Family Capital

Viewpoint: The three models that explain family business success

Guido Corbetta **November 30, 2016**

Is there a management model that explains why a family business will succeed or fail? One model, no, but three, yes. After an extensive study of all the 10,000 family businesses in Italy with revenues of €20 million and more, we found the most successful ones practice either one of three types of management models.

Bocconi University, Unicredit Bank, and the Italian Association of Family Businesses looked at the performance - revenues and profitability - of the 10,000 family businesses. We drew up a short-list of 560 of the best-performing ones and looked at what makes these family businesses so successful. For those interested, here is a list of 200 of those companies.

When it came to the management of these 560 businesses, pretty much all of them displayed the characteristics of one of three types of management models - the founder model, the closed model, and the open model/growth model.

The Founder Model

This is the classic entrepreneur founder model - whereby, the business is led by a charismatic founder and members of his or her family. If you have such a founder, the performance of the company can be very strong. Even if the board of directors is only comprised of family members, the business can grow strongly, be very profitable, and grow large.

200 of Italy’s “hidden gem” family businesses

They are based all over the country - and without them the economy would probably go into free fall

In such a situation, the founder exerts a much more dominant role over the business than the governance structure. Governance is secondary, but that doesn’t mean performance is undermined. Another particular aspect of the founder model is the performance of the business isn’t affected by the age of the founder. You can have founders very old, but performance is very good.

The Closed Model

This is normally found in businesses that are transitioning from a founder-led business to a second generation one. Typically, the leader of the business is from the family and the board of directors is also made up entirely of family members. Even with this governance structure, family businesses can still be successful in terms of growth and profitability. Nevertheless, under a closed model a family business can't sustain being large. Sooner or later, the closed model will be constrained by growth, and it will need to move to a more open model if it wants to become larger.

The Open Model, or the Model for Growth

Like the closed model, the open model is found in a second or more generation-led business. But unlike the closed model, the leader of the business isn't likely to be from the family, and they also likely to be 50 years old, or younger. Under this model, the board of directors is open to non-family members. The defining aspect of the open model is that it is a model for growth. Such a structure allows a family business to reach a larger size than the close model.

It's important to emphasise that even in the closed model, which comprise a large number of the successful 560 companies, a family business can still grow and be profitable, but typically within a smaller range. So these companies mostly have annual revenues of between €20 million and €50 million. If a business wants to achieve €50 million-plus in annual revenues, it will need another model - effectively the open model. Under the founder model, a family business can be small, medium, or large.

These three models explain 95% of the successful family businesses in Italy. And, indeed, within certain margins are likely to explain the management models that define successful family businesses anywhere.

Geographical distribution

Another aspect the research shed light on was the geographical distribution of these 560 successful Italian family businesses. Contrary to our expectations, the 560 businesses were fairly equally spread throughout much of Italy and not concentrated in a few areas. This shows that successful entrepreneurs and family businesses can thrive anywhere, and adds to the idea of the "hidden gems" concept of private businesses - companies unknown to most people, but are crucial to their home economy and even the global economy. We believe this phenomenon of the "hidden gems" spread through a country is found in most economies. Maybe something for policy makers to ponder it bit more closely in the future...

Guido Corbetta is Professor of Strategic Management and AIdAF - EY Professor of Strategic Management in Family Business at Bocconi University in Milan