



**The Internationalization of a Family Business Group:
The Ownership, the Leadership and the importance of the
Socio-Emotional Wealth Dimensions**

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The Internationalization of a Family Business Group:

The Ownership, the Leadership and the importance of the Socio-Emotional Wealth

Dimensions

Abstract

Purpose

The purpose of this paper is to provide some illustrative evidence in order to understand the distinctive forms of governance implemented by a well-established Family Business Group (FBG) and to highlight the relative importance given to the different dimensions of Socio-Emotional Wealth (SEW) during the internationalization process.

Methodology

Drawing on multi-level and longitudinal data the research provides in-depth insights into how the affiliated firms are linked to the focal firm; how the founding family in a large FBG organizes the top leadership roles spanning multiple countries; and whether the inter-organizational and inter-personal networks change over time and which are the most important items representing the SEW dimensions.

Findings

From the findings, it emerges that family ownership, family leadership and the presence of trusted people are pivotal actors in the FBG's internationalization process.

Originality

The originality of the research stems from its contribution in that despite providing illustrative evidence base on a single case study, the findings offer additional insights into the importance of, and the instrumental role played by, SEW preservation as a perspective to explain FBGs' internationalization.

Keywords: *FBG, Internationalization, Ownership, Leadership, Socio-Emotional Wealth.*

Abstract in Spanish

Propósito

El propósito de este trabajo es aportar alguna evidencia ilustrativa para entender las formas distintivas de gobernabilidad implementadas por un Grupo de Negocios Familiares (GNF) bien establecido y resaltar la importancia

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3 *relativa dada a las diferentes dimensiones de la Riqueza Socio-Emocional (RSE).*

4 5 **Metodología**

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7 *Basándose en datos multinivel y longitudinales, la investigación proporciona una visión profunda de cómo las*
8 *empresas afiliadas están vinculadas a la empresa focal, cómo la familia fundadora de una gran organización organiza*
9 *los principales roles de liderazgo que abarcan varios países y si las organizaciones interorganizaciones y las redes*
10 *interpersonales cambian con el tiempo y cuáles son los ítems más importantes que representan las dimensiones de RSE.*

11 12 **Resultados**

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14 *De los resultados se desprende que la propiedad familiar, el liderazgo familiar y la presencia de personas de confianza*
15 *son actores clave en el proceso de internacionalización de la GNF.*

16 17 **Originalidad**

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19 *La originalidad de la investigación se deriva de su contribución, ya que a pesar de proporcionar evidencia ilustrativa*
20 *basada en un solo estudio de caso, los hallazgos ofrecen una visión adicional sobre la importancia de la preservación*
21 *de RSE como una perspectiva para explicar la internacionalización de las GNF.*

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23 **Palabras clave:** *Grupo de Negocios Familiares, Internacionalización, Propiedad, Liderazgo, Riqueza Socio-*
24 *Emocional.*

25 26 **Abstract in Portuguese**

27 28 **Objetivo**

29
30 *O objetivo deste artigo é fornecer algumas evidências ilustrativas para entender as formas distintas de governança*
31 *implementadas por um Grupo de Negócios da Família (GNF) bem estabelecido e destacar a importância relativa dada*
32 *às diferentes dimensões da Riqueza Socio-Emocional (RSE) Durante o processo de internacionalização.*

33 34 **Metodologia**

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36 *Baseando-se em dados multiníveis e longitudinais, a pesquisa fornece insights aprofundados sobre como as empresas*
37 *filiadas estão ligadas à empresa focal, como a família fundadora em uma grande GNF organiza as principais funções*
38 *de liderança em vários países e se as organizações interorganizacionais e Redes inter-pessoais mudanças ao longo do*
39 *tempo e quais são os itens mais importantes que representam as dimensões SEW.*

40 41 **Conclusões**

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43 *A partir das conclusões, verifica-se que a propriedade familiar, a liderança familiar e a presença de pessoas de*
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3 *confiança como atores-chave no processo de internacionalização da GNF.*

4 5 **Originalidade**

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7 *A originalidade da pesquisa decorre de sua contribuição, pois apesar de fornecer evidências ilustrativas baseadas em*
8 *um único estudo de caso, os achados oferecem insights adicionais sobre a importância eo papel instrumental*
9 *desempenhado pela preservação da SEW como uma perspectiva para explicar a internacionalização das GNF.*

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11 **Palavras-chave:** *Grupo de Negócios da Família, Internacionalização, Propriedade, Liderança, Riqueza Sócio-*
12 *Emocional.*

13 14 15 16 17 18 19 20 **1. Introduction**

21
22 Found in virtually every sector of the world's economies, family business groups (FBGs) are the
23 most common form of business entity in the world. Yet, their ownership, management, and family
24 composition create a complexity that requires special knowledge in order to understand them fully.

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26 For the purpose of this research a FBG is defined as 'a collection of firms controlled by the same
27 family or individual' (Masulis et al, 2011: 3557). Despite having a dispersed number of firms, an
28 aspect that tends to complicate the assessment of their overall economic powers, FBGs are
29 perceived by means of their pervasive networks. Indeed, FBG is more than 'a business group that is
30 family owned and managed by members of the founding family and trusted intermediaries'
31 (Mahmood et al, 2011: 825). For this reason, an FBG can be seen as a complex web of relations in
32 which the social structure is characterized as both a family business and as a business group
33 (Chung, 2003: 2014). As with all family businesses, the controlling family usually emphasizes the
34 importance of achieving family goals and increasing family wealth in their strategic decisions
35 (Almeida & Wolfenzon, 2006; Luo & Chung, 2005; Morck et al, 2005; Casimiro & Chambel,
36 2014). However, in contrast to the social structures observed in family businesses, an FBG is a
37 large, interlinked network that includes the management and ownership of affiliated firms
38 (Granovetter, 1995; Khanna & Rivkin, 2001; Yiu et al, 2007; Young et al, 2008) where this
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3 collection of firms, linked both formally and informally, is bound together in a ‘persistent’ way
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5 (Granovetter, 2005; Della Piana et al, 2012). The legal separation is compensated by a close
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7 coordination resulting from the strategic guidance of the founding family that can be visible in
8
9 different ways – either through the involvement of the family members in the ownership and/or the
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11 management or through the involvement of people very close to the family, almost like an extension
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13 of the same family. In the light of this evidence, the relationship between family business and
14
15 internationalization is more complex if we consider FBGs (Ibarreche, 2013).
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19 For these main reasons, we believe that a deeper reflection on the intertwinement of the founding
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21 family with the business in international context is needed. Family firms’ owners perceive unique
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23 SEW threats from strategic decisions (Xi et al, 2015). The SEW endowment is conceptualized in
24
25 broad terms to capture the stock of affect-related value that a family derives from its controlling
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27 position in a particular firm (Berrone et al, 2012). Specifically, the internationalization of an FBG
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29 can lead to fear of loss of family influence on the strategic decisions, especially when the firm
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31 operates in different countries (Vecchi et al, 2014). The SEW can be seen in general as the
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33 landmark for family firm owners when making strategic decisions because they desire to avoid the
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35 SEW loss (Gomez-Mejia et al, 2007) and specifically as a preservation logic that drives
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37 internationalization decisions (Pukall & Calabrò, 2014; Kraus et al, 2016; Cesinger et al, 2016).
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39 Then, the SEW perspective can be useful to explain the FBGs’ internationalization decisions with
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41 regard to their internal governance mechanisms.
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46 With the aim to understand how a founding family maintains the strategic guidance of its FBG and
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48 avoids the loss of the family influence when their business activities are expanded in different
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50 countries, the purpose of this paper is twofold – to assess how the family and non-family members
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52 (named here ‘trusted people’) are organized in terms of top leadership positions and to ascertain the
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54 relative importance given to the dimensions of socio-emotional wealth (SEW) (Berrone et al, 2012).
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3 To pursue this aim, this research relies on a single case study of a well-established FBG where a
4 double-stage research design is performed in order to match information about the ownership, the
5 top leadership positions and the reference points considered by the founding family to expand their
6 business internationally. The paper comprises six sections. The second section presents the
7 theoretical framework used to highlight the internationalization decisions related to the ownership
8 and the top leadership positions held by family and non-family members and also to the reference
9 point considered by the founding family to expand their business. The third section illustrates the
10 methodology adopted by the research. While the main findings are summarized in the fourth section
11 of the paper, the fifth section provides a discussion of the findings and the final section addresses
12 their managerial implications and their limitations, along with directions for future research.
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26 **2. Theoretical background**

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29 FBGs have emerged as a distinct theme in the literature, attracting the interest of a wide range of
30 scholars from different disciplines. The relevance of the strong social ties that families use in order
31 to place their members in the key positions of their business so as to strengthen the power of the
32 family seems to be the main characteristic of these entities (Steers et al, 1989). Many authors
33 (Granovetter, 2005; Pieper et al, 2008; Della Piana et al, 2012) also highlight the importance of the
34 persistence between formal and informal ties to ensure both the longevity and the long-term
35 sustainability of FBGs.
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46 The internationalization of FBGs has received very limited attention in the existing research
47 (Okoroafo, 1999; Davis & Harveston, 1999; Zahra, 2003; Gallo & Garcia-Pont, 1996; Kim et al,
48 2004), and only recently has it developed into a significant research area (Kontinen & Ojala, 2010).
49 The way in which the family influences the decision processes in the firm affects the firm's ability
50 to deal with the complexity arising from its international operations (Strange et al, 2009; Siebels &
51 zu Knyphausen-Aufseß, 2011; Pukall & Calabrò, 2014). There is extensive evidence showing that
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3 family ownership in itself might lead to contradicting results in terms of internationalization –
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5 different studies conducted in different countries have provided substantial conflicting evidence by
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7 which family ownership can either boost internationalization or inhibit it (Arregle et al, 2012;
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9 Calabrò et al, 2013; Holt, 2012).

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12 While the domination of Boards as well as Board interlocks of FBGs by controlling family
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14 members appears as a common research theme in studies of business groups and corporate
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16 governance, very few studies investigate the role of the non-family Board members and how they
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18 might be serving as mechanisms of group control and/or coordination (Colli & Coplan, 2016).

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23 Lastly, considering the SEW perspective, some authors (Arregle et al, 2007; Gómez-Mejía et al,
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25 2001, 2007; Chung & Chan, 2012) highlight that the internal governance mechanisms are used to
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27 preserve the SEW of the family (Martin & Gomez-Mejia, 2016; Cruz & Arredondo, 2016;
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29 Nordqvist, 2016; Duran, 2016; Kabbach et al, 2016; Chrisman & Holt, 2016; Schulze, 2016).
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31 Specifically, they propose that when the founding family owns the majority share of the family
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33 business, it will hope to preserve its SEW while also helping the business to grow.

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37 The following sections set out the main peculiarities of FBGs' internationalization decisions in light
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39 of the role of the internal governance mechanisms and the influence of the SEW preservation logic,
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41 before presenting the double-stage research design adopted.

42 43 44 45 ***2.1 FBGs' internationalization decisions: the role of the internal governance mechanisms***

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48 Family businesses are likely to utilize family ownership and family leadership as key control
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50 mechanisms (Chung & Chan, 2012; Chung, 2014; Cruz et al, 2010; Luo & Chung, 2005; Peng &
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52 Jiang, 2010; Villalonga & Amit, 2006). As many authors have suggested (Angel & Carrasco
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54 Hernández, 2013; Bañegil Palacios et al, 2013), assigning family members to key decision-
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56 making positions can facilitate the achievement of family goals. Although some studies have argued
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3 that implicit trust among family members is a distinctive resource in family business that can
4 generate social capital (Arregle et al, 2007), others have argued that both family altruism and family
5 management may cause control problems and trigger agency problems such as moral hazard, and
6 adverse selection ultimately leading to bad decision-making (Morck, 1996; Schulze et al, 2001,
7 2002; Almeida-Santos, et al, 2013). The ambiguous influence of family management raises
8 important questions concerning its role in the growth strategies of FBGs. When an FBG expands to
9 multiple countries, it is less likely that it will rely on a closed family management structure, and the
10 positive social capital associated with family management would decrease because the closed
11 family management structure could become a constraint on future growth (Carney, 2005; Gómez-
12 Mejía et al, 2010; Casadesus-Masanell & Ricart, 2010). As the FBG grows, the impact of the family
13 members on the decision-making process decreases due to the changing career considerations of the
14 younger generations and the complex requirements of multiple environments. Despite this likely
15 situation, evidence from family businesses in mature economies has indicated that family
16 management and ownership may positively influence growth (Anderson & Reeb, 2003; Arregle et
17 al, 2007; Gómez-Mejía et al, 2007, 2010; Villalonga & Amit, 2006; Chung, 2014). One of the key
18 mechanisms through which FBGs ensure coordination and control is family leadership (Cruz et al,
19 2010; Gómez-Mejía et al, 2007; Luo & Chung, 2005; Peng & Jiang, 2010; Chung & Chan, 2012).
20 Assigning family members to the key decision-making positions can ensure coherence and
21 solidarity in businesses and facilitate the achievement of the family goals (Arregle et al, 2007; Cruz
22 et al, 2010; Gómez-Mejía et al, 2007). Regardless of whether the affiliate firm is owned by family
23 members directly or indirectly in a pyramidal ownership structure, family leadership will impose
24 authorized power in strategic decisions (Chang, 2003; Morck et al, 2005; Chung & Chan, 2012),
25 and accordingly influence performance in FBGs in a positive manner (Anderson & Reeb, 2003;
26 Cruz et al, 2010; Luo & Chung, 2005). FBGs rely on trust to manage their business and overcome
27 possible transaction uncertainty and risk (Fama & Jensen, 1983; Anderson & Reeb, 2003; Cruz et
28 al, 2010; Chung & Chan, 2012). Trust amongst family members will reduce the need to monitor an
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3 affiliated firm's decision-making closely because family members will have the exclusive incentive
4 to maximize the founding family's wealth (Cruz et al, 2010; Fama & Jensen, 1983). Previous
5 research (Claessens et al, 2002; Chung & Chan, 2012) indicates that direct founding family
6 ownership may increase the likelihood of family leadership in FBGs. If the founding family utilizes
7 the pyramidal ownership structure, the investment risk for the FBG will be less substantial than
8 under direct ownership (Morck, 1996). The use of this ownership structure will generate a weaker
9 incentive for founding families to assign family members to management positions because the
10 potential loss and risk under this structure are smaller for them (Almeida & Wolfenzon, 2006; Levy,
11 2009).

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14 Driven by the aim to understand how the founding family maintains the strategic guidance of the
15 FBG and the specific purpose to investigate under which criteria family and non-family members
16 are assigned to the top leadership positions of the affiliate firms belonging to the internationalized
17 FBG, the following research question is presented:

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20 *RQ1: How do different ownership structures of affiliate firms influence the likelihood that family*
21 *members will hold top leadership positions on their Board?*

22 **2.2 FBGs' internationalization decisions: the influence of the SEW preservation logic**

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24 The ownership structure and the top leadership positions determine to a great extent the SEW
25 preservation tendency; to be specific, the presence of external parties in the ownership and in the
26 Board ought to reduce the extent to which a SEW preservation logic drives the internationalization
27 decisions. Considering the SEW as a multidimensional construct (Berrone et al, 2012), the
28 individual SEW dimensions could hold a different weight depending on the owning family's
29 preferences.

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32 Taking into account the attributes of the FBG in comparison with other kinds of family firms, this
33 paper endorses the idea that is interesting to understand if one of the major attempts to measure the

SEW construct is also useful to capture the unique ability of an FBG to engage in international strategies and to identify the influence of the governance structure configuration of the group as a whole on the SEW. Based on the assumption that the relative importance given to specific SEW dimensions reflects a family's preference for some affective outcomes over others, Table 1 presents the set of items designed by Berrone and colleagues (2012) to capture the different key dimensions of SEW. In order to collect some more fine-grained information, we propose an adaptation of some items that are depicted in bold in Table 1.

Table 1: Survey Items to Measure the SEW Dimensions for FBGs

SEW DIMENSIONS	PROPOSED ITEMS
<i>Family control and influence (F)</i>	The majority of the shares in my FBG are owned by family members.
	In my FBG , family members exert control over the company's strategic decisions.
	In my FBG , most executive positions in all the affiliated firms are occupied by family members.
	In my FBG , non-family managers and directors are named by the family members.
	The board of directors in all affiliated firms is mainly composed of family members.
<i>Identification of family members with the firm (I)</i>	Preservation of family control and independence are important goals for my FBG.
	Family members have a strong sense of belonging to my FBG .
	Family members feel that the FBG's success is their own success.
	My FBG has a great deal of personal meaning for family members.
	Being a member of the FBG helps to define who we are.
<i>Binding social ties (B)</i>	Family members are proud to tell others that we are part of the FBG .
	Customers often associate the family name with the FBG's products and services.
	My FBG is very active in promoting social activities at the community level.
	In my FBG , non-family employees are treated as part of the family.
	In my FBG , contractual relationships are mainly based on trust and norms of reciprocity.
<i>Emotional attachment of family members (E)</i>	Building strong relationships with other institutions (i.e., other companies, professional associations, government agents, etc.) is important for my FBG .
	Contracts with suppliers are based on enduring long-term relationships in my FBG .
	Emotions and sentiments often affect decision-making processes in my FBG .
	Protecting the welfare of family members is critical to us, apart from personal contributions to the business.
	In my FBG , the emotional bonds between family members are very strong.
<i>Renewal of family bonds through dynastic succession (R)</i>	In my FBG , affective considerations are often as important as economic considerations.
	Strong emotional ties among family members help us maintain a positive self-concept.
	In my FBG , family members feel warmth for each other.
	Continuing the family legacy and tradition is an important goal for my FBG .
	Family owners are less likely to evaluate their investment on a short-term basis.
	Family members would be unlikely to consider selling the firms belonging to the FBG .
	Successful business transfer to the next generation is an important goal for family members.

(Source: Adapted from Berrone et al, 2012.)

Driven by the aim to understand how the founding family avoids the loss of the family influence when their business activities are expanded to different countries, and driven by the specific

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3 purpose of investigating the relative importance given to the individual SEW dimensions, the
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5 following research question is presented:
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8 *RQ2: How do different SEW dimensions affect the ownership structure and the top leadership*
9 *positions when the FBG becomes international?*
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12 13 14 **3. Methodology** 15

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17 According to the notion that a FBG is more than ‘a business group that is family owned and
18 managed by members of the founding family and trusted intermediaries’ (Mahmood et al, 2011:
19 825), a more in-depth analysis of a well-established Italian FBG in the fashion industry has been
20 conducted. To this end, case study research has been conducted to exemplify how the ownership
21 structure and the top leadership positions have been used by considering the national and the
22 international context in which the affiliated firms are located. The main reason underlying the
23 choice of a case study as the method to conduct this analysis is twofold: first, the case study
24 represents a method that is ideally suited to generate managerially relevant knowledge (Amabile et
25 al, 2001; Leonard-Barton, 1990); secondly, case studies are the most used qualitative methodology
26 in family business research today (De Massis et al, 2012; De Massis and Kotlar, 2014). The
27 underlying rationale is that the research seeks to understand the forces that drive empirical
28 observations as they can be informative about the nature of the SEW. This methodology might be
29 useful for gaining a more profound understanding of international decisions involving SEW
30 arguments because they are instrumental in understanding the links between the different key
31 dimensions of the SEW and how these might affect the decision-making process (Berrone et al,
32 2012).
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53 Thus, both the national and international networks of firms belonging to the
54 MaxMaraFashionGroup (MMFG) were analyzed. MMFG can be viewed as a network of inter-
55 organizational relationships between legally separate firms under the strategic guidance of the
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3 Maramotti family that are bound together by direct and pyramidal ownership and also by personal
4 ties.¹ The analysis was conducted at the affiliate firm level. Because multiple affiliate firms are
5 nested in the FBG investigated, the data analysis addressed the multi-level nature of the data; thus,
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7 we considered both the group level and the firm level of analysis. Moreover, the nature of the data
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9 is longitudinal.
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13 14 15 *3.1 The double-stage research design*

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17 According to the purposes of the paper, the research design was structured in two main phases. The
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19 first phase is devoted to understand how the founding family ‘organizes’ its members and the
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21 people closely related to it maintaining the strategic guidance of the MMFG. To this purpose, the
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23 extent to which the founding family controls the multiple domestic and foreign affiliated firms and
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25 the extent to which the FBG’s inter-personal and inter-organizational network as a whole develops
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27 over time have been analyzed. Special attention was paid to the analysis of the key roles of family
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29 members and the trusted people in all affiliated firms belonging to the FBG. Specifically, four steps
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31 were necessary to detect the network of firms affiliated to MMFG. The first step was to detect the
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33 ownership structures of the domestic affiliated firms. To this end we distinguished between direct
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35 ownership and pyramidal ownership. The second step concerned the analysis of the family firm’s
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37 leadership positions by considering the domestic affiliated firms. To this end, we distinguished
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39 between family members and trusted people. In the third and fourth steps the international context
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41 was analyzed considering the ownership structures and the family firm’s leadership as these were
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43 described in the previous steps.
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48 The second phase addresses the extent to which the SEW key dimensions can be considered as
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50 landmarks driving the decisions pertaining to ownership and leadership spanning multiple countries.
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52 To this purpose an assessment of the main sets of items is provided through an in-depth analysis of
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54 the information derived from the first phase and from the other MMFG official documents.
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¹ The history of the Maramotti family is provided in the Appendix.
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3.2 Data collection

When the phenomenon under investigation is related to a complex social context, as in the case of FBGs, multiple data collection methods are most suitable for exploratory research (Eisenhardt, 1989). As argued by Chung & Chan (2012), the ownership structure and the family (or non-family) leadership of the affiliated firms are based on strategic decisions that are made at affiliate firm level. However, the character of the nested FBG will influence each affiliate decision (Dansereau et al, 1999). Thus, in this type of research, the case study method used must be sufficient to address multi-level issues and to account for the characteristics of the longitudinal data. Considering the different types of information needed for the research purposes, we relied on publicly available secondary data mainly from online financial databases (AIDA, AMADEUS, LEXISNEXIS), official documents retrieved from the Italian Chamber of Commerce, newspaper articles, websites, annual reports and company-published material. The inclusion of only secondary data was deemed appropriate since the required data (e.g. ownership and composition of the Board of Directors) was publicly available and family firms in the fashion industry tend to be very secretive. Given that all FBGs tend to be rather secretive, we suggest that our framework might offer a way to reach a more in-depth understanding of FBGs in this particular kind of industrial settings. Data collection started by considering an adequate timeframe for the analysis. As in a previous study on MMFG (Della Piana et al, 2012), in order to overcome the limitations of the methodology adopted, it was decided to use a set of homogeneous data. The homogeneity of the data refers to a timeframe in which no exceptional event occurred, so that the governance mechanisms of the founding family remained unaltered. This choice stems from the need to perform the analysis over a relatively consistent set of data to assess how the company would normally behave following the occurrence of an exceptional event that could undermine the governance of the FBG. To this end, since our research was conducted in 2014, to identify the adequate timeframe we screened the company history looking at the first exceptional event. For MMFG the first exceptional event occurred in 2005, the year in which the company founder Achille Maramotti died. Thus, the timeframe from 2006 to 2014 (latest

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3 year when data available) was deemed adequate as a set of homogeneous data. The reason
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5 underlying the choice of such a long timeframe of observation is the intention to also analyze the
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7 stability of relationships in the MMFG network.
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9 10 3.3 Data Analysis

11 To detect the ownership structures, we used data from multiple sources. In distinguishing between
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13 direct and pyramidal family ownership we follow the method used by Chung & Chan (2012).
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15 Affiliate firms' major shareholders may be individuals, firms, or both. If the data on the main
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17 shareholders were missing, we attempted to use the appropriate annual reports to determine this
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19 information. In this study, family direct ownership is measured by the shares directly owned by
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21 family members. As in prior research (Claessens et al, 2000, 2002; La Porta et al, 1999), a founding
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23 family has x percent indirect control over firm A under the following conditions: (1) if the founding
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25 family directly controls firm B, which in turn directly controls x percent of the votes for firm A; or
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27 (2) if the founding family directly controls firm C, which in turn controls x percent of the votes for
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29 firm B, and if firm B directly controls x percent of the votes for firm A. Therefore, a pyramidal
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31 ownership structure is the sum of the cross-held shares held by more than one affiliate firm in the
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33 same FBG.²
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38 In order to detect the family firm leadership in an affiliate firm, we used the information available
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40 on whether the affiliate head is a family member (Anderson & Reeb, 2003; Miller & Le Breton-
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42 Miller, 2005). We identified a family member as the affiliate head based on data from AIDA,
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44 AMADEUS, LEXISNEXIS and other public information. By contrast with Chung & Chan (2012)
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46 and Chung (2014), this study considers the role of the family member (having kinship relationships
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48 with the founding family members in the group) and the 'trusted people'. We consider managers as
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50 trusted people if they are key managers in more than one affiliated firm or they have been
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52 confirmed for a second time in the same firm. Rather than following the suggestions of Berrone et
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57 ² For example, suppose that family members directly own 25% of the voting rights for firm A, and firm A owns 100%
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59 of firm B. On the other hand, firm B in turn owns 17% of firm A. Thus, in this simple case, the founding family has
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42% of the control rights in firm A: 25% directly and 17% through a pyramidal chain.

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3 al (2012) concerning the use of the content analysis technique, as for example DICTION, the
4 content analysis was performed manually. Specifically, we independently analyzed the content of
5 the following MMFG narrative texts: press releases, annual reports, mission statements, interviews
6 in specialized newspapers, shareholder letters, speeches, newspaper articles, websites and other
7 archival texts (official documents retrieved from the Italian Chamber of Commerce). After an in-
8 depth discussion of our interpretation of the importance given by the founding family to the
9 individual items, we decided to give a value based on the Likert scale (1 not important, 5 very
10 important). Therefore, the importance of the individual items and the relative relevance of some
11 SEW dimensions were evaluated according to the views expressed by family members as reported
12 in the analyzed documents.
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25 26 **4. Findings**

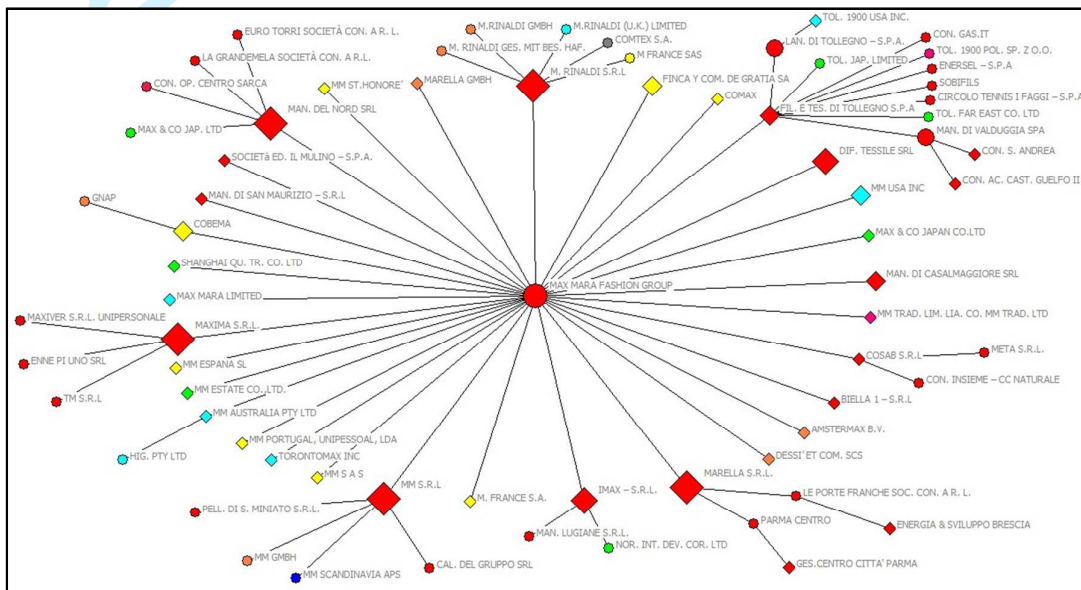
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29 In line with the double-stage research design, the findings are grouped in two subsets. The first one
30 reports MMFG's ownership structure in national and international context. While it provides
31 insights on how the founding family maintains the strategic guidance of the FBG, it also highlights
32 how family members and the people closely related to the family ('trusted people') are positioned in
33 the top leadership positions of the affiliate firms. The second subset of findings shows the most
34 important SEW dimensions and provides information on the MMFG family founding's landmarks
35 related to the decisions pertaining to the ownership and leadership spanning multiple countries.
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46 ***4.1 The ownership structure and the top leadership positions of MMFG***

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49 Starting from the databases, the existing ties between the focal firm of MMFG and its affiliates
50 were ascertained. More precisely, we focused on a set of 70 affiliated firms in order to assess the
51 ownership structure and the family firm leadership. Of these firms, 45.7% (n.32) are connected to
52 the MMFG through direct ownership and the remaining 54.3% (n.38) via pyramidal ownership. The
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majority of them operate in the same sector of MMFG; that is, the production of womenswear or related activities.

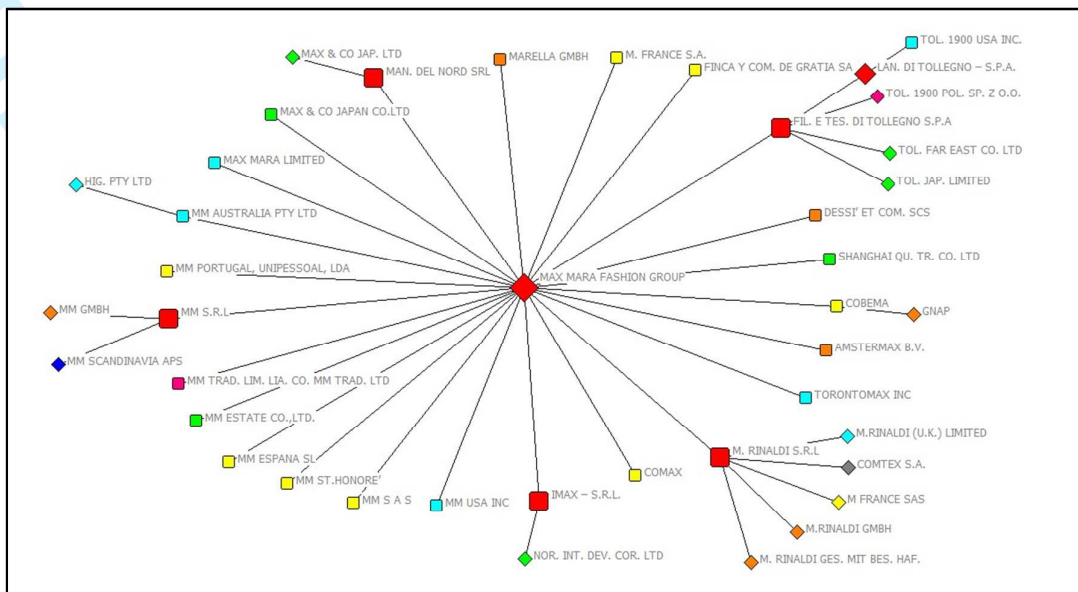
Figure 1—MMFG's domestic and foreign affiliates' ownership structure (2014)



*The countries in which the domestic and foreign affiliate firms are located are distinguished by colours: red for Italy; light blue for Anglo countries; yellow for Latin European countries; blue for Nordic European countries; orange for Germanic countries; green for Asiatic countries and grey for Tunisia.

By focusing our attention on the domestic country (depicted in Figure 1 in red), we see that 13 Italian affiliated firms are linked to the focal firm via direct ownership and 23 via pyramidal ownership. Most of them are wholly owned, or MMFG holds the majority of ownership. Regarding the international context, we can see that 19 affiliated firms are linked to the focal firm via direct ownership and 14 via pyramidal ownership. Most of them are wholly owned or MMFG holds majority ownership, as depicted in Figure 2 below.

Figure 2–MMFG’s foreign affiliates’ ownership structure

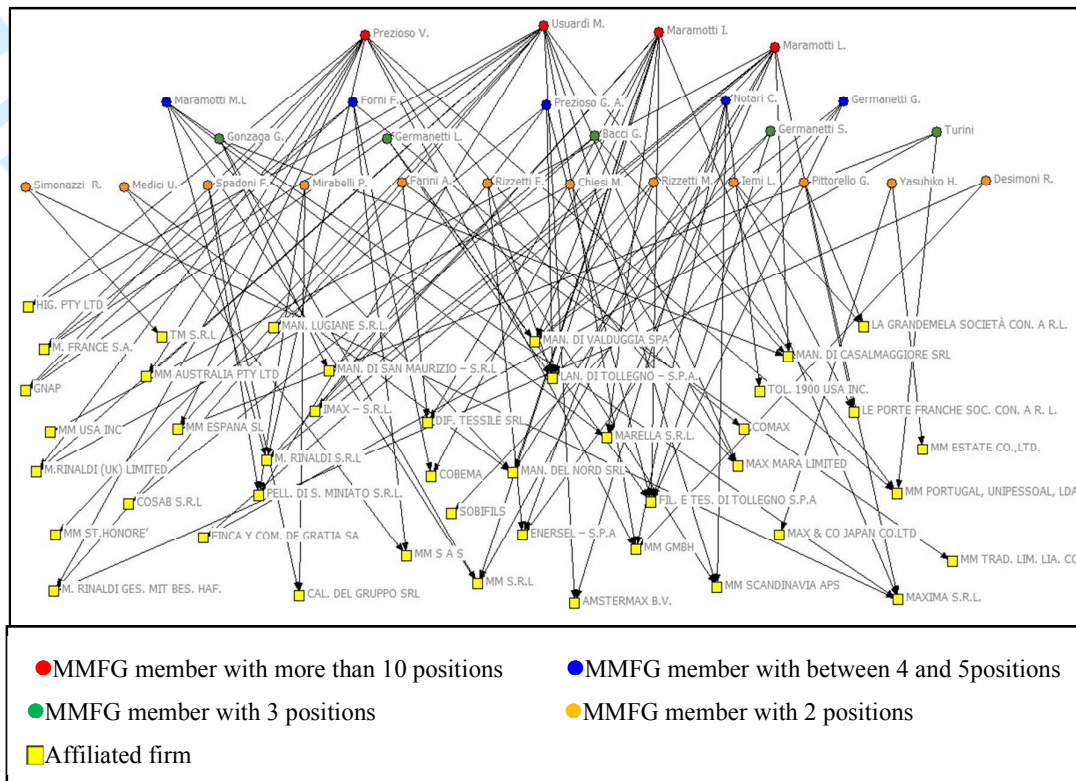


*The countries in which the foreign affiliate firms are located are distinguished by colours: light blue for Anglo countries; yellow for Latin European countries; blue for Nordic European countries; orange for Germanic countries; green for Asiatic countries and grey for Tunisia. Here the Italian firms (in red) are just considered because they represent the connection between the foreign affiliates and the focal firm.

With regard to the persistence of the ties, a few changes in MMFG network between two periods investigated (2005–2008 and 2009–2014) can be detected. The number of countries has not changed (since MMFG no longer operates in Romania but it operates in Portugal); however, the number of links has decreased.

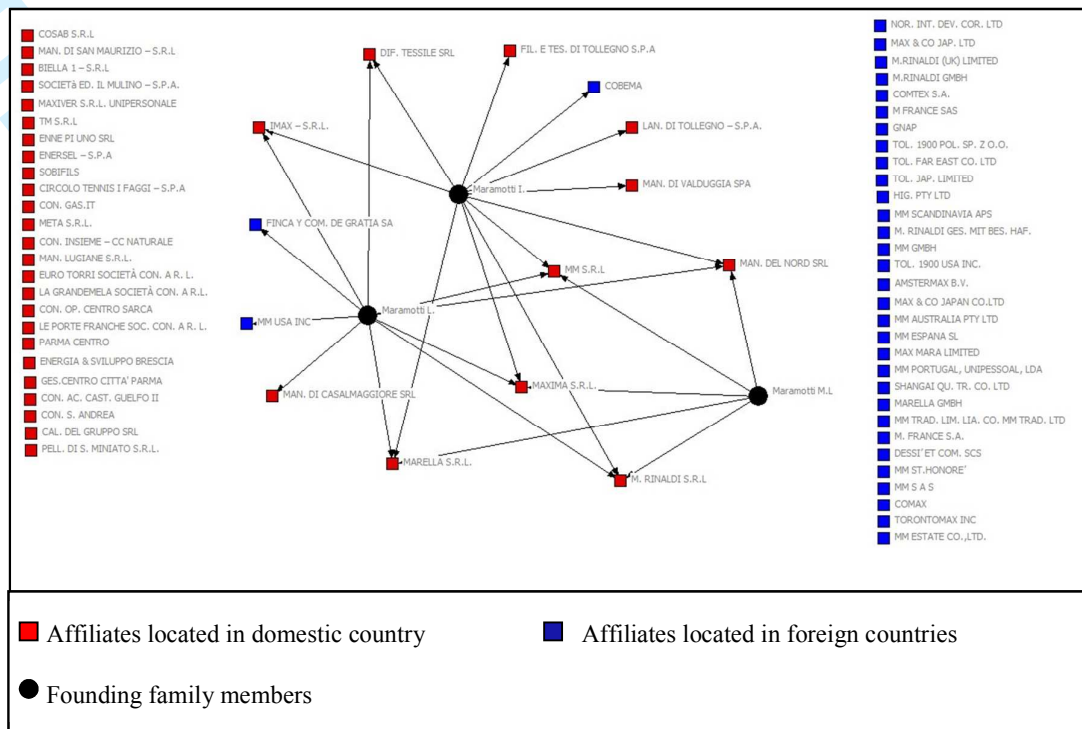
Regarding the top leadership positions, the complete network of top leaders/affiliates of MMFG is shown in Figure 3. Taking into account the Board of Directors members (BoDm) of MMFG, Figure 3 highlights that Marella S.r.l. and Manifatture del Nord S.r.l. are considered to be the Italian firms with the major strategic relevance in the MMFG network because they share the highest number of MMFG’s BoDm (Maramotti I. as Chairman; Maramotti L. as Vice chairman; Maria Ludovica Maramotti M.L., Ciccolani A. and Medici U. as members).

Figure 3–MMFG’s top leadership positions (family members and trusted people)



As we can see in Figure 4, the majority of the Italian affiliate firms have the higher presence of family members (specifically, Maxima S.r.l., Marina Rinaldi S.r.l., Marella S.r.l., Max Mara S.r.l. and Manifatture del Nord S.r.l.). The largest number of connections is held by Maramotti I. With regard to the persistence of the ties, the number of firms in which there is the greatest presence of founding family members has been unaltered since 2005.

Figure 4—The family top leadership positions



*The firms shown at the extremes of the graph are those in which there is no presence of family members.

Regarding the top leadership positions held by trusted people in Italian affiliate firms depicted in Figure 5, it is possible to see that those with the greatest presence (n.4 positions) in Italian affiliates are Prezioso G.A. and Germanetti G.

Figure 5—The top leadership positions in Italian affiliate firms

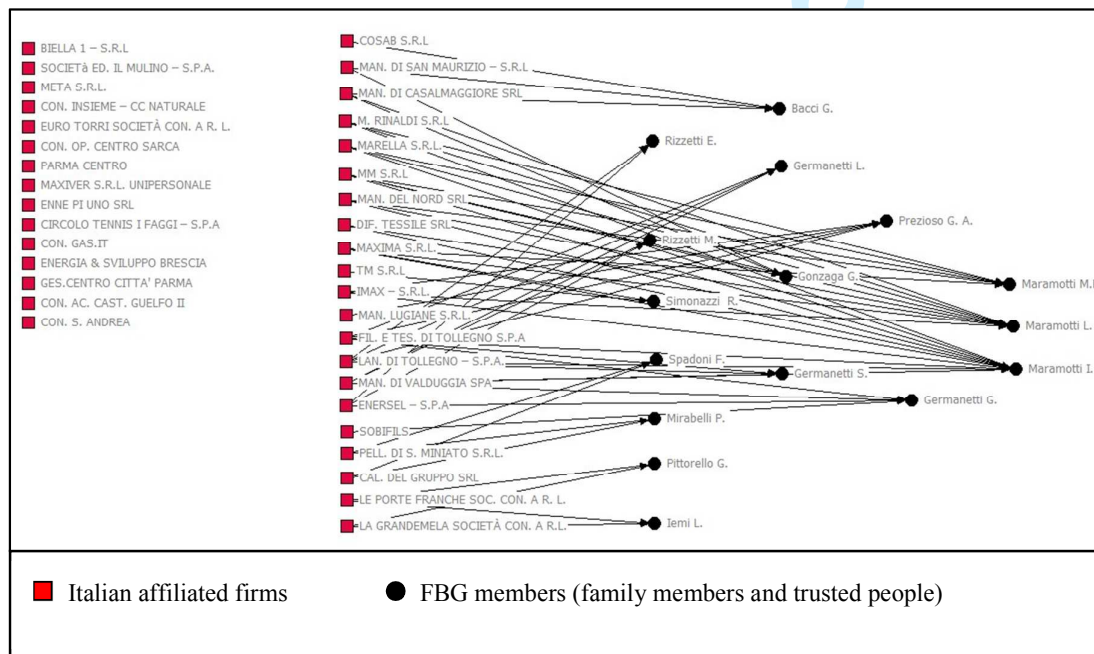
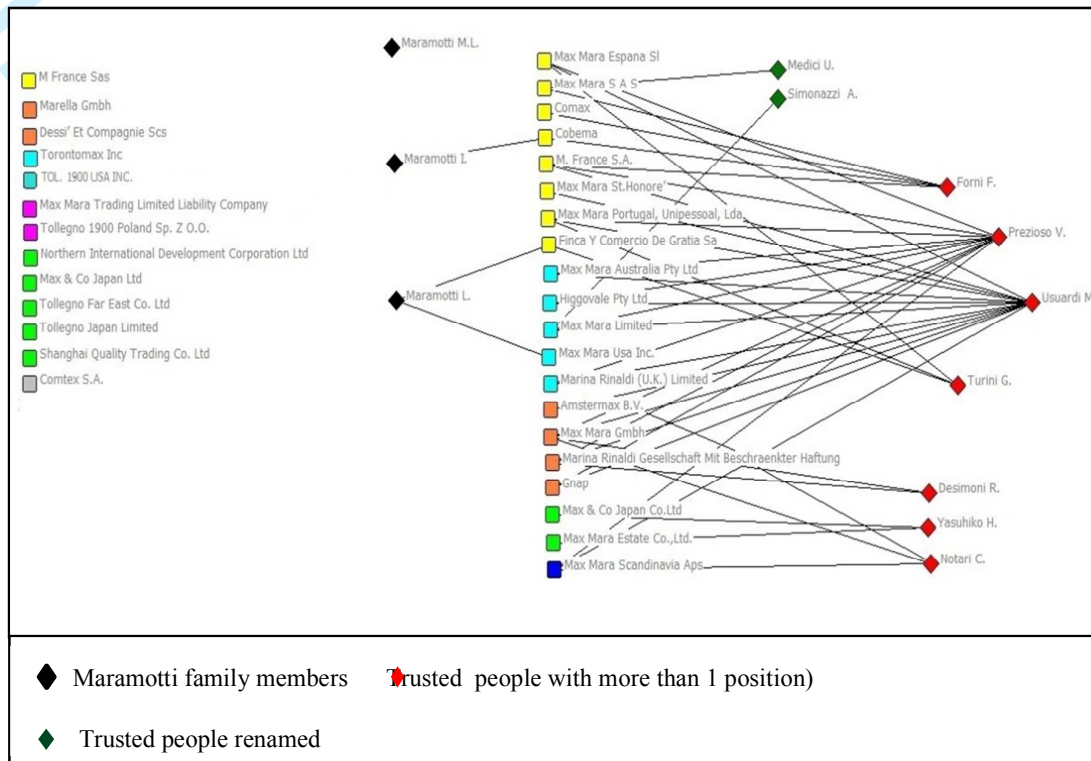


Figure 6–The top leadership positions in foreign affiliate firms



4.2 The relative importance of SEW dimensions in MMFG

The SEW approach has helped us to understand the uniqueness of the MMFG identity through the consideration of non-economic factors stemming from the interviews with family members reported in specialized newspapers and the content analysis of the firm's official documents provided by the Italian Chambers of Commerce.

The relevance of the individual SEW dimensions as proposed by Berrone and colleagues (2012), was detected by giving a value to them ranging from 1 to 5 (1 not important; 5 very important). The relative importance was assessed considering the extent to which the given item is able to capture the non-economic factors underlying the FBG's leadership decisions spanning multiple countries. One example is a sentence from the Italian newspaper *Corriere della Sera* (2011), which helped us clarify the way in which we supported the assessment of the individual items: 'As we read in the various financial reports referring to the ownership structure, the Maramotti family does not like

risk and their policies are intended to preserve the wealth'. This sentence, along with other items, was assessed in the following way. The proposed related items with an importance equal to 5 are: (F) 'The majority of the shares in my FBG are owned by family members'; 'In my FBG, family members exert control over the company's strategic decisions; In my FBG, non-family managers and directors are named by family members'; 'Preservation of family control and independence are important goals for my FBG'. The proposed related items with an importance equal to 2: (F) 'In my FBG, most executive positions in all affiliated firms are occupied by family members'; 'The Board of Directors in all affiliated firms is mainly composed of family members'. We assessed the importance of the sentence quoted above as 2 because from the official information emerges the marginal leadership role of the family members and, consequently, the relevant role of the non-family members (trusted people) in the foreign affiliated firms. Another example comes from an interview (2014) with Maria Giulia Prezioso Maramotti, the niece of Achille, founder of the MMFG: 'The most important thing that the grandfather has left us is the sense of family in our business'. This statement was assessed in the following manner. The proposed related items with importance equal to 5 are: (I) 'Family members have a strong sense of belonging to my FBG' and 'Family members are proud to tell others that we are part of the FBG'. Table 2 shows the most significant items.³

Table 2: Survey Items to Measure SEW Dimensions for FBGs

SEW DIMENSIONS	ITEMS DETECTED	i
<i>Family control and influence (F)</i>	The majority of the shares in my FBG are owned by family members.	5
	In my FBG, family members exert control over the company's strategic decisions.	5
	In my FBG, most executive positions in all the affiliated firms are occupied by family members.	2
	In my FBG, non-family managers and directors are named by family members.	5
	The Board of directors in all affiliated firms is mainly composed of family members.	2
	Preservation of family control and independence are important goals for my FBG.	5

³ The strength of the following items could not be detected in the MMFG's official documents analyzed: 'Family members feel that the FBG's success is their own success', 'My FBG has a great deal of personal meaning for family members', 'Being a member of the FBG helps define who we are' (I); 'My FBG is very active in promoting social activities at the community level', 'In my FBG, non-family employees are treated as part of the family', 'Contracts with suppliers are based on enduring long-term relationships in my FBG' (B); 'Emotions and sentiments often affect decision-making processes in my FBG', 'Protecting the welfare of family members is critical to us, apart from personal contributions to the business', 'In my FBG, the emotional bonds between family members are very strong', 'In my FBG, affective considerations are often as important as economic considerations', 'Strong emotional ties among family members help us maintain a positive self-concept', 'In my FBG, family members feel warmth for each other' (E).

<i>Identification of family members with the firm (I)</i>	Family members have a strong sense of belonging to my FBG.	5
	Family members are proud to tell others that we are part of the FBG.	5
	Customers often associate the family name with the FBG's products and services.	5
<i>Binding social ties (B)</i>	In my FBG, contractual relationships with the top managers are mainly based on trust and norms of reciprocity.	5
	Building strong relationships with other institutions (i.e., other companies, professional associations, government agents, etc.) is important for my FBG.	3
<i>Renewal of family bonds through dynastic succession (R)</i>	Continuing the family legacy and tradition is an important goal for my FBG.	5
	Family owners are less likely to evaluate their investment on a short-term basis.	5
	Family members would be unlikely to consider selling the firms belonging to the FBG.	5
	Successful business transfer to the next generation is an important goal for family members.	5

5. Discussion

Given the conflicting views presented in the literature review, the main objective of the research was to understand the complexity concerning the internationalization decisions of FBGs. Our intention was to show the distinctiveness of FBG when the role of the internal governance mechanisms and the influence of the SEW preservation logic are considered. More precisely, we tried to understand two different issues:

- a) How the founding family maintains the strategic guidance of its FBG and, consequently, how different ownership structures of affiliate firms influence the likelihood that family members hold top leadership positions on their Boards;
- b) How the founding family avoids the loss of its influence when the FBG experiences some internationalization.

In line with the proposed double-stage research design, from the first subset of findings it emerges that the founding family controls (i.e., their share exceeds 50%) all of the domestic and foreign affiliated firms via direct and pyramidal ownership. All the Italian firms are controlled via direct ownership. The foreign affiliated firms are controlled via pyramidal ownership (with the exception of one firm), specifically through the Italian firms. The leadership role of the family members is more visible in Italian companies, so it is possible to deduce a stronger link with the home country.

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3 The Maramotti family members have a very marginal leadership role in the international operations.
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5 The trusted people are important in those countries that are geographically proximate to the home
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7 country. This leads us to assume that local trusted people will be important in those countries that
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9 are not geographically proximate to the home country. Despite the strong presence of trusted people
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11 in foreign affiliates, the inter-personal network of MMFG shows that only three members of the
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13 Maramotti family have the ability to influence a vast array of relations. Finally, the findings show
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15 that the FBG's inter-personal and inter-organizational networks remain virtually unchanged over
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17 time. This could mean that the cohesion and stability of the Maramotti family represents the main
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19 factor of the resilience of the MMFG network over time.
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24 The second subset of findings highlights that the items used to measure the SEW dimensions of
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26 Berrone and colleagues (2012) are suited to the nature of FBGs. Indeed, 4 out of 5 SEW dimensions
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28 are considered important. Specifically, 6 items out of 6 are considered important for 'Family
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30 Control and Influence', 4 items out of 5 for 'Renewal of Family Bonds Through Dynastic
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32 Succession', 3 items out of 6 for 'Identification of Family Members with Firm' and 2 items out of 5
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34 for 'Binding Social Ties'. Overall, the case of MMFG is an emblematic example of how the basic
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36 tenets of the SEW perspective operate.
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40 **6. Conclusion**

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44 Renewed interest in FBGs as a topic of interest has been spurred by the definition developed by
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46 Granovetter (1995, 2005), which provides richer insights into the existence of a particular set of ties
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48 by which governance can be exerted by the founding family.
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52 As with other types of business group, FBGs are created over time. A family founds a firm, and, as
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54 time goes by, the family and the family members may have an opportunity to establish another firm.
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56 When this opportunity arises, the owners and their relatives must consider the ownership structure
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58 to retain control over the existing firm and to the new one (Almeida & Wolfenzon, 2006; Gilson &
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3 Gordon, 2003). The different ownership structures of FBGs, which include both direct family
4 ownership and the pyramidal ownership structure, may generate distinctive effects on the
5 internationalization decisions and power of FBGs (Claessens et al, 2002; Kim & Sung, 2009;
6 Chung & Chan, 2012). One of the unique attributes of an FBG is that the family often relies on
7 pyramidal ownership to control multiple domestic and foreign affiliate firms (Claessens et al, 2000;
8 La Porta et al, 1999; Morck et al, 2005; Young et al, 2008). In pyramidal ownership structures, the
9 family maintains control of the affiliate firms through cross-holdings of the other firms in the
10 business group. As a result, the family can control a range of affiliate firms with relatively little
11 direct ownership (Chung, 2014). These considerations led to us to embrace the idea that FBGs have
12 peculiar features in comparison with other kind of family firms and, as a consequence, possess the
13 unique ability to engage in certain strategic moves as exemplified by their international strategy.
14 Since the internationalization of FBGs may differ from internationalization of firms with different
15 ownership structures (Bell et al, 2004; Fernandez & Nieto, 2006; George et al, 2005; Graves &
16 Thomas, 2004; 2006; Johanson & Vahlne, 2009), we have considered it important to investigate
17 FBGs as a distinct entity, and attempt to identify the governance structure configurations of the
18 group as a whole.

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39 Our analysis has allowed us to make some considerations about the possible relationship between
40 the two main issues of our research: the maintenance of the strategic control of the FBG and the
41 criteria used to avoid the loss of the family influence when the FBG expands internationally.

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47 We made some considerations about the non-economic factors that seem to explain the way in
48 which the Maramotti family maintains the strategic guidance of MMFG and avoids the loss of
49 family influence. Specifically, from the findings it emerges that the factors that likely influence the
50 ownership structure adopted could be the following (in order of importance): 'The majority of the
51 shares in my FBG are owned by family members'; 'In my FBG, family members exert control over
52 the company's strategic decisions'; 'In my FBG, non-family managers and directors are named by

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3 family members'; 'Preservation of family control and independence are important goals for my
4 FBG'; 'Continuing the family legacy and tradition is an important goal for my FBG'; 'Family
5 owners are less likely to evaluate their investment on a short-term basis'; 'Family members would
6 be unlikely to consider selling the firms belonging to the FBG' and 'Successful business transfer to
7 the next generation is an important goal for family members'.

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15 The factors that are likely to influence the top leadership position configurations adopted could be
16 the following (in order of importance): 'In my FBG, family members exert control over the
17 company's strategic decisions'; 'In my FBG, non-family managers and directors are named by
18 family members'; 'Preservation of family control and independence are important goals for my
19 FBG'; 'Family members have a strong sense of belonging to my FBG'; 'Building strong
20 relationships with other institutions (e.g., other companies, professional associations, government
21 agents, etc.) is important for my FBG'; 'In my FBG, most executive positions in all affiliated firms
22 are occupied by family members' and 'The board of directors in all affiliated firms is mainly
23 composed of family members'.

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36 It seems that the most important SEW dimensions that relate to MMFG's internationalization
37 decisions regarding the ownership structure are 'Family control and influence' and 'Renewal of
38 Family Bonds Through Dynastic Succession'. With respect to MMFG's internationalization
39 decisions regarding the top leadership positions configurations, the most important SEW
40 dimensions are 'Family control and influence', 'Identification of family members with the firm' and
41 'Binding Social Ties'.

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50 Overall our findings support the idea of Boyd & Hoskisson (2010) and Colpan & Ichino (2010) that
51 in FBGs, families often form another 'invisible' institution like a 'clan membership' (Gomez-Mejia
52 et al, 2007; 2010) in which all the critical decisions for the whole group are made.

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3 Our study made two main contributions to the existing research on FBGs and their
4 internationalization process.
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8 The first one is that the research provides additional insights into the importance of, and the
9 instrumental role played by, SEW preservation as a perspective to explain FBGs'
10 internationalization (Berrone et al, 2012; Dibicki et al, 2016). Despite the operational difficulties in
11 approaching the SEW dimensions, from the findings it emerges that the relative importance
12 attributed to the key SEW dimensions affects the FBGs' internationalization decisions by dictating
13 how to deploy the family and non-family members in top leadership positions across countries. By
14 embracing this perspective, it is possible to more fully understand differences in family firms'
15 behaviour and their heterogeneity, whose distinctiveness cannot be captured by the mere presence
16 of some of the most traditional proxies, such as family ownership or management alone (Masulis et
17 al, 2011; Mahmood et al, 2011).
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31 The second contribution made by this study concerns the research design. By using a double-stage
32 research design, we matched information about the ownership, the leadership and the reference
33 points used by the founding family to expand their business internationally. Then, unlike in existing
34 studies, we also made some considerations about specific SEW dimensions and the configurations
35 of the governance mechanisms.
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44 The adoption of a case study approach, although illustrative, is just a first step in the process of
45 understanding FBGs and their governance decisions. In particular, the findings are relevant to all
46 those practitioners, such as managers, who deal with FBGs and might have the need to identify
47 across a vast array of international relationships those actors that are likely to hold more discretionary
48 power through being more closely associated to the founding family. Similarly, by providing more
49 in-depth insights into the role of family members, trusted people and non-family members in the
50 governance mechanisms of FBGs as they approach internationalization in relation to both the focal
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3 firm and its affiliate firms, the findings bear significant implications for those who engage in
4 international business negotiations.
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8 Nonetheless, the proposed approach to the interpretation of the FBG's internationalization decisions
9 presents some limitations that need to be acknowledged and could be addressed by future studies. In
10 particular, although this study seeks to address the need for further research on the role of
11 leadership in pursuing internationalization strategies (Hutzschenreuter et al, 2007; Banalieva &
12 Eddleston, 2011), there could be some individual factors that may play a role in the deployment of
13 leadership positions across countries and ultimately the management style in FBGs. Thus, even
14 though it was not our purpose, it would be important to understand the extent to which the
15 individual traits of founding family members such as his/her international experience might affect
16 his/her propensity to internationalise his/her business. Moreover, considering the key role of the
17 trusted people, further research should investigate how their deployment is likely to vary across
18 different cultures. Overall, to increase the robustness and the generalizability of our findings, further
19 research would be needed to verify the extent to which the forms of governance implemented in the
20 context of internationalization are typical of MMFG only, or whether they would be applicable to
21 other Italian FBGs. Finally, future research would be needed to clarify the possible influence of
22 family ownership and leadership on strategic decision-making in different institutional settings by
23 conducting a comparative analysis of FBGs' internationalization across different countries.
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Appendix

The MaxMaraFashionGroup: Family and Business history

MaxMara was founded by Achille Maramotti in 1951. He was born in Reggio Emilia, Italy on 7 January 1927; he was married in 1952 to Ida Lombardini and had two sons and one daughter. He died in Albinea, Italy on 12 January 2005. From the outset, Achille Maramotti wanted a name that could be pronounced in any language and yet hinted at no language in particular. The 'Max' came from a local character called Count Max and the 'Mara' came from the family surname. This lack of ego was even more incredible when you consider that Italians have long been obsessed with 'la marca' (the label) and that in the 1950s most women still had their clothes made at the local dressmakers, or, if they were wealthy, at a couture house (*The Independent*, 24/01/2005), yet, there was MaxMara, producing ready-made designer clothes. Maramotti showed great foresight because designer 'off the peg' was the direction the industry would go, yet he was only 24 years old when he started MaxMara (White, 1996). Fashion was not Maramotti's first career choice. Perhaps to follow in the footsteps of his father – a professor of literature who died when Achille was 12 – he chose a professional path first, as a lawyer. However, he had barely started practicing law when he decided to go into the clothing business instead. His mother, Giulia, ran a tailoring school, and his great-grandmother, remarkably, had run a clothes shop in the 1850s. Many years later, in 1980, Maramotti would launch a 'plus size' designer fashion label that he named after his great-grandmother, Marina Rinaldi. It remains one of the most successful collections for size 16-plus women. Maramotti never had a yearning to be a typical designer, and he did not go about selling the MaxMara clothes in a conventional manner either. At the time, the majority of women bought fabric to be made into clothing by a local seamstress; thus, Maramotti persuaded those fabric shops to display his wares (they little realized that the more popular he became, the less fabric they would sell) (White, 1996). Currently, MaxMara's success is based on clothes that are stylish yet skim over the major trends; thus, a MaxMara coat can be worn for several seasons. The label is a creative 'co-op': no one takes the sole credit because Maramotti believed everyone, in each stage of the garment's making, from the textile designers to the machinists, plays a part. Over the years, various big name designers provided their valuable input – Karl Lagerfeld, Jean-Charles Castelbajac, Dolce e Gabbana, Narciso Rodriguez – but they all contributed anonymously. Around the same time that Maramotti launched MaxMara, he began investing in art; the first piece he bought was by Alberto Burri, an Italian Expressionist painter. Maramotti adored Expressionist art, and he collected it for the rest of his life; the walls of his 13th-century home in Albinea were hung with a riot of color quite at odds with the understated chic associated with his fashion label. Art was not all he traded in. At the age of 25, Maramotti also bought his first bank shares, and at the time of his death, he was deputy chairman of the Credito Emiliano bank, Credem (controlled by the Maramotti family), and director of Unicredito and Mediobank. In 2004, he was listed by Forbes as the 262nd richest man in the world, with a wealth of Euro 2.1bn. Despite his immense wealth, Maramotti was uninterested in self-publicity. He concentrated on his family (all his children followed him into the business), his herd of cows, from whose milk he made his own Parmesan, and his art. Max-MaraFashionGroup never made any acquisitions; it now consists of 35 different labels, with Marella, Sportmax, Pennyblack and Marina Rinaldi being the best known. It employs 5,000 people globally and operates in 105 countries of the world.