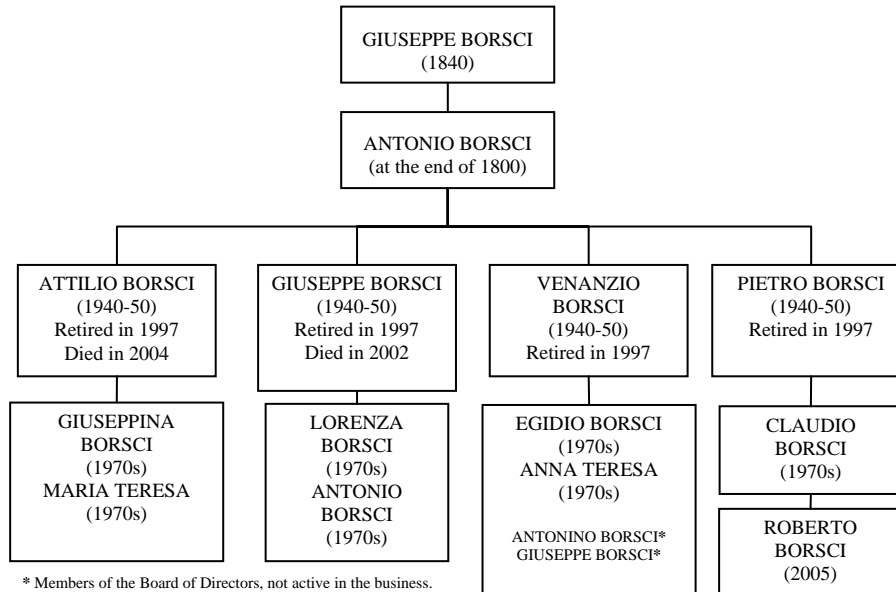
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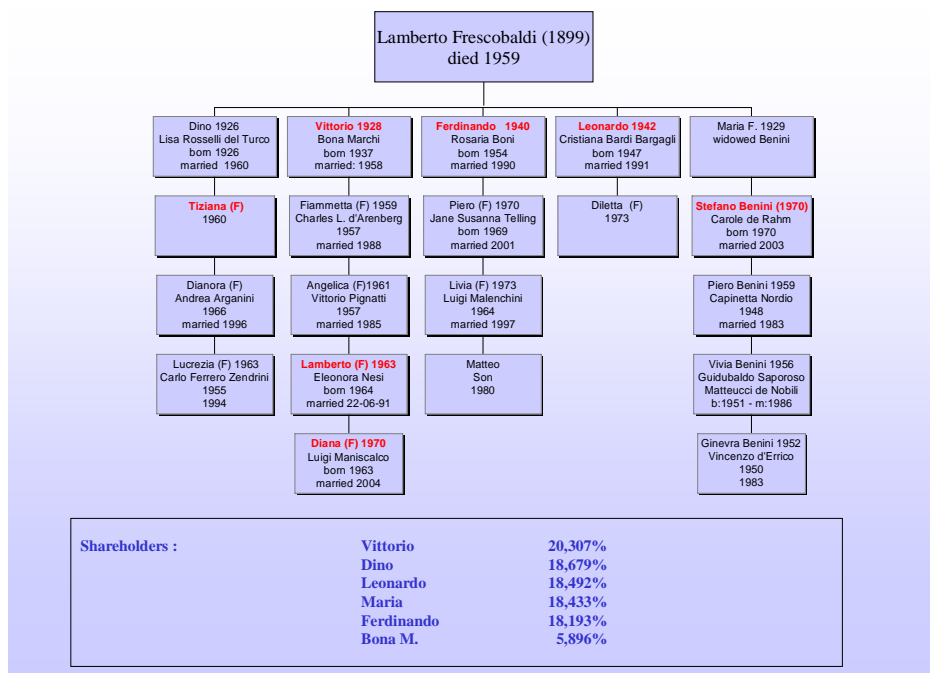
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APPENDIX I

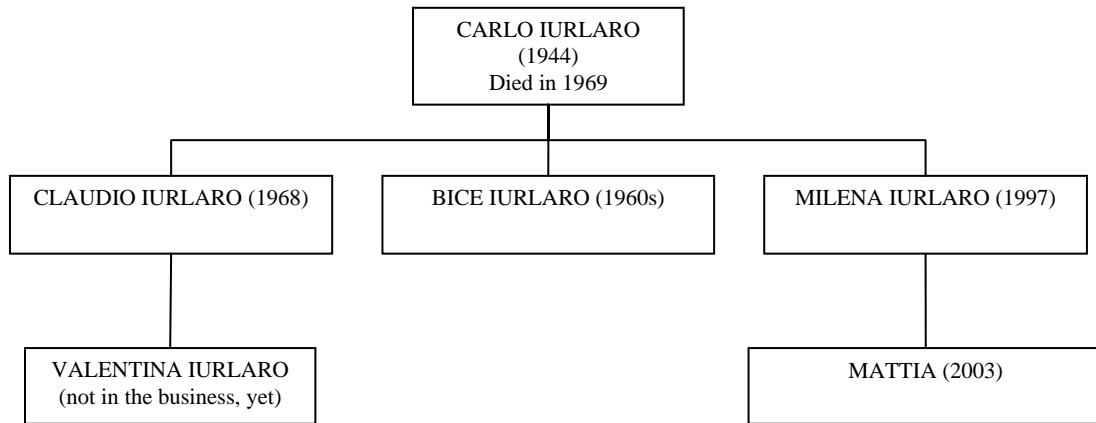
The Borsci family



The Frescobaldi family



The Iurlaro family



The Cervo family

