LUISS

Dipartimento
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Cattedra di M&A and Investment Banking

M&A Transactions and Generational Turnover
How M&A strategies can deliver value during the transition planning of Family Businesses

Luigi de Vecchi

RELATORE

Giuseppe d'Alessandro

CORRELATORE

702381

CANDIDATO

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Introduction

Family businesses are crucially important for the economy at worldwide level and are the largest type of businesses worldwide. They encompass small and large enterprises and define a specific corporate governance style. Family companies are so important for the entrepreneurial economy that there are dedicated academic studies that try to comprehend the difficult dynamics that escort a business linked to a family. These studies attempt to put together rational financial metric for measuring performances and competitiveness of these firms with qualitative analysis derived from socioemotional behaviour to point out their strength and weaknesses. The fundamental aspect is to recognize that family companies are not seen as common businesses from a stakeholders' point of view, but they involve a degree of personal attachment and commitment that inevitably influence strategic business decisions.

The complexities of family businesses are maximized during the generational turnover phase and its planning, creating an important point of reflection for scholars. General theory and general opinion link family business generational turnover with the concept of continuity, underlining a sort of perpetual bond between the family and the business. The objective of this thesis is to challenge that claim and propose an alternative view for which Family and Business are two separate entities that can greatly work together but need to be accessed on separate terms. The idea is to realize a model to guide family businesses in their generational turnover phase and access weather pure business continuation is the best suited strategy to ensure healthy growth for the business and the family on a standalone basis. The increasing complexities that firms face due to technological enhancement and internationalization are potential threats to firms that are not able to acknowledge the need to change and redesign their strategies. This market pressure summed to the complexities of running large and complex families characterized by factionalism and disperse interests are enormous damaging aspects if not properly addressed. For these reasons, the model proposed in this thesis values merger & acquisition strategies as valid tool to be accessed by family businesses to escort their transition planning phase. M&A can play a central role in aiding family companies to find new partners that enable the family business to have the necessary capability to compete in todays' world. Moreover, it can offer wealth diversification options to free some or all family owners that have different interests compared to the business ones. However, not all transactions in this context have to be sell-side ones, buy-out strategies can help companies to refocus and set a new competitive advantage. Ultimately, this thesis does not criticise family business continuity in all forms, it states that family business continuity can be successfully achieved at some determined conditions. Otherwise, the family firms should consider alternative strategies to maximize the utility of both the family's wealth and business's performances.

This paper is structured in three main chapters that independently provide a comprehensive understanding of the topic in question: M&A as Growth Strategy, Generational Turnover in Family Businesses and M&A as effective generational turnover strategy in the Family Business space.

The first chapter is focused on Merger & Acquisition and its objective is to give theoretical background on how and why M&A transactions are performed, providing theoretical understanding on the theories that define the rationale for performing these growth strategies. The chapter provides a table that describes the rational drivers that shape M&A deals, focusing on the concept of synergies and need of technological enhancement and internationalization. Furthermore, a section is dedicated on the evolutionary history of M&A as way to understand how different historical periods have marked in different ways businesses at worldwide level. The chapter concludes with underlying the motives of M&A and the importance of corporate culture in the delicate process of business integration. The corporate culture is underlined considering that it is definitively shaped by the ownership structure and therefore it assumes a specific profile in case of family businesses. The chapter concludes with few key takeaways that states that M&A activities involve a high degree of risk, but that are necessary activities that can reshape static industries and bring market enhancement for both shareholders (i.e. returns) and stakeholders (i.e. consumers). Therefore, these kinds of activities will continue to be vital for the market enhancement and will bring new opportunities to the market.

The second chapter is dedicated entirely to family businesses, starting from the its definition and moving to the acknowledgement that it is rooted on two pillars (Family and Business) that need to be constantly monitored and balanced especially in the generational turnover phase. The chapter suggests a model proposed by the studies reported in the book *"Generation to Generation"* published by Harvard Business review, in which is presented a conceptual model of Family Firm and the dynamics that shape the generational turnover. The model is structured considering that the family business is rooted on three-dimensions: Ownership, Family and Business. These dimensions evolve over time and determine certain issues that have to be properly addressed and planned. The model derives its conceptual background from both management/organizational theory and behavioural/psychological analysis to deliver a model that can work in the family business space. The chapter, firstly, presents the model and works to provide a framework to analyse the evolution of the family business at a particular point in time. It presents the ownership, family and business dimensions on a standalone basis and highlights the commonly shared criticalities. Later the chapter suggests a series on enhancement, in terms of structures and plans, that the family business can adopt to improve its governance and smooth the generational turnover process. Finally, a series of takeaways are, again, proposed to sum up the findings of this chapter. Nevertheless, the family business model proposed is rooted on a traditional wisdom of family business continuity and suggest ways to improve the process of transition planning.

The third and last chapter puts together what highlighted in the previous two chapters and suggest an alternative way to deal with transition planning. Firstly, it introduces alternative exit strategies: stewardship (i.e. family business continuation), financial reward and cessation-based strategies, while suggesting that the threshold theory helps to understand the interests' balance of the shareholders of the family firms. The threshold theory weights the views of family owners on the business performances and the socioemotional wealth linked to the company, suggesting that the two can ultimately shape the long-term outcome of the company. The chapter than develops a new model that wants to help companies in defining the best generational turnover strategies based on the company's specific characteristics. It starts from the development of a checklist rooted on the three-dimensional model presented in the second chapter and proposed a way to access the level of preparation and awareness of each dimension that the family business has. The level of preparation is an intuitive way of qualitatively determine whether the family business has put in place plans and structure to properly manage the firm and it has a clear leadership definition. The checklist as the Porter's Five Forces framework yields a qualitative analysis on the dynamics that shape the company and their positive or negative profile. From this self-evaluation instrument the company, together with advisors, can tailor the better suited exit strategy of the incumbent generation with the objective of maximizing value for the coming one. M&A plays an important role in the definition of alternative exit strategies as way to refocus the business with buy-out strategies or find third-parties investor that can provide resources and international network. The model than values the strategy proposed by the model with a Matric than highlights the benefits of the buy/sell side transaction in both the business and the family on a standalone basis. The strategy should tailor in resolving the issue highlighted through the use of the three-dimensional checklist. The third chapter than focuses on permanent capital investors as players that are seeking strong investment opportunities in the family business generational turnover space and it deeps dive to look at the evolution of the Italian market.

Lastly, the chapter prosed a series case studies to value the effectiveness of the model in delivering an explanation of some family businesses in their M&A strategies. Given the experimental nature of the thesis and the model case history tests are necessary to value its effectiveness of the proposed model in explaining real life scenarios. The case studies are aimed at valuing the model that, however, is designed to be used on *ex-ante* basis rather than *post-ante* ones.

The final outcome of the paper is to formalize a proposition that values alternative ways of dealing with generational turnover, supporting continuation when feasible for both the family and the business. While proposing an alternative view of the use of M&A activities as instrument to empower transition planning strategies in the Family Business space.

Chapter 1 – General overview of M&A

Merger & Acquisition constitutes an important tool for corporate development and maximization of companies' growth potential. M&A is the main corporate strategy related to growth through external means. Over the past decades, it has become increasingly commonplace as the means of international expansion for companies seeking global reach (Hauser, 2015). Pursuing corporate strategy focused on growth and expansion throughout M&A activities has always been seen as a faster route to achieve the benefit of a larger company, both in terms of cost savings and revenue enhancement. It has to be pointed out that there are several rational behind the decision of pursuing a corporate level strategy based on M&A activities, both driven by purely return-oriented reasons and by governance motivations. The difference of those motives and their interpolation as determined the evolution of the M&A trends, delimiting specific historical periods (i.e. waves) (Gaugham, 2018).

The simplistic goal of merging and acquiring new firms is usually to improve company overall performances, as mentioned, by achieving synergies, or as more commonly described, the ``2 + 2 = 5" effect between two business units, that will increase competitive advantage (Appelbaum, 2000).

In accordance with the first assumptions made with respect to the selected topic, the following chapter will address the meaning of M&A, the recent outlooks, as well as the history and evolution of the practice. Moreover, a great emphasis will be given to the rationale behind the transaction, and the broad spectrum of activities that are characterized by the term M&A.

1.1. Definition of M&A and Outlook

An activity of Merger & Acquisition comprehends financial operations aimed at changing the landscape of a firm, the process might include the transformation of the business in terms of industrial focus (i.e. diversification), capital structure, and corporate governance. It may also involve a number of different transactions, such as concentration of undertakings, sales and purchase of assets/firms, cooperation, privatization, alliances, joint ventures management buy-outs and buy-ins, as well as IPOs. Researchers (Haspeslagh & Jemison, 1992) see M&A as an instrument for managers to make decisions about reallocating resources. In a very simplistic scenario, the difference between Merger and Acquisition can be explained as follows: through a merger a firm decides to share its asset with the ones of another business entity, creating a larger company that should increase its competitive advantage. On the other hand, throughout an acquisition the buyer is attempting to achieve this competitive advantage in the market buying a target company. (Hauser, 2015).

From a legal prospective a merger creates a single legal entity, while the acquisition keeps both legal entities alive (Gaugham, 2018). Moreover, there is also a formal perspective top keep under consideration, where the difference between Merger and Acquisitions lies in the distinctive consequences regarding legal obligation, acquisition procedures, and tax liabilities (Hauser, 2015). Furthermore, organizations can be linked together in a variety of legal combinations. These types of strategic combinations depend on the degree of investment and depth of commitment, starting from the lowest resource-consuming solution – Licensing - to the highest resource consuming solution - Acquisition.

Figure 1: Types of strategic combinations (Hauser, 2015)

The above figure shows that mergers and acquisitions demand higher degree of investment, control and integration planning, while having higher impact, potentially both positive and negative, and higher pain of separation in case of failed transaction. The graph therefore defines a relationship between the highest level of integration needed in M&A activities and the higher associated risk (Mirvis, 2001).

Integrating two companies is complex, but it is necessary to enable resource and capability transfer, as well as knowledge transmission and synergy creation. The complexity and the related result of the strategy depends on various factors, starting from the rationale behind the operation, the market condition, the corporate cultures of the businesses, the overconfidence of the managers and the mismanagement in the post-merger phase. Especially in cross-border transactions, where the corporate culture distance is greater, the integration becomes even more complex and the soundness of the assumption of valuation, the corporate governance and the motives of the strategy are tested at the most. Although, as previously mentioned, M&A transactions provide access to competences and assets without starting a venture from zero, over half of these integrative ventures end up reporting failure. This poor result has been traced back to an inadequate strategic vision, a lack in pre-acquisition planning and valuation, and poor post-acquisition implementation management. Moreover, cultural differences partly reflected in the corporate governance of the companies have been blamed for this high failure rate, both in domestic and cross-border deals. The true challenge is linked to the lack of inclusion of the impact of the corporate culture in the evaluation phase of the transaction, the corporate culture might be rooted on the type of shareholder structure that the firm has and the key management figures of the company (Satu Teerikangas, 2006).

Having said that, M&A activities are still very popular, reaching a yearly worldwide volume that exceeds large countries' GDPs, overpassing the threshold of US$ 3 trillion since 2014. The M&A sector has indeed been experiencing a period of great expansion since the financial crisis in 2008, starting from the US market that still is the principal player of this kind of financial activity. As for Europe, the growth was slowed down by the sovereign debt crisis that stressed the EU market from the fourth quarter of 2011 to the second quarter of 2012 and again from the fourth quarter of 2012 to the first quarter of 2013. Since then, the EU market for M&A was characterized by a favorable trend with a robust 2015 and 2016, but unlike the United States, Europe remained well below the level that was set in 2016. Deal volume in most regions of the world tends to follow the patterns set by the two previously mention regions - namely US, EU. However, the Chinese fierce regulations and particular market conditions depressed the M&A activities below the level obtainable in less-controlled market environment, taking into consideration the size of the domestic market and the economic growth that the country experienced in the last two decades (Gaugham, 2018).

Looking at 2017 and 2018, the global M&A activity level fell short of previous year, as uncertainty appeared to take its toll on investments. The dip was below 5% and, as mentioned, the market overreached the threshold of US$ 3 trillions. The years 2017 and 2018 were characterized by several mega deals, valued above US$ 10 billions (i.e. Disney & Fox, Luxottica & Essilor) that sustained the market. Technology drove, and is still driving, M&A in all sector, as people change the way they consume media, products and services. In 2017, technology sector hit its record year in deal count since 2001, with 2569 deals as investors look at the latest developments in the industry (i.e. IoT, autonomous vehicles and blockchain). These high-tech players, in general terms, are challenging large and small businesses operating in traditional sectors, eroding profitability and forcing combinations to exploit synergies, both of cost and revenue nature, to regain precious profitability percentage points. High stock prices, which boost stock for stock trades, and low interest rates on leveraged acquisition are drivers of this favorable 2017 trend and, up to now, even in 2018 (MergerMarket, 2018).

In Europe, the favorable market is driving dominant players to join forces seeking growth opportunities and synergies that will improve their competitiveness on a global stage, pushing back the incumbent forces of large US firms and the new giants from Asia. However, particularly at European level, the lengthy regulatory process and Antitrust authorization procedures struggle to follow the rapidly evolving competitive context. For example, the Bayer-Monsanto and Luxottica-Essilor deals testify that the time frame of the arrangement might be stretched to over one year due to various approval needed. The Italian market strongly follows the path defined at world level, reflecting a powerful process of globalization in many industry sectors. Many small and medium enterprises are pursuing internationalization strategies that are strongly eased by the same factor previously defined, access to capital and need to boost profitability. As stated, the market underlined a general tendency of consolidation in the various sectors, foremost health and pharma with energy closed behind, and the “defensive” combination done by incumbent players to push back the fierce competition of new highly technological businesses. These latter M&A activities consists mainly in “merger of equals” that create a greater challenge in the negotiation processes, stretching the time line foreword (KPMG, 2018).

A deeper look at the contribution to global M&A activity by business sectors of the target companies in 2017 highlights the following:

- *The Consumer Market* has remained the top contributor for both values and volumes, generating € 800 billion (-3%) with 12,370 completed deals (+8%);
- *Energy & Utilities* moved to second place in terms of value, € 444 billion (+7%) thanks to the deal between General Electric Oil & Gas and Baker Hughes Inc. The deal generated a cash & stock payment of roughly € 22 billion plus an extraordinary dividend of € 6,6 billion paid to Baker Hughes Inc;
- *Industrial Markets* rose to third place with € 420 billion (+9%) in value and a new record high in terms of volume 7,070 (+8%);
- *Telecommunication Media & Technology* dropped from second to fourth place with € 410 billion (-39%). The drop is partially due to the stop set by the regulatory authorities to the Sprint & T-Mobile deal, the marge would have had a value around € 75 billion;
- *Support services & infrastructure* posted positive result for 2017 with a deal's value of € 355 billions (+2,8%) and a new record high in terms of deal;
- *Financial Services* showed pure result for the period with a loss of 13% from the previous year in term of value (€ 259 billion).

At European level the list follows a slightly different order, however with the *Consumer market* as sound holder of the first place. Of particular interest, the Arnault Family streamlined their group structure with a corporate reorganization valued at a total of € 15 billion. The aim of the reorganization was to finalize the acquisition of the entire control of Christian Dior, enabling LVMH to further develop the Dior fashion house. *Industrial Markers* and *Support Services & Infrastructures* weighted more in Europe compared to the global trend. Follow *Energy & Utilities,* representing the GE Oil & Gas merger, and *Telecommunication Media & Technology* with the Vivendi Sa project to create a European media company based on content, advertising and distribution. Lastly, *Financial Services* that counted smaller size deals all under € 5 billion (KPMG, 2018).

1.2. Classification of M&As and considerations around the topic: degree of applications and possible outcomes of the process

M&A transactions might be driven by different rationales and, depending on the degree to which the business activities are related, it is possible to distinguish four main categories of transactions. Whenever in the merger strategy is pursued by two or more firms in the same business environment, it is common practice to define the operation as correlated M&A. On the other hand, the same merger strategy performed by companies operating in completely different market, is defined as conglomerate M&A strategy. The correlated M&A operations include both horizontal and vertical approaches; horizontal mergers and acquisitions combine companies that are in the same industry or operate in a related line of business, while vertical deals are combinations of firms that operate in different stages of production such as client-supplier relationships (Gaugham, 2018).

Horizontal merger and acquisition are the more popular type of transaction, the key determinant driver to pursue this kind of strategy is the growth in terms of size of the business. Size, in the majority of businesses, translates in higher market share, possibility to increase the company's bargaining power both with clients and supplier, and exploiting cost benefit (i.e. economy of scope, economy of scale) (Hauser, 2015). The proliferation of horizontal based M&A strategy is visible in every industry and across time in the last century, a case study example is what is happening in the automotive industry. The latter is indeed experiencing the creation of large automotive firms including a plurality of brands that can exploit benefit of cost synergies, as well as the penetration in different geographical areas. Eventually, the best fitted example to explain this kind of trend is the creation of FCA, with the merger between Fiat and Chrysler.

Conversely, vertical merger and acquisition regards client-supplier relationships. They might be investment forward looking in the value chain of the production of the good or service (i.e. distribution channels), or backward looking (i.e. supplier of raw material). The main objective of this strategy is to gain control of the firm's value chain steps in order to minimize risks and ensuring the business proliferation. The strategy does not add in size, revenue or market share, as the horizontal approach, but enable the company to treacle some critic points in its core business. Especially the control of the quality of the raw material and the control of the distribution channels might be determinant profitability driver and source of competitive advantage (Hauser, 2015). However, in respect of the control of the supplier (i.e. raw materials), the specialization needed in certain industries might limit the possibility to pursue full range vertical strategy of the company value chain. A successful example of vertical M&A strategy is provided by the Italian company Luxottica, whose initial core business was the production of eyewear, that through a large process on acquisition of eyewear retailer became by far the largest player in the industry with a sizeable competitive advantage.

The creation of multi-business companies derives from pursuing a conglomerate strategy, creating group of companies that operate in unrelated businesses. The fundamental driver of this kind of transaction is to obtain a diversification effect at corporate level. With this tactic it is possible to obtain a large growth in terms of size (i.e. markets, revenue, production plants), and exploit diversification of the capital of the company, attempting to ensure resilience of the group in fierce market and economic conditions (Hauser, 2015). It has to be pointed out that the rationale behind a conglomerate has been strongly criticized. Researches state that the diversification at corporate level is more costly than the diversification at investor/shareholder level; the firm, in fact, has an increasing possibility to lose focus and to allocate properly resources and capabilities, as well as incurs in the impossibility to exploit a favorable synergic effect among the business line of the group. Moreover, it is true that the larger size of a company has its benefits, such as augmented debt capacity, higher market penetration and larger customer base, but size is also a symptom of higher cost of management and complex corporate governance (DeMarzo, Berk, 2016).

There are other classifications of M&A strategies, concentric transactions are one example. They are a hybrid solution between related and conglomerate approach of M&A, with the difference being that the combining come from related industries. The acquiring company seeks to expand into other fields of business activities throughout product or service differentiation. However, the underlying objective remains the same, the buyer is seeking synergic benefit (i.e. cost savings and revenue enhancement) (Hauser, 2015).

In addition, in the context of defining the spectrum of operation of the merger and acquisition sector a further classification has to be made regarding the takeover strategy: “friendly” or “hostile”. In a hostile takeover the management and the board of directors of the target company oppose the acquisition and might implement preemptive (i.e. poison pill/put, golden parachute) and consumptive (i.e. white knight/squire, pac-man, recapitalization) antitakeover tactics. The process in this particular circumstance is characterized by a large effort in convincing directly the shareholder base through proxy fight, rather than the more standardized negotiation with the target’s management and board of director. The lack of any negotiation does not allow the buyer to perform a full desktop due diligence to acquire full knowledge of the target criticalities and root the valuation assumption on the market, therefore a greater deal of risk is involved in the pricing of this type of transaction. Usually hostile takeovers are associated with a leverage buyout transaction, in which the buyer (i.e. private equity fund, hedge fund or corporate) create new company, a financial vehicle (i.e. SPAC) providing a small amount of equity and large amount of debt to boost leverage and returns. Therefore, it is easily understood that hostile takeovers are associated with very high risk both arising from the lack of complete information that affect pricing and from the financing structure of the deal (DeMarzo, Berk, 2016). In the last two decades, the widespread of hostile takeover was very limited especially when comparing this recent economic period with the 1980s, in fact since the new millennium the impact of hostile bids as percentage of total yearly deal value within the European Union was less the 3% on average, and the same trend is observable at global level (MergerMarket, 2018).

The last characterization of the M&A transaction is based on the size of the deal and geographical dispersion of the parties. Depending on the economic area where the involved companies operate, it is either a domestic M&A or a cross-border M&A. If the involved parties are located in different countries or economies, it is defined as cross-border M&A, while in a domestic transaction the parties are from the same country and operate in same economic zone (Hauser, 2015). An industry study provided by *MergerMarket* highlights on the matter a trend shifts in the European market during the almost two decades analysis from 2001 to 2016. From 2010, after the severe financial crisis, the M&A large majority of the yearly M&A activity (over 50%) was conducted by players of different jurisdiction, both within and without the European market community. The growing trend on cross-border deals reached its peak in 2016 counting for almost 80% of the yearly deal value in the old continent (MergerMarket, 2018).

Focusing on size of transaction, a large M&A is described when a least one of the parties involved has a market capitalization above US$ 1 billion. Conversely, medium and small size deals involve parties with a market capitalization above the threshold set above. However, it is common practice to further distinguish deals with a transaction value or above the US$ 10 billion (DeMarzo, Berk, 2016), the so-called mage-mergers.

The different classes of buyers also have implication in the resolution of the transaction and its valuation. Strategic buyers are usually other corporate seeking to expand their businesses and benefit from synergy after the integration phase, the vision is usually long term and the acquisition is finance with lower level of indebtedness. A strategic buyer is able to pay a premium over the market value of the target company thanks to the benefit deriving from the synergies, this premium may reach up to 30-40% in some circumstances. Contrariwise, financial sponsors or buyers are mainly private equity funds and hedge funds which are seeking return in a much narrower time spectrum compared to the strategic buyer, in fact is part of the core business of a financial sponsor to liquidate the target firm after a holding period that might last from 3 to 7 years. However, the financial sponsor may also provide viable capital and management/financial knowhow to the corporation, improving its performances and market positioning (Rosenbaum, Pearl, 2009).

Merger and acquisition may be paid for in several ways. Transaction may use all cash, all stock swap or a combination of the two means. Securities transaction commonly use the stock of the acquirer, however other securities might be used, such as debentures. The stock might be either common stock or preferred stocks, usually shares in stock swap transactions are publicly traded on the stock exchange, even though it is not the only possible situation, especially whenever involving institutional investors. Whenever a bidder offers its stock in exchange for the target's shares, the offer provide clarification whether the swap is made according to a fixed or floating exchange ratio. When the exchange ratio is floating, the bidder offers a dollar value of shares as opposed to a specific number of shares. The ratio is determined dividing the value offered by the bidder's average stock price during the prespecified period in the contract. The pricing period is usually after the market is cleared post-announcement date of the potential deal and before the closing of the transaction. In the contract, clauses called *collars* are added in order to provide a floor and selling of the number of shares between the floating value agreement. Moreover, stock transaction offers certain tax benefits (i.e. deferred tax on capital gain at the actual moment of the sale of the shares) to the seller that cash transaction cannot provide. However, securities transactions require the parties to agree on not only the value of the securities purchased but also the value of those used as a mean of payment. This create a great deal of uncertainty and may give cash an advantage over securities transactions from a seller standpoint. For large deals, all cash compensation frequently means that the bidder has to incur debt, which may carry with additional level of risk and exposure (Gaugham, 2018). At European level, empirical study clearly shows that cash is the favorable means of payment. The study takes into consideration realized transaction in the period 2001-2016, displaying an average of 45% all cash transaction, around 10% of all stock and 8% of hybrid payment solution. The remaining share is not available due to lack of complete disclosure of information. However, from the study, it is possible to infer the dominant preference regarding all cash transaction, which ensure a limit risk exposure from a seller point of view (MergerMarket, 2018).

M&A agreements can have a fixed compensation scheme or they can allow for variable payments to the targets. The latter is more common in transactions involving small enterprises, or when a larger bidder acquires a smaller target firm, in these cases the payment also includes a contingent component. Such provision might include an "earn out" where part of the payment is linked to the performance of the target. A similar solution is implemented through the use of contingent value rights, they guarantee some future value based on the occurrence of some events, such as the sale of the target. Occasionally the contract of the transaction might include a holdback provision, which provides for some of the compensation to the withheld based upon the occurrence of certain events.

In conclusion, it can be stated that there are many considerations to be taken into account when evaluating the type of the M&A activity. The focus can span from the correlation relationship between the buyer and the seller the class of bidder, whether another corporation or financial investor. Moreover, the diversity of clauses and compensation scheme set the different benefit from both the buyer and the seller, therefore a proper consideration of both sides has to be accurately implemented to better address the possible conflicts. The previous section underlines a plurality of elements attempting to characterize the transaction based on generally accepted elements, however a merger and acquisition transaction must be evaluated on a case by case approach.

1.3. The M&A Process: required steps to correctly perform the transaction both from seller and buyer point of view

In order to identify and understand the elements that affect the success of a transaction, it is crucial to analyze the M&A from a process perspective. Several researchers and practitioners have divided the process into different phases, it is agreeable that the procedure can be divided in three wide steps: pre-merger phase, transaction and post-merger phase. The following macro-areas are then constituted by a variety of smaller, but crucial aspect that must be properly addressed to ensure the success of the operation (Appelbaum, 2000). The general division is consistent for both buy-side and sell-side M&A, however with the purpose of highlighting critical elements, the sell-side M&A will be analyzed in further details. Nonetheless, the bidding procedure is inferable by the same general scheme.

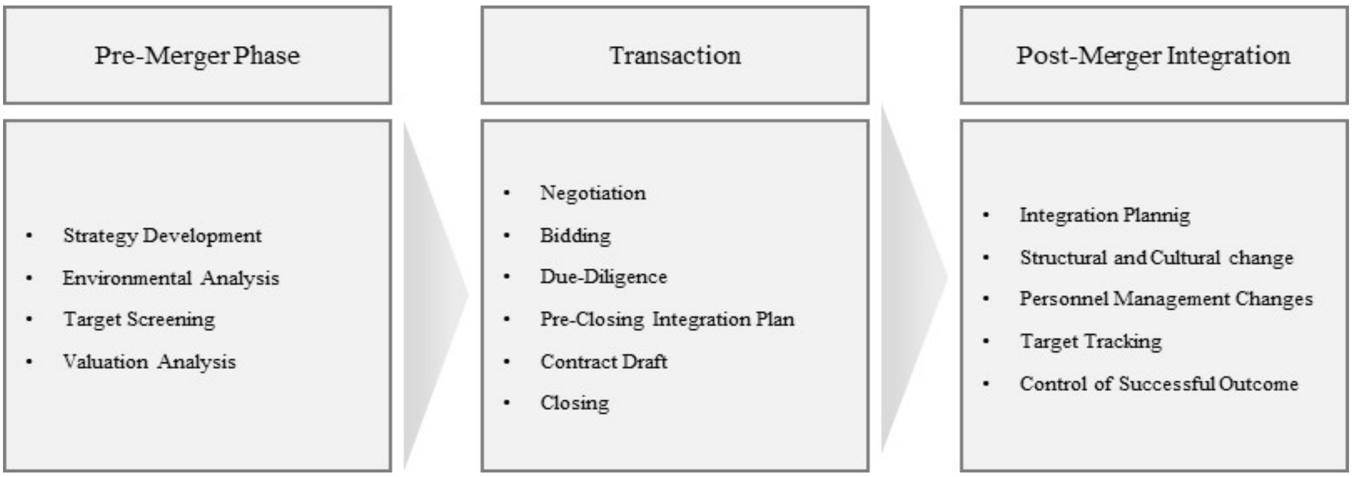


Figure 2: The M&A Process (Hauser, 2015)

The first step in the process covers the entire necessary preparation, such as strategy analysis and evaluation of the company's goals. After a firm has decided to engage in a M&A activity, also valuing alternative solution (for example a company willing to sell might look at an IPO as a viable possible alternative), it starts the screening of the possible partners. They might be target firms in a buy-side deal or potential bidder in a sell-side transaction. The screening phase is also escorted by the decision on which process structure will be followed, whether a negotiated sale with one potential partner or an auction style procedure. Auctions are further divided in broad auction or target auction in which the delicate trade-off of competitive tension, time to reach the closing, business disruption and potential leakage of information have to be properly evaluated by the firm and its advisory to deliver a successful outcome (Rosenbaum, Pearl, 2009).

An interesting point of reflection is in identifying the key elements that shape the preference of a firm to pursue a negotiated sale rather than an action and vice versa. From a very simplistic standpoint, an auction creates a level of competitive tension that is not obtainable during a negotiation with one single party. The greater competitive tension shows its effect in a higher valuation of the target. Therefore, a natural question is why all firm are not sold in a competitive environment. One possible explanation is based on agency cost and management incentives. According to the agency cost theory, some managers may choose a particular bidder so as negotiate deals for themselves at the expense of the target shareholders (Audra, 2007). As proof, Bulow and Klemperer (1996) provide a formal model of corporate takeover in which auctions determine greater revenues than negotiations, and conclude that impeding corporate auctions harms the shareholders of the selling enterprise (Bulow, 1996). An alternative explanation for the combined use of both forms of sale is based on information cost theory. Selling a firm ultimately bears the cost of the information gathering that is necessary in the sale of medium and large corporations. The cost of selling a company, from a seller perspective, lies in the potential revelation of proprietary information to rivals. Even Bulow and Klemperer, that advocate the use of auctions to drive value, acknowledge that it may be wealth enhancing to the target shareholders to limit the number of bidders if an auction process would potentially diminish value by revealing confidential information. Therefore, this means moving from a broad form of auction to a targeted one. Having said that, based on the cost theory, there is no clear discriminant between the two sale processes. However, if agency costs are the driving force behind the choice between the two, then the wealth effects for auctions should be significantly greater than for negotiations. By contrast, if the information cost hypothesis has higher weight (i.e. technology company with high degree of innovation and patens), then the wealth effect should be equal between the two sale patterns due to the fact that the loss in competitive tension and value enhancement is offset by the safeguard of private information than might harm the target enterprise.

After having decided the objective of the sale and the best suited solution to deliver the transaction, the pre-merger phase encompasses the following: perform sell-side advisor due diligence and preliminary valuation analysis, select the buyer universe following the strategy previously set, prepare marketing materials and confidentiality agreement. Sell-side process preparation begins with extensive due diligence on the part of the sell-side advisor, the latter must have comprehensive understanding of the target's business and the management team's vision prior to drafting marketing materials and communicating with potential bidders. Due diligence is crucial, even on the sell-side, because it facilitates both the target and its advisor to deeply understand any potential criticalities of the firm while properly position the offer to the buyers. Moreover, it is a key determinant to understand the feasible range of valuation obtainable in the transaction. The selection of the universe of buyers is performed in accordance with the strategy set when evaluating the best suited solution to perform the sale, auction or negotiated sale. The buyer list typically includes a mix of strategic buyers and financial sponsors. When evaluating strategic bidders, the target and its advisors looks first and foremost at strategic fit, which is a key driver of synergy and ultimately of higher valuation. Other crucial factors include the ability to pay of the bidder, the cultural fit, M&A track record, existing management's role going forward, relative and pro-forma market position and effects on existing customers and supplier relationships. The preparation of the marketing materials includes the teaser and the confidential information memorandum. The teaser is the first marketing document presented to prospective bidders, it is a brief review of the target including company overview, investment highlights and summary of key financial indicators. On the other hand, the confidential information memorandum is a detailed description of the target that is used as the primary marketing material in an auction. The latter, that includes detailed information of the target, firm is set to prospective buyers after that they signed a confidentiality agreement, which is a legally binding contract between the target and each potential buyer that governs the sharing of information included in the information memorandum. Specifically, it concerns: use of information, terms of the confidentially agreement, permitted disclosure, return of confidential information, non-solicitation to hire target employees, standstill agreement and restriction of clubbing. After all these aspects have been addressed by the target and its advisors the pre-merger phase is concluded and the transaction phase starts (Rosenbaum, Pearl, 2009).

The transaction phase includes the bidding procedure, the full desktop due diligence & valuation analysis, the marketing presentation and the site visits, as well as the negotiation pre-closing with the draft of the sale & purchase agreement. The due diligence is a very effort consuming phase performed by the buyers with the assistance of the seller. The latter grants access to the, so-called, data room after the signing of the confidential memorandum, it enables the buyers to have full knowledge of the selling firm. The buyers and advisors deeply analyze all the documentation provided in the data room to find out any potential criticalities of the target or risk implicit in the deal, as well as strength and competitive advantages. The final outcome of a full desktop due diligence can be summarized into a SWOT analysis framework and it must be performed with objectivity and impartiality to be a useful decision-making tool. The due diligence is the key element on the basis of the valuation performed by the bidders, furthermore the process of valuation is eased by the marketing presentation and meetings with the management that can provided first handed clarification on any potential criticalities. In fact, the poor performance of a M&A activity is attributable to the lack of proper analysis firstly in the due diligence and secondly in the inability to translate the result of the first into the valuation process. The contents of the data room have to be properly evaluated as they are key to ensure a profitable outcome of the transaction, the focus must be distributed both on quantitative financial information of the target and on qualitative information of which implication might harm the most in the post-merger phase. Qualitative evaluation includes taking knowledge on value chain of target, intellectual property, management and employee matters, insurance contract, litigation outstanding and assessment of corporate culture (Rosenbaum, Pearl, 2009).

On the first-round bid date, the sell-side advisor receives the initial indication of interest from prospective buyers and their bids. The deal team analyzes the offers received, assessing the purchase price, as well as key terms and conditions. The team might enter into dialogues with prospective buyers in order to seek clarification on some key bid points and valuation assumptions. At this stage of the transaction, the advisor has to be able to discern from real and serious offers to other made to have access to private information of the target. Once the analysis on the offer has been made, the seller decides which bidder can advance to the second bidding phase. The second phase includes: further management presentations, site visits, distribution of final bids procedure and draft of the definite agreement, reception of final bids and final negotiation & closing. The site visit is intended as a guided tour of the target key facility to give a chance to the buyer representatives, together with their advisors and consultants, to ask detailed information about the target's operations.

The final bid, to be properly taken into consideration, have to respect the procedure set by the seller both in terms on content and timing, the procedures give guidelines about: price details, evidence of commitment for the financing, attestation of completion of the due diligence, bidding offer status and binding period, required regulatory approvals and timeline for competition. After this procedure has been completed by the bidders, the final bids can be received and evaluated by the target and its advisors. The deal team performs a comprehensive analysis of the offers taking into consideration both quantitative aspects (i.e. price) and qualitative aspects, such as means of payment, post-integration strategy of key management and employees. Subsequently, the seller selects the winning bidder and leave a margin space for a final negotiation to close some minor aspect. At this point the board of director have to provide its vote and execute the definitive agreement, the decision of the board is usually assisted by a fairness opinion made by an advisor. A fairness opinion is a letter opining on the consideration offered in a transaction from a financial point of view. The opinion letter in integrated by a detailed analysis and documentation providing an overview of the sale process and valuation of the target. The letter must be performed with absolute objectivity and independence from the deal team. Once the target's board of directors receive the opinion and votes to approve the deal, the definite agreement is executed by the buyer and seller. The two parties proceed to satisfy all of the closing conditions to the deal, including regulatory and shareholder approvals. The authority approval can be a very lengthy process especially whether a strong intervention of the Anti-Trust government bodies is required, it quite common that the Anti-Trust keeps the merging companies under scrutiny for a great deal of time, delaying the closing of the transaction and potentially harming the final outcome. On the other hand, the shareholder approval in a friendly transaction should go smoothly and it is assisted by proxy consultant that make an assessment of the deal from a shareholder point of view. Typically, shareholder approval is determined by a majority vote of the voting stocks. However, some companies depending on the charters of incorporation might set different voting threshold that require higher approval levels for certain events, including changes of control transactions. In parallel with obtaining all necessary approvals and consents, as defined in the agreement, the buyer proceeds to source the necessary capital to fund and close the transaction (Rosenbaum, Pearl, 2009).

The transaction phase is a very effort consuming phase in a M&A process, it requires both times and focus to evaluate properly all the information mad available by the seller in the due diligence, as well as great acknowledgement of the interest of all the parties involved. The success of the deal is rooted in the proper valuation of the target and the discipline during all the phases of the transaction negotiation. To the purpose the role of advisors, as investment bankers, is crucial to deliver the prospective outcome both from a sell-side and buy-side standpoint. A failed transaction might irrevocably damage the selling company, it may harm the morale and corporate culture as well as the reputation and the attractiveness of the firm from new perspective bidders. A properly managed transaction phase is the only element on which it is possible to build an effective post integration strategy that is able to deliver the foresighted outcome.

As said, the transaction phase is decisive for the success of the post-merger phase. Experts argue that the post-integration phase is responsible for the ultimate success or failure of the entire venture. The objective is the realization of the potential synergy assumed in the valuation to achieve the desired economic results. Hence, integration strategy is the key driver to obtain the added value necessary to accomplish the aimed result and justify the engagement of M&A activity and its related costs. Therefore, both management teams have to closely work together to integrate and preserve the different corporate culture creating an environment that allows transfer of resources and skills. The aim of a properly constructed post-integration strategy is to adapt, coordinate, change and set up common structures and processes. Effective communication, understanding and respect are needed to create and consolidate the corporate culture on which base the integration process. Furthermore, clear definition of the management roles, effective communication and willingness to cooperate are crucial element to make merger and acquisition a success story (Hauser, 2015).

1.4. Historical Trends affecting the M&A activities: emergence, development and conclusions of the six waves

The importance of providing a back-looking perspective is often undermined and underestimated, however the acknowledgement of past activity periods and their driver might provide great insight to comprehend recent financial market trends in the field of merger and acquisition. In this contest, it is provided the definition of wave as a cyclical period of high levels of mergers, followed by periods of relative lower volume of trades. Economist agree in defining six periods, or waves, that has shaped years of financial M&A history, four of the six occurred in the 20th century while the other two in the beginning of the new millennium. The first important aspect to acknowledge is identifying the denominators that are common factors of the different merger waves, researchers have agreed that waves tend to be caused by a combination of economics, regulatory and technological shocks. Economic shock, in positive terms, are related to expansion period and motivate companies at pursuing themselves expansionary strategies, through internal or external means. Given that external ways (i.e. M&A) are faster to accomplish in situation of increasing aggregate demand of the market the volume of merger and acquisition transaction will also symmetrically rise. On the other hand, regulatory shocks are usually related to easement of regulatory barriers that can revitalize poor performing and mature markets, as well as, generate new market opportunities. Under Technological shocks is possible to include a wider range of events, however their common element is the possibility to bring dramatic changes to existing industries or even create new market landscapes. Harford, a famous economist, in its research shows that any of the presented component alone are not enough to drive the development of a merger wave, conversely their aggregate effect plus capital liquidity are the ingredient to create the favorable market condition on which merger and acquisition can take hold. Moreover, his findings have provided evidence that misevaluation or market timing efforts by managers are not a cause of a wave. In conclusion, the study, which is based on the analysis of a large sample of corporate transactions over the period 1980-2004, has highlighted as the elements to create a fertile soil of which merger and acquisition can grow the aggregate effect of economic, regulatory and technological shocks and the level of market liquidity (Gaugham, 2018).

First Wave, 1898-1904

The first merger wave occurred after the economic depression of 1883, it started in 1898 reaching its peak in 1902 and ending in 1904. The market growth and related merger activities was concentrated in the mining industry and manufacturing sector accounting for more than two-third of the volume of transactions. The merger style of the first wave was primarily horizontal combinations, the objective and the actual result at the time were the creation of large companies with near-to monopolistic power. During this period the first ever billion-dollar mega merger occurred with the largest steel producer in the United States, with 75% of the total market capacity. Besides this mega merger, the first wave is still relevant today due to the fact that during this periods several today's industrial giants had their origination, including DuPont, Standard Oil, General Electric and American Tabacco among others. The first wave was boosted by all the elements previously mentioned, the economic development after the American Civil war drove the improvement of the economy both at domestic (United States) and international level with the primordial attempt of intercontinental trade. In American soil, the large investment and development of a national transportation system, based on railroads, gave to firms the possibility to enlarge their market landscape, creating fertile condition to expand their businesses with a larger market. Companies now facing competition from distant rivals chose to merge with local player in order to increase market share and conquering new markets. The second element that led to the thrive of M&A activity at the time was the lack of regulation from both the Anti-Trust authority and the corporate code. The Sherman Anti-Trust act, the most important measure at the time, was largely unapplied and unable to aggressively pursue antitrust enforcement, in fact, at the begging of the 1900s, the agency's activities were directed more toward labor unions and related issues. Even the Supreme Court, with its favorable ruling concerning possibility of market concentration in important industry, gave the green light to many enterprises to undertake large merger and acquisition activities without being concerned by legal interference. This period of liberty from a legal standpoint lasted until the Great Depression, when legal authorities and government agencies stiffen security laws and the legal system attain the necessary power to discourage both unethical takeover tactics and monopolistic market concentration. Therefore, from a legal perspective, companies at the time had full control and possibility to engage into consolidation processes without regards on consumer damaging welfare (Gaugham, 2018). In addition to lax enforcement of corporate and anti-trust laws, technological progress and inventions fueled the consolidation of companies and market, the development regarded the improvement of manufacturing capabilities and the process of expansion was in the pursuit of economy of scale. Companies started to redesign their production processes in an effort to enhance their ability to engage in ever-expanding mass production. This route of rethinking of the manufacturing and the engagement of M&A to reach a mass-market demanded for specialized management figures and first improvement in the research of human capital. Two major financial factors rather than legal restrictions put end point to the first wave, firstly the collapse of the shipbuilding trust that brought to the fore the danger of fraudulent financing and, secondly the stock market crash of 1904. The market depression was followed by the banking panic of 1907 and caused the collapse of many national banks, giving the right motives to institute the Federal Reserve System to prevent the occurrence of similar situation in the future. The combined effect of these two negative market shocks was the froze of credit circulating in the economy, inevitably limiting the possibility of firms to expand due to the lack of capital (Gaugham, 2018). The fist merger wave is very interesting from an academic stand point because, although it took place not long after the second industrial revolution in a very primitive financial and market setting, since it displays all the same common elements of modern market thrive. Moreover, it reflects the objective of firms to achieve synergies among them through the enlargement of the customer base and cost saving, which still is the main driver for any M&A transaction. It can be inferred from the first wave that with the passing of time and the increasing complexity of business needs and financial markets the key rational behind the management willingness to pursue a transaction are the same (Gaugham, 2018).

Second Wave, 1916-1929

The second wave started with the end of War World I and dramatically ended in 1929 with the great depression. George Stigler, Economy Nobel prize, defined this wave as the era of oligopoly, which similarly to the first wave was synonymous of monopoly. The 1920s, in the Unites States, was a period of great economic boom and affirmation as worldwide economic and military leader. The abundance of capital, which was fueled by favorable economic conditions and lax margin requirement, set the stage for the thrive of the second merger wave and, unfortunately, the stock market crash in 1929. The strengthen regulations prevented the process of consolidation to obtain monopolistic power of the first wave, did not impend industry joining and the creation of large company groups with strong power on the market. The oligopoly created during this period were created through vertical integration of companies in the same value chain, with the clear objective of the acquirer to increase its control of production or distribution channel and enlarge the size and market dominance of the firm. Just as in the previous period, the second merger witnessed the formation of prominent corporations that are still in operation today, such as IBM, John Deere and Union Carbide (Gaugham, 2018). Again, the same condition that boosted the expansion of M&A at the turn of the century, had played a crucial role for the economic progression after World War I, however this florid market scene dramatically terminated in 1929 with the Great Depression. The destructive effect of the great depression plus the incalculable damage of World War II limited any strong economic activity at world level until the 1950s and 1960s.

Third Wave, 1965-1969

The third wave started in the thriving economy of 1965 and featured a historically high level of M&A activity. This period is associated with conglomerate style transaction, meaning transaction between companies in unrelated industry. The Federal Trade Commission reported that 80% of transactions from 1965 to 1975 were conglomerate designed deals, moreover it was not uncommon for relative smaller firms to target larger companies for acquisition something that was unthinkable in the first two waves. This strategy pursued by corporations in this period was driven by tougher corporate laws and federal government that adopted a stronger anti-trust stance, which dramatically limited the possibility of adopting vertical or horizontal consolidation strategies and left the only viable option of conglomerate integration of companies. Therefore, analyzing industry concentration level, it is inferable a clear contrast between the third wave and the two previous peers. Although, the number of transactions was historically high at the time the level of sector consolidation did not grow significantly as aimed by the government authorities. Another important difference lies on the means of payment, during the 1960s the markets was experiencing a strong bullish period that was reflected by tightening monetary policy to avoid an excess of inflation. High interest rates reduced the attractiveness of debt as means of compensation leaving space to the widespread of equity financing transactions, even more boosted by the record high valuation of the stock market. Furthermore, stock for stock transaction benefit from a tax perspective compared to cash ones, adding an extra advantage to this type of payment. There is a great deal of discussion of the economic benefit of a conglomerate strategy, which is not purely driven by regulation. Economist agree that the greater benefit of conglomerate merger lies in diversification, which provides for a risk reduction effect of holding stake of a business that is dependent on only one stream of cash flow. Diversification at corporate level provides for a reduction of idiosyncratic risk of the shareholder base of the firm. Moreover, another benefit of shareholders is the increased liquidity of their holdings in case of a private corporations, because their wealth is not directly correlated with one business line but a plurality of them that can be more easily liquidated in case of necessity. On the other hand, at corporate level another important positive effect is related to the enlargement of a conglomerate firm and its possibility to extend its debt capacity. In fact, other factors equal, a larger and diversified corporation can benefit from the possibility of increasing its leverage and boost the returns for shareholders. On the cost side, there is the chance to exploit a certain degree of economy of scope in a conglomerate venture, which is decreasing at the enlargement of the firm and the distance among invested industries (DeMarzo, Berk, 2016). There is much debate among economists on the true value of a conglomerate, from a theoretical perspective the strategy seems promising with actual and tangible potential outcome, however looking at the actual result of the deals concluded at the time is easy to find out some criticalities in the process. In fact, more than 60% of the cross-industry acquisitions that occurred during the third wave were divested or sold by 1989. A recent example of conglomerate firm which is in a crisis situation is General Electric, the firms is struggling financially, and it has reached the point in which is not more possible to safely state which is the core business of the group. GE is a giant that hardly can sustain its structure and cannot anymore provide value to shareholder, since the industrial revolution history of capitalism has seen a clear direction toward specialization and its productivity-enhancing effects, while a conglomerate structure, such GE, is a clear step away from specialization (Gaugham, 2018). Conclusively, it cannot be given a final answer on whether conglomerate strategy is value enhancing from both a company and shareholder perspective, considering the fact that most of the transactions in the next M&A wave were driven by the poor performance of the post-integration phase of deals that took place during the third wave.

Fourth Wave, 1984-1989

The economic downturn of the 1970s strongly reversed itself in 1981, when the market started to experience a period of recovery and M&A activity began to retake place. The fourth wave is unique in form compared to the others, given the widespread of hostile transactions. In general terms, hostile transactions are performed without the consensus of the target board of directors, but rather tracking directly the shareholders of the target. Hostile bids became an acceptable form of corporate expansion by the 1980s and they gained status as a highly speculative and profitable activity. In fact, bidders used this tool as an instrument to gain short term profit. As previously mentioned, the target of this operations were often subsidiaries of large conglomerate that were experiencing scares financial performance. The size of the deals, in most cases, was above the $1 billion mark starting the first strong megamergers, during the '80s the total dollar value of acquisition rose sharply sustained by a florid financial market. Deregulation played also a crucial role, as expected, and drove consolidation activities in certain industry. The American federal government eased its control on airline, banking and petroleum industries, moreover international takeover transactions started to take place with a certain degree of frequency. An example of one of the international megadeals was the 1987 acquisition of Standard Oil of Ohio, part of the Standard Oil monopoly of the first wave, by British Petroleum for $7.8 billion. The augmented sophistication of the financial market during the fourth wave brought to light both new type of financing and figures. The birth of the junk bond market created a favorable opportunity for companies to easily use leverage to finance fierce acquisitions, often at very high valuation boosted by antitakeover mechanism put in place. The increased sophistication and the creation of new antitakeover strategies initiated by potential targets created the market space for the arrival of new players. Aggressive investment bankers, M&A arbitragers, and corporate raiders are some of the new characters that dominated the market during this market fervor. The end of the hostile takeover era took place due to the mid recession of 1990, in which the firms' dependence on junk bonds saw its faintness and collapsed. Again, without the right economic conditions and the availability of capital to finance acquisition the volume of deals drastically declined until the mid '90s (Gaugham, 2018).

Fifth Wave, 1992-2001

When the fifth wave began to take hold, mangers ensured the market that they were not willing to make the same mistake made in the fourth wave. The objective was to focus on medium- and long-term value enhancing ventures for the enterprises and their shareholders, avoiding highly leveraged attempt of quick profits. Moreover, the key strategic principle was focusing on tactical alliances that could provide real value to the corporation in terms of cost synergies and revenue enhancing mechanism. A new consolidation patterns took place during the '90s, in which corporation consolidated to enjoy economies of scale while gaining the benefits of being able to market to international as opposed to regional clients. Although the rationale behind this latest wave seemed promising for the success of the post-integration strategy of unified firms, looking at the actual value created for shareholders only between 1998 and 2001 they lost a record value of $240 billion. On one hand, managers were focusing on strategic alliances that could in theory create great value for their firms, but on the other hand due to the skyrocketing stock market the valuation of the targets were incredibly high. As evidence researchers looks at the P/E ratios during the period, values that today still record figures. The overconfidence and overvaluation of the market was partly driven by the euphoria related to the technological enhancement brought by internet and the immense business opportunities that it presented on the market table. The *.com* crash and the 09/11 accident put an end point to the fifth wave, the stock market crash showed the limit of the valuation made during the transactions and caused resizing of many businesses and stakeholders 'returns (Gaugham, 2018).

Sixth Wave, 2004-2007

The sixth wave began after the crisis of 09/11, when the Federal Reserve, with the objective of sustain the US economy, kept a very low level of interest rates for an extended period of time. These low rates provided the fuel for a speculative bubble in the real estate market that widespread globally and created a strong appetite for the investment world toward mortgage-back-securities and other debt securitization instruments. The same interest rates gave a unique change for institutional investor (i.e. Private Equity, Hedge Funds) to borrow money at attractive cost. The great availability of capital at relatively cheap rates boosted the spread of leveraged acquisition by private equity players. Moreover, investors seeking interesting returns compared to risk free interest rates were willing to put large amount of capital under the management of Private Equity, boosting their funding process. The positive market condition helped also the return of the investment made by those players, increasing their importance and dominance in the market. Looking at the transaction occurred before the great financial crisis is easily inferable that it was a period dominated by Private Equity. As often in the financial market, the thriving economy increase the valuations of the targets and the P/E ratios figures of listed companies up to the point in which the housing bubble exploded crunching the credit market and the economy (Gaugham, 2018). The sixth wave terminated in 2008 with the second most severe financial crisis in the history of humankind. The credit crunch was so harsh that all the world central banks had to intervene to sustain the economy through direct lending to save financial institutions through unprecedented capital injection in the economy and sweeping of toxic financial instruments.

The history of the financial market and the development of M&A provides for crucial insights and help to acknowledge strategic mistakes made and the impact of shocks to the economy. As to be remembered that, in simple terms, a M&A activity is performed by a firm with the objective of pursuing growth. The necessity to grow for a company might derive from an increase in aggregate demand of the market, from a deregulation that previously stopped the possibility to expand, or from a technological challenge that is put in front of the corporation. Pursuing a merger or an acquisition is no other than attempting to grow in the faster way possible to an enterprise as an alternative investment of investing directly into the company. However, without the availability of capital any growth strategy cannot be put in place, the liquidity may come from internal resources or from the market through cheap debt or equity. After 2010 the global economy slowly started to recover and its currency experiencing the longest expansion period in history, as stated in the beginning of the chapter the M&A volume of transactions grew on a yearly basis, the cheap debt has further sustained the Private Equity funds and corporation in their expansion and consolidation strategies. Moreover, a great technological challenge is faced by establish corporations that are suffering from the success of the online industry, for example Walmart and Amazon. Therefore, “old” giant corporation see in acquiring tech-company a great chance to rethink of themselves to regain a strong competitive advantage that is more and more reduced.

1.5. Motives underlying the M&A activities

In many occurrences during the chapter the strategic rationale behind the decision of a company or its management to engage in merger and acquisition ventures has been mentioned. However, given its importance and centrality in this report, a stronger and organized analysis has to be made. M&A generally is driven by strategic motives that determines the future outlook of the company by pursuing growth or achieving synergies. Moreover, as financial history has taught, growth and synergies can be combined with the benefit of horizontal, vertical and diversified approaches to industry consolidation. On one hand, growth and synergies represent objective statements underlining a company medium-long term industrial plan. On the other hand, many factors beyond objectivity play a crucial role in M&A, management preferences, overconfidence and agency cost are only few of the causes that could drive the conclusion of a transaction, which if not properly valued might have disruptive effect on the bidding enterprise.

Merger and acquisition are clearly a synonymous of growth. Firms seeking to scale up their production capacity, their market share, or their market product line can easily see the benefit of M&A to achieve the desired result. The choice for a company standpoint is to go through an internal and organic expansion program or through an acquisition of a target enterprise that meets the aimed strategic outcome. A key disadvantage of organic expansion is the length of the process, depending on the outcome aimed, the set-up from stretch of a new production site or the development of new product or services is evidently a slower process than acquiring directly on the market. For example, if a company seeks to expand and has a window of opportunity that will remain open for a limited time frame, slow internal growth it is not a viable option for the company. In a very competitive market environment time is a crucial variable to be addressed by corporation, pursuing an internal growth strategy has its clear benefit, but the time lag that it creates could provide a competitive advantage for fast growing competitors and dramatically increase their market share. Especially nowadays, a period of time in which technological development is thriving and shaping the future of many industries established companies may find very difficult or even impossible to provide the necessary technological innovation in their processes and products in-house, making M&A the only viable solution to keep the company market position and not becoming obsolete. Acquisition activities are of particular interest whenever the firm is operating in a paten-dense industry with strong investment in Research & Development activities. M&A, in this contest, yield the possibility for the bidder the substitution at a certain degree of research cost with an acquisition of a target enterprise with appealing technology, patens or new products. This strategy has proven to be very attractive for the chemical and drug industries, the great consolidation pattern occurred in the last twenty years was mainly driven by the willingness to create large group with combined R&D department and joined project capabilities. Another example of using M&A to facilitate growth is when a company wants to expand to other geographical areas. In many instances, it may be quicker and less risky to expand geographically through acquisitions than through internal development. In an international expansion the variables that take place are many and many could be the differences of firm's domestic economic contest and the targeted one for expansion. To pursue an effective organic growth in a foreign market, the corporation needs to know all the nuances of the new market, understand the legal system, recruit new personnel and circumvent many other obstacles (i.e. custom barriers). Again, weighing these issues and external strategy may provide for a safer and less time-consuming solution. Nevertheless, the criticalities of this strategy are many and much related to the due diligence and valuation phase of the transaction.

Existing literature provides extensive analysis of the typology of synergies involved in the transaction and their link with the motives behind it. In the end of the 1980s Professor Chatterjee was the first to classify merger motives by taking into consideration a resource-based point of view, he defined three resource classes in order to explain M&A rationale:

- operational synergies, linked to production and operational management efficiency;
- financial synergies, linked to capital structure optimization;
- collusive synergies, linked to the improved of competitive positioning and marker share.

However, the complexity and interpolation of different rational behind the will for an enterprise to incur in the delicate path of a M&A transaction is shaped by many different reasons and cannot be purely dictated by synergetic effects of the combined entity. It is important to be aware of that mergers are driven by complex patterns of motives and that no single approach can defined at full account, Professor Trautwein attempts to order the merger theories according to their plausibility and consistency with the evidence of merger motives (Hauser, 2015).

The table below illustrated the scheme provided by Professor Trautwein: (Hauser, 2015)

Motives			Theory	Description
M&A as Rational Choice	M&A benefits target's shareholders	Net gains through synergies	Efficiency	M&A process is executed to achieve the benefits of synergies effects
		Wealth transfer from customers	Monopoly	M&A process is executed to obtain market power
		Net gain through private information	Valuation/ Investment	M&A process is driven by asymmetry of information if the hand of the managers of the bidding companies
		Wealth transfer from target's shareholders	Rider	Rider causes a wealth transfer from the stockholder to the company he bids for (greenmail, extensive compensation after the takeover)
	M&A Benefits Managers		Empire Building / Agency	Mergers are driven by manager own desire to maximize their own utility instead of shareholders' value
M&A as Macroeconomic phenomenon			Disturbance	Merger waves are caused by economic disturbances and change expectations and trend of the market agents
M&A as a process outcome			Process	M&A decisions are caused and influenced by limited information, organization capabilities and corporate culture

The table above is an easy to understand, yet comprehensive, framework to put together the theories developed and to explain the rationale behind any process of M&A. Surely, the performance reasons are center of the widespread of any merger, but the macroeconomic trends, together with the unique aspect of the single enterprises, are determinant factor for the completion of any transaction.

M&A as rational choice for a company to foster growth covers the majority of theory developed by researchers, the most common theory proposed by scholars, already stressed in this chapter, is the efficiency theory related to the exploitation of synergies as key driver of value creation. The latter concept, as explained by Professor Chatterjee, is extended to the so-called collusive synergies that explains the willingness of an enterprise to gain market dominance in order to impose its monopolistic bargaining power on customers and suppliers. However, as commonly known, any monopolistic power, expect for natural monopoly sponsored by government institutions, tend to fail the test of time either due to the intervention of anti-trust authorities or due to innovation and industry distribution lead by technological enhancement (Gaugham, 2018).

Moving away from the classical economic simplification of a rational market, many M&A transactions thanks to asymmetry of information that certain market participants have and take advantage of. The private information available to certain market players obtained thanks to the better knowledge of the market creates opportunities of investments that are not available to all. Moreover, private information can lead to a better valuation of the target assets and the size and implementation of the synergies that could be formed by the combined entity. On the other hand, certain special circumstances in the market can create opportunities that lead investor the possibility to take value away from shareholders (i.e. extraordinary compensation, greenmail). The agency costs is another factor that historically has played an important role in the definition of the criticalities of corporate governance theory and the success of M&A ventures, the top management happens to be driven by the personal desire of ruling over a larger and more prestigious company able to deliver higher benefits for its executives rather than managing a smaller, but sounder enterprise. The latter critically has often been center of discussion, but it is argued that should be resolved thanks to the proper assistance of the advisors during the due diligence and fairness opinion process. All the above briefly explain the theories derived from the rational possibility of a gain for the bidding investor, either through synergies exploitation or failure of market perfect condition (Gaugham, 2018).

The macroeconomic impact on M&A has historically played a central role in the definition of specific trends in different point in time, as mention previously the interpolation of economic, regulatory and technological shocks together with capital liquidity in the market creates economical disturbances and changes in expectation of the market players shaping new waves of consolidation.

The last theory summarized in the table, process theory, is rooted on the assumption that certain M&A deals are caused by limited organization capabilities of the company and a misplaced corporate culture. This theory can be applied more easily to smaller and medium companies that are struggling to define their market share in a global and competitive market. The company corporate culture might shape the future of the company in several ways and often is overlooked, the decision making process that is strongly linked to how the company is managed and structure may favor an environment that is more inclined at taking excess risk without the proper valuation instrument and knowledge to value the investments. Even family businesses, which notoriously are forward looking and risk adverse, may fail to properly consider all the risk of a transaction in a moment of market change and be transported in the process by limited information and means of valuation (Gaugham, 2018).
Corporate culture plays another crucial role in the post-integration phase and can shape the failure of success of the combined business entity, the next subchapter will be fully dedicated on analyzing the importance and impact of corporate culture.

1.6. The importance of Corporate Culture when dealing with M&A: the integration issue.

Over the past decades the wide-spreads of M&A activities have constantly increased especially for companies looking for a global market to expand their reach and increase market share. Even though the benefit of expanding internationally through M&A campaigns rather than through internal development are numerous, such as the possibility to access local intelligence without the burden of starting up a subsidiary from scratch, many of the transactions resulted to be unsuccessful. A critical factor not yet included in this discussion that is determinant to the success of the integration process after any M&A activity is the cultural fit of the combining companies. Company culture is very hard to be defined, but in a simplified scenario it combines the cultural elements of the nation in which the company mainly operates, and the personal characteristics of the management team or entrepreneur that rule in it. However, these two different cultures are also hardly defined with reference to its implications for cultural fit and the consequential possible outcomes regarding merger integration and performance. In fact, there is not a defined valuation of bidder and target culture that can help the integration phase once the merger is completed. Generally speaking, it is observed in the market place that companies with more similar national culture (i.e. Anglo-Saxon countries) are more likely to have similar base principles and values shaping the internal corporate culture, therefore yielding to a better and smother integration and overall financial performances. Researches stress the importance of a careful evaluation of the internal corporate culture of the target enterprise when evaluating any new investment opportunities. Hence, the culture-performance relationship cannot be isolated from the overall M&A process in order to manage cultural differences successfully. Mangers should pay as much attention to cultural aspects during both the pre-merger phase and the post-merger integration, as it is done for the strategic and financial aspects of the transaction (Hauser, 2015).

During the process it is necessary to take the time to define proper means of communications and enable a smooth due diligence process that has the ultimate objective to highlight any potential criticalities of the transaction, also cultural inconsistencies that may create value distribution in the long term. Moreover, during the definition of the transaction is crucial to take the time to analyze and define the expectation of the employees and other stakeholders involved in the process; the creditors in case of a distressed scenarios, the shareholder (whether a family or single individuals with claims on the firm), in case of a private company. Cultural differences in M&A are especially important for top the management, as they are the key drivers of employees behavior and motivation toward the firm Top executives, during the integration phase, have the task to create an atmosphere that supports employees willingness to handle cultural differences and join the newly formed enterprise (Hauser, 2015).

To conclude, it is not possible to predict a defined cultural impact on the performance of a M&A transaction. The impact of cultural differences on the performance of the combined entity strongly depends on how the structure of the transaction was set in place and the integration strategy, the degree of integration required and the extent to which the merging firms want to preserve their existing national or company internal culture.

The integration process after any M&A activity captures great challenges and may dictate the unsuccessful outcomes of transactions that should have resulted in positive growth or diversification. During the valuation process of the investment, the proper valuation of the impact of synergies and how to deliver them thanks to a proper analysis of the integration strategy are often overlooked and may create downward looking financial outcomes of the combined entity. But what does integration mean? Lawrence and Lorsch defined integration as "the process of achieving unity of effort among the various subsystems in the accomplishment of the organization's task". Moreover, integration can be further defined as the extent to which diverse and dependent organizational elements constitute a coordinated whole in the transfer of strategic capabilities.
The immediate consequences of a failed integration strategy are the combined effect of the unrealized upsides of the synergies (i.e. decrease in costs) and the wasted resources invested in the failed integration process (i.e. integration costs), together with the negative response of the marker agents (i.e. investors, customers) that see compromised their relationship with the companies and brands.
Researchers taking into consideration the great complexity of the integration process divide themselves between advocators of the separation or unification of the companies after the conclusion of the transaction. Separators believe that the value can be created by substituting the target management team and exploiting the inefficiency of the previous management, without a particular level of integration of the two companies' ecosystems. Moreover, the independence of the entities might preserve the unique competitive advantages (i.e. technological development/creativity), while being part of a group with common high-level drivers and coordination capabilities.

On the other hand, other researchers advocate that companies should integrate completely to exploit the maximum level of synergetic benefits available even at greater integration costs and potential coordination expenses. Integration is believed to lead to better resource redistribution and exploitation and consequently lead to value creation (Hauser, 2015).

The level of integration required or aimed depends on the motives behind the transaction and the type of assets, and a simple matrix can be created taking into consideration the level of integration desired and the costs associated with the integration strategy. The trade-off between the integration desired and the costs might result in an unbalanced situation in which value is rather destroyed instead of created.

The last element to be considered when shaping the integration strategy is the timing of the process, in fact time can create value as well as destroy it in the long run. Typically, the incumbent management team prefers a quick integration to exploit the accreditive effect of the transaction as soon as possible. On the other hand, recently the tech giants are showing a contrasting strategy in which after the acquisition the target company does not go through an extensive re-organization, instead the integration process is performed more smoothly and in the medium/long term. A smother integration as the upside benefit to merge the corporate culture more naturally and preserve the element of competitive advantages of both entity without any unique value disruption (Hauser, 2015). Conclusively, the post-integration phase of any M&A activities is the crucial element that delivers the value assumed in the initial phase driven by the motives stated above. The integration phase has to be planned with great advance and must be supported by expensive analysis and due diligence processes before the conclusion of the transaction.

1.7. Key Takeaways of the Chapter

The first chapter was aimed at highlighting some of the key aspects that scholars look at when studying M&A theories. Firstly, it was necessary to point out some common ground on the definition of the meaning of M&A, as well as to define some principal characteristics that are the steppingstones on which building any analysis of the relationship between the M&A process of an enterprise and its long-term objectives. The strategic definition will be further discussed in the last chapter, in which the theory of M&A will be linked to the family business ones to evaluate the implication of the two together. After having defined the terms of M&A, the chapter also explained the process of the transaction, again, agreeing on some common terms that practitioners have defined and shaped in the last decades. Moreover, the study of the historical trends has showed to be very important to provide crucial insight on the evolution of the processes and define the elements that shape the decision of the market participants. The disturbances generated by the combined effect of economic, regulatory and technological shocks have placed an important role in defining part of the motives that have boosted the spread of M&A activities decade after decade. The motives that drive market consolidation are still very much controversial, however, some key theories were presented by scholars, taking into consideration the rational expectation of making gains and the inefficiency of the perfect market hypothesis (i.e. asymmetry of information). Furthermore, another key driver is presented by agency theory and process theory, in which the personal goals or lack of means of the management blind the executive team that are willing to put aside the company long term endurance to rather obtain personal or narrower short-term results.

Conclusively, Merger and Acquisition are a delicate matter that influence a plurality of stakeholders and are correlated to a high degree of risk. Nevertheless, they are necessary activity that can reshape static industries and bring market enhancement for both shareholders (i.e. returns) and stakeholders (i.e. consumers). The company growth opportunities brought by acquisition relies on strong operational enhancing possibilities through the exploit of beneficial synergies effects as well as the potential upside of bringing new technologies and knowhow. These kinds of activities will always be part of the market and constantly will define the expectation of the market and the willingness of companies. Moreover, it will be always part of the natural evolution of companies through their life considering the separation between the enterprise and its shareholders and managers. The evolution at various stages and its relationship with the entrepreneur or family behind it will be extensively discussed in the next chapter.

Chapter 2 - Generational Turnover in Family Business

The second chapter of this thesis will be focused on defining the concept of family business and the criticalities encompassed by these businesses in the different phases of generational turnover. Firstly, a comprehensive definition of what a family business is will be provided starting from the two pillars that Freud considered to be the secret of a full life "*Lieben und Arbeiten"* (to love and to work) (Gersick K.E., 1997). For the majority of people, these two principles are the most important things in their life, however it is easy to understand the compelling power and difficulty of organizations that combine both. Secondly, the chapter will be dedicated to an extensive theoretical analysis aimed at providing and elaborating a framework to picture the complexity and interpolation of the different agents in a family business across time. This framework will be based on the work of Kelin E. Gersick, John A. Davis, Marion McCollom Hapton and Ivan Lansberg *"Generation to Generation, life cycles of the Family Business"* published by Harvard Business Review Press. After the definition of a general framework and of the variables that shapes the outcome, the chapter will deep dive in the consideration of the criticalities arising in case of mismatch between the expectation of two contrasting generations. Moreover, highlighting the possible tensions resulting between the differences of needs of the family and the business standalone and how to plan for these incumbent situations. The objective of this second chapter, as did for M&A in the first one, is to provide a brief yet detailed theoretical overview of the most compelling themes on the subject of Family Business to provide the readers with the possibility of knowing the main criticalities that companies face whenever approaching a generational turnover or a M&A transaction within the scope of a family management.

2.1 Definition of Family Business

Family businesses include some of the best know companies around the world as well as thousands of unknown ones. The variety in terms of size and organizational structure is enormous, however these companies share the common denominator factor of being connected to a family. It is this connection, as well as how this connection takes form, that makes these companies a peculiar kind of business. Family business owners are aware of the difference in their role compared of being shareholder of a public listed company. This difference, often analogous to a sense of pride, is also present at employees' level, who know, in general terms, the impact that the family control makes on their life, on the company corporate culture and their prospective careers. The influence of the Family company on the stakeholders that live around it is shaped by unique factors that only these types of business can deliver. The Indian researcher Vikram Bhalla, in its study on the matter of comparing mature family businesses in emerging and developed countries, highlights how in younger market the family business can deliver higher potential performance due to trust-based relationships with the company stakeholders. He points out that in the Indian market the fact that behind a business venture there is a family is a reinsurance for the banks' lending capital and supplier proving goods and services (Bhalla, 2015). This particular point is also true at global level, indeed thinking about Italy, the personal relationship between a family and the community, banks and supplier has been, and should continue to be, a competitive advantage of family businesses. A virtuous Italian example of an established family business that has decided to tide up its root with a community is Brunello Cuccinelli. Cuccinelli, first generation fashion business listed on the Italian stock exchange, decided to make its corporate headquarter, production plants and house both for himself and its employees in a small village, "*Borgo"*, in Umbria, nearby Perugia. Moreover, the firm has sponsored a professional school to form its young workforce, it has constantly promoted events enabling the community to display start-ups in the high quality manufacturing sector, and it has promoted a corporate culture that is rooted on the equilibrium of the two pillars highlighted by Freud, *to work* and *to love.* The willingness of Brunello Cuccinelli to make its employees part of something bigger than an enterprise, possibly a family rooted on mutual respect, is a remarkable example of the power of a family business (Cuccinelli, 2017). This testifies the power of relationships between a family/entrepreneur and its stakeholders.

Another prestigious example of a family business is presented by the Antonori Family, wine makers since 1385. Nowadays the business is run by the 26th generation, making it one of the most long-lasting company in the world. It is fascinating to study how the family was able, generation after generation, to consolidate its resources on the core family business, wine producing, making the Antinori Winery a truly international player both in terms of distribution and production. Moreover, the company was able to establish is brand worldwide becoming one of the most important red wine producers in the world. On an entrepreneurial level, the business grew considerably and today is one of the largest private wine makers in Italy in terms of revenues and the best performing in terms of profitability (i.e. operating margins) (Sole 24 Ore, 2019). The heritage of the family and its history linked to the Rinascimento of Florence have made the Antinori Family a brand worldwide recognized, which is the true essence of the competitive advantage that this family business has.

In the *"Generation to Generation"* book is presented a conceptual model of Family firms that will be the center of this chapter as a crucial tool to enable a proper analysis of the factors that shape the generational turnover. The model derives its rationale from concepts resulting from the management and organizational theory as well as behavioral and psychological analysis in order to create a comprehensive tool useful to model all the forces in the family business environment.

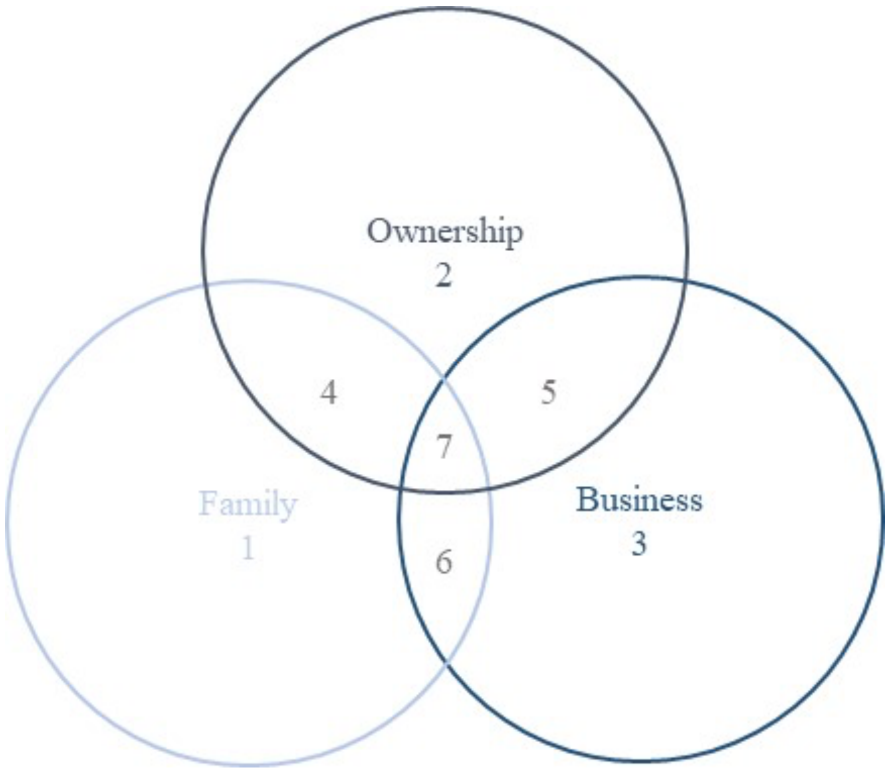


Figure 3: Three-circle model of Family Business (Gersick K.E., 1997)

The three-circle model describes the family business as three mains independent, but with certain overlapping subsystems, areas. In the seven areas created by Business, Family, Ownership and its subsystems, any individual part of a Family Company can be placed. The model is very self-explanatory; however, it provides a very easy instrument to understand the difficult interpolation of tasks or relationships that take place. For example, a retired entrepreneur may have left the management of the business to its first son while keeping the ownership of the company, whereas the daughter, not interested in the family business, has started its own career. In this often-seen scenario, the father lies in the 4th area (ownership and family), the son is in the 6th area (family and business) while the daughter is in the first area (family). The model depicts a snapshot of the *AS-IS* situation of a family business in a particular point in time, and, as in the example, helps everyone to evaluate how organizational roles can define a person's point of view and interests. Continuing the example, the family may struggle over dividend policy or succession planning taking into perspective the different positions that every individual has in the three-circle model. An individual in sector 4 (owner, family member and nonemployee) may rationally prefer to increase dividend payout to maximize his/her gains, while an individual in sector 5 (owner/business) or sector 7 (owner, business and family) may prefer to keep as much resources as possible within the company in order to foster growth throughout larger investment activities (Gersick K.E., 1997).

The dynamics of the model increase drastically in complication when the company is approaching a generational turnover, in which the cards of the three-cycle model are reshuffled on the table, especially between current and designed leaders. The model helps to keep in mind that, not one, but three separate transitions takes place, and they may occur at different time as well as involving different participants. The ultimate goal of the three-cycles model is to clarify the motivation and perspectives of individuals at various locations in the overall system. However, it forgets to take into consideration the most important variable that bring to life this framework and make it more applicable to real life scenarios of family and business organizations: time.

Time is a crucial variable because of the critical role played by key individuals over long time spans, especially family businesses that are affected by the inevitable aging of people. Time has to be taken into account, also considering the cyclicality effect of the different situations, when taking about generational turnover. The members of the new generation that are now taking ownership of the firm and that have to decide its strategic future and will pass the ownership to the next coming generation in the future. Moreover, the company size itself is influenced by time, starting from a start-up to potentially become a larger company through growth over time. The different dimensions and needs of the firm also shape the decision of its owners, making time a critical variable to evaluate the majority of dilemmas that a family business can encounter. They involve changes in the organizational structure, in the family outlook and in the distribution of ownership (Barnes-Herson, 1976).

The result of adding time to the three-cycle model is the so-called three-dimensional development, which adds for each subsystem (family, business and ownership) a separate developmental model.

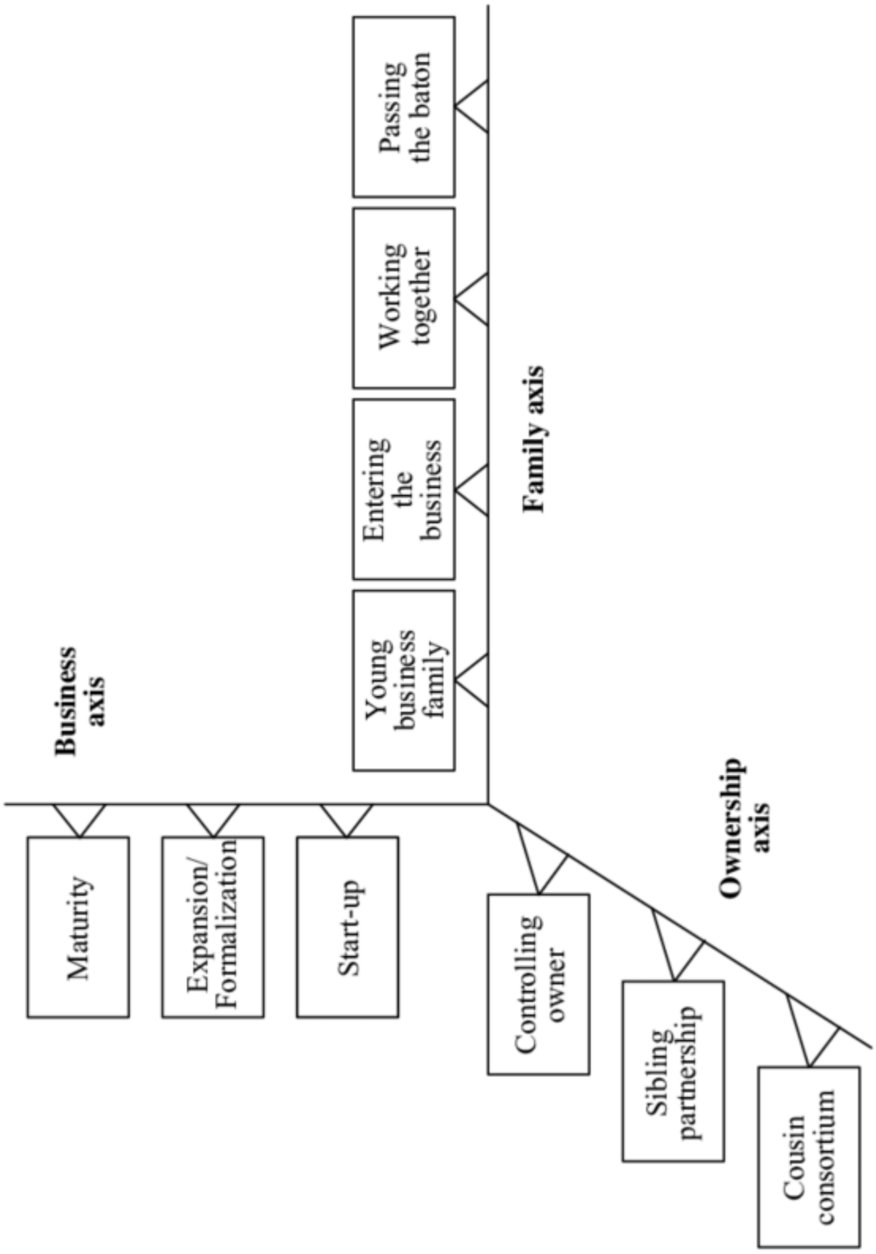


Figure 4: Three-dimensional developmental model of Family Business (Gersick K.E., 1997)

The progression of the three development models are independent one to the other, but they are also interconnected one to the other. Each time on an axis a variable moves, all systems take a different shape and different strategies have to be put in place to enable the company to thrive. In general terms, the more the progression occurs, the more complex is the company to be managed in terms of the tree-circles model interest management. However, it is not uncommon that the progression especially of the family axis can be reverted. For example, a cousin is able to buyout all other members of a cousin consortium and became sole controlling owner. The steps of the developmental model will be introduced below and deeply analyzed in a dedicated subchapter (Gersick K.E., 1997).

The first dimension describes the change of ownership over time, the framework is simplified taking into consideration three main scenarios that are able to comprehend the majority of cases present in the market. The majority of businesses start from the willingness of an entrepreneurs (i.e. Brunello Cuccinelli to recall the previous example), who invest into an idea and try to create a company out of it. This case clearly pictures the controlling ownership step of the developmental model. Naturally, the second step is often a sibling partnership where the sons and daughters of the entrepreneurs takes ownership of the business, while the third step is the cousin consortium formed by offspring of the previous generation. As previously said, this progression is based on a simplified version of the reality of a family evolution, indeed the evolution itself can take shape in many different ways starting from various forms (i.e beginning from a sibling partnership). Nonetheless the three main steps enable researchers to categorize the ownership structure in an accessible framework.

The second axis of the model describes the evolution of the family over time. This dimension is made to capture the structural and interpersonal development of the family (i.e. marriage, parenthood, in-laws' relationships, etc.). The goal of dividing business families into progression steps helps to sort out the great variety of business-owning families, however simplifying the many overlaps between stages. The progression defined is formed by the following steps: *"young business family"*, *"entering the business"*, *"working together"* and *"passing the baton"*.

The third, and last, axis describes the evolution of the business overtime. This dimension is probably the most straight forward to understand, being consistent with any type of business. Start-up, expansion/formalization, and maturity are the main evolutionary steps of any firm. However, there are important underlying factors that have to be taken into account while taking about the evolution of a family firms: growth, product maturity, indebtedness, nonfamily manager development, internationalization all impact the strategic vision of family on the business. For example, the decision of a family to sell the business due to high indebtedness, product maturity or difficulties in promoting an effective internationalization strategy (Gersick K.E., 1997).

2.2 The Three-Dimensional Development Model

The three-dimensional development model structure and implications must properly address the totality of its components to provide the necessary framework on which the discussion on generational turnover will be structured. The criticalities typically experienced in the generational turnover derive from factors shaped by the current snapshot of the family business in relation with the ownership, family and business dimensions. The objective of this section is therefore to provide a comprehensive framework for the following analysis, giving proper emphasis on all building blocks of the model.

The Ownership Dimension

The ownership dimension relates to the shareholders structure of the company. The configuration and distribution of ownership may indeed have a profound effect on the business and the family decisions, influencing the overall strategic vision of the company. Moreover, family businesses are naturally influenced by the aging of the family members, which may have powerful ripple effects through each step defined in the ownership dimension. Professor John Ward was one of the first to point out different categories of ownership in the family business environment. He proposed the three main steps that nowadays are the building blocks of the ownership dimensional development starting from a company's founder, progressing through sibling partnership, and ending with a family conglomerate (Ward J. L., 2011).

The simple scheme proposed by Professor Ward takes into account both the natural development of a typical family and respects the actual structure of companies observable in the market. In fact, in the majority of western economies family businesses are founded by a sole entrepreneur (i.e. 75% USA) and from there moves naturally respecting the biological development of the family. However, the sequence of stages from controlling owner to sibling partnership and later to cousin consortium is not inalterably determined along a fixed path. In fact, the company may be founded by two brothers in a sibling partnership, but later become a controlling owner scheme because one brother decides to buyout the remaining stake in the company. Having provided this example, it is clear that the steps defined by Ward cannot be taken as given, considering that the order may follow different patterns or take a hybrid form structure. For instance, the majority stake may be controlled by one group of siblings but with some cousins, namely next generation, as minority shareholders. These hybrid forms usually represent the transition phase from the incumbent to the new entrant generation, the passage of partial ownership in most cases is in fact subsequent to the passage of the management activities of the enterprise. As the family enlarges, the hybrid form of ownership structure becomes more common, due to the natural diversity of ages range in the family members across generations (Ward J. L., 2011).

Here follows a brief analysis of the key characteristics and challenges of each stages of the ownership developmental model. The controlling owner is the most typical form in the private/family business environment, it is often labeled as the entrepreneurial family business, overall considering that many businesses were born thanks to the willingness of a sole entrepreneur that invest in its idea. Nonetheless, many of these businesses do not pass to the second generation as they are often sold or closed due to a variety of motives, which despite being relevant are not fundamental for the scope of our analysis and, therefore, will be overlooked. The key characteristic of the businesses under consideration is namely that they are controlled by one individual, the so-called entrepreneur, or by a couple (i.e. husband and wife). However, the other owners, if any, have only a holding in the business and do not exercise significant ownership authority. This definition covers a large variety of businesses in terms of size[1], sector and number of employees. On one hand, typical first-generation company may be small regional business with family employee and a very limited board of director, just for incorporation requirement, without any actual decision-making power except to confirm the strategic outlook set by the controlling owner. On the other hand, this same business may grow into a large multinational company with millions or billions of revenues, a large employee base and a more structured board of directors, even if the ultimate control lies on the hands of sole owner. However, in both cases these boards of directors tend to be composed entirely or primarily by family members. Given that the dominant position in the company is set by the family, both in terms of ownership and management, board meetings tend to lose effectiveness and, in some cases, the focus tend to be addressed to family debates rather that business guidelines (Gersick K.E., 1997).

Three main challenges impact the controlling owner stage: securing adequate capital resources, dealing with ownership concentration issues, and devising an ownership structure to foster continuity. First generation businesses usually derive financial resources from personal assets that may be divested to be reinvested in a business venture, this can create tension due to the personal attachment to the assets themselves. The other typical form of financing is debt, mainly bank debt that is the preferred form of external capital raising for small and medium enterprises. Moreover, even in the developed world, the alternative source of financing is rare for small businesses, but also rarely used

[1] With size we mean the financial magnitude of the company, i.e. a revenue valuation.

by controlling entrepreneurs in family businesses due to related company control dilution. Especially in western countries, for instance Italy where family businesses thrive in numbers, the external source of financing, if necessary, must provide the least influence on the business decision making process as possible. Therefore, also due to the market characteristics, the Italian environment is characterized by an extensive use of debt provided by banks, and a limited use of Private Debt credit compared to other countries. Whereas, Private Equity is increasing its importance on the domestic landscape. Conclusively, in general terms the capitalization of controlling owner companies is strongly linked to the business development of the company itself. The small company with sole owner will focus on owned personal resources and bank to maximize the control power over the firm, while a larger business will have owned liquidity and access to different source of financing to foster growth and may be more structured to consider the possibility of allowing the entrance of a Private Equity fund to maximize the capabilities of the enterprise (Gersick K.E., 1997).

The second challenge relates to the balance between the control of the sole owner and the constructive inputs of other stakeholders (i.e. managers & employees). On one hand, the business and the employees can exploit the advantage of clarity and efficiency of having a clearly identified single leader. A single leader may also be preferred by a variety of stakeholders (banks, customers, suppliers, advisors, etc.), which consequently have one single individual with whom establishing a business relationship and a trust link. On the other hand, the almost dictatorial power exercised by the sole owner may have disruptive effects on the company. For instance, the success or failure of the business is top linked to the competences, energy and versatility of one single individual and in case of lack of one of these elements the firm may be jeopardized. Moreover, some controlling owners feel that they have to take part of every decision even if the business is grown into a larger company, with a structured employee pyramid. They still reluctant to accept the advice from other employees or managers that may have more insight knowledge on a specific matter. The good and bad aspects of concentrated leadership can be further reinforced in the family circle. Founders, controlling owners, are often the psychological force in their families. In fact, there is a strong correlation between the success of the business and the control that the funders have of their families, given that the business success brings wealth, reputation and power to the family as a whole. The previously called dictatorial power of the entrepreneur can nonetheless have also disruptive effects on the family as well as on the business itself. It may indeed shape an environment that create great competitive tension between the founder or sole owner and its offspring or between the offspring themselves. Whether the competitive tension is not properly addressed, it may arm the relationship among family members and ultimately damage the business (Gersick K.E., 1997) .

The third challenge relates to the generational turnover of the business, firstly the controlling owner has to decide whether to keep the business in the family or sell the firm, this will mainly depend on the interests that the offspring has in the firm, whether their current career is linked to the family company or built elsewhere. When drafting the estate plan for his heirs few different possibilities may arise: in case of two or more sons and/or daughters the stakes in the company may be divided equally or the asset may be divided proportionally among the successors, but leaving the company to the only members of the family dedicated to the management of it. This solution may not be feasible due to the lack of sufficient assets to compensate the other successors for the remaining value of the firm, or, as well, due to claims on the company came forward by some successor, whether they are sentimentally and financially related. This "proportionality" strategy, even if difficult to be implemented, may be the best choice for the company itself, leaving the ownership only to the individuals, whether one or more, actually involved in the firm. The latter also allows avoiding in the long term the potential armful misalignment of interest that may arise in a sibling partnership between members of the family involved in the business, and other outside the business/employees' circle (Gersick K.E., 1997).

The second phase described by Ward is the sibling partnership, in general companies in this phase are larger and have survived longer having already passed the first stage. The scholastic sibling partnership shareholding structure is composed by brothers and/or sisters that have inherited the shares of the company in equal manner from their parents. Here, the key characteristics are that there are two or more siblings with ownership control, who exercise the effective management control over the corporation even if the passing generation is still alive and slightly involved in the business. On the other hand, the key challenges relate to the need of developing a process for shared control among owners, defining the role of nonemployee owners, retaining capital and controlling the factional orientation of family branches (Gersick K.E., 1997).

The development of a structure that enables a shared control among different owners is crucial to the overall health of the business. The tensions that can arise at shareholder level might indeed have extremely damaging effects on the business itself. The effectiveness of the process sets in place strongly depends on the shareholder structure itself, whether the shares are divided equally among the heirs or whether any one individual has a majority stake into the business. There are two main structures that in the market have been observed, the quasi-parental control and the first-among-equal structure. The quasi-parental control system arises when one shareholder has relative or absolute control over the company and can exercise a more incise power over it. However, it is easy to find an immediate criticality in this system, since even in the case that the brother with the larger share in the firm cannot rule on it without taking consideration in any way the shareholding of his brother and sisters. The quasi-parental control system may create tension among the shareholder base with tremendous potential negative consequences on the enterprise. On the other hand, the first-among-equal system takes the benefit of having a leader among the family, but respect the authority and role of the other brothers both working within or outside the company. This form is more likely to be implemented when some shareholders intend to exercise some right (i.e. defining the long-term strategy of the business), but do not want the full responsibility of being CEO of the firm. The first-among-equal role is delicate to be managed: too much leadership and the siblings will revolt against the parental presumption; too lite and the system can break in factionalism. To work, this system has the necessity of a collaborative environment among the siblings, and the definition of a set of rules generally valid among everybody, in order to facilitate the identification of the leader and the correct role of all members. These two systems start from the rational that a leader is needed to guide the company and promotes success in the new generation, therefore the proper selection of the leader and the cohesive environment in which the leader is educated is crucial for the overall success of the ownership developmental model at this stage. It is increasingly common that family set up rules for new entrants in the corporation to have the proof that the new individuals could have found success on their one, for instance a University degree, the knowledge of a plurality of languages and prior important work experiences outside the company are usually required. These rules cam be an effective tool to naturally define the next leader in the company and who will bring the best additive value on the table. Finally, there are some sibling partnership that work as a truly egalitarian arrangement. This case is common when the number of siblings is small, and the interest are divided in equal manner. In this case, the role of the board of directors is crucial to center the decision-making process that is not ultimately in the hand of one individual. The system tailored in this matter is fragile but can work whenever the personal leadership of the member is respected, and the roles are properly defined. The corporate and family culture has to be suited for an egalitarian management system and the definition of roles has to be properly addressed to avoid the creation of internal conflicts, or the inefficient management of the company's processes. For example, if one brother is assigned to the production and the other to the distribution, both parties have to respect and trust the work of one another, and address potential improvement in the board meeting, not silently creating friction between themselves (Gersick K.E., 1997).

Another crucial role definition in the sibling phase is the role of nonemployee owners. In the classical three circle model, these individuals lie on the 4th areas (Family and Owners), but do not take an active involvement in the day to day operation of the company. The challenge here raises from the misalignment of interest that -/not employee owners have in terms of distribution of resources. Starting from the most typical case, in which the assets are divided among the offspring in equal manner, the success of a sibling partnership relates to the ability of the members to pay attention to the dynamic of the single shareholders, their personal interests and how these interests may change overtime. Those sibling partnerships that resolve communication and role issue between employee and nonemployee sibling result among the most satisfying and impressive business families. In general, the key issues that may arise are related, as said, to the distribution of resources. Members of the family tiding up their career and professional development to the family business prefer to retain the resources within the business to promote an expansion strategy internationally or an M&A activity, because they are mostly driven by the long run outlook of what could their company become. Whereas, nonemployee shareholder may prefer to increase their value today through dividend distribution, since it enables them to benefit from their ownership status. The unbalance between these two classes can create issues, because the latter may be "*paper rich, but cash poor*" if they not receive any benefit from their ownership. This can eventually lead to the willingness to sell the stakes in the company, creating a problem for the business of capital retainment (Gersick K.E., 1997).

The third challenge of the sibling partnership is to attract and retaining capital. Here, as said, the interest mismatch can create an environment in which certain shareholders (i.e. nonemployee) decide to sell their stake and finally cash in what they have inherited. Generally, family business wants to keep the shares in the family not opening to external capital. This create tension among siblings and personal relationship can be ruined forever, especially in case of lasting conflict on the value definition of the stake and the means of payment. On the other hand, a company prone at distributing dividends to the benefit of shareholders can find itself in difficult circumstances in case of economic downturn, or as well in need for restructuring and innovating due to the amount of extensive funds that have been drawn from it.

Finally, the last key challenge that sibling partnership faces is the potential factional orientation of the different family branches. The interaction between the siblings and their own wife and children can create division among the brother and sister that have grown together. Here, the key challenge to be manage is the preparation of the next generation , because the family can grow distantly without a common culture and the involvement of family members is exponentially expanded whether also the in-law members of the family have interests in the business or the children grow up and see professional opportunities in the family firm. A share and defined family and corporate culture, or better identity, has to be put in place by the siblings to prepare, since the beginning, an environment in which the next generation can collaborate and properly manage the company to further bring success. This have to be done also considering that all the challenges described above are amplified with the enlarge family base (Barnes-Herson, 1976).

The final step of the ownership developmental model introduced by Professor Ward is the cousin consortium, at this stage control is exercised by a plurality of cousins from different sibling branches. At this phase, the ownership control can be exercised by a very large number of people that could differ in education, personal background, and age, among many other potential factors. Moreover, the complexity related to the employee versus nonemployee interest mismatch is even more severe in a cousin consortium compared to a sibling partnership, due to the enlarge size of the parties involved. The key challenges the family company faces at this phase are similar to the key issue described in the previous step of the model. The latter in fact translates in managing the complexity of the family and the shareholder group, as well as dealing with the complexity of the ownership structure considering the diverse interests of every individual shareholder. The complexity related to the family arises by the often-missing bond among relatives, who at this point may have completely different backgrounds and may not share any common family culture. This missing family culture translates in a lack of common denominators among the shareholders that are in a complex situation, somewhat between private shareholders but with the damaging factor of having some sort of residual sentimental attachment on the family's assets. Experience with cousin consortium has shown that this system could work whether the family shares some common moments, both to create or reestablish the family bond so much needed, but also to share the long-term vision of the company among all the shareholder base. These moments are particularly important for large families which members cannot have all a sit in the board of directors and share their involvement in the business activities. The family reunion can give to nonemployee a degree of integration in the general activities of the business, while providing insight to family managers on the interests and views that all the other parties have. The general idea is to keep interest in the family business, avoiding the *"paper rich but cash poor"* issue previously described (Ward J. L., 2011).

The second key challenge that family business faces at this point is to create a family capital market. The consortium, should be able to form a workable internal market for family shareholders, so that family members have the option to sell their interests minimizing the negative impact for the company. The keys to successfully create this type of process lies on the objectivity and fairness in the valuation of shareholdings. Outside advisors, trusted by all parties, have to be appointed to create a smooth and harmless process for the health of the business, considering that lasting legal fights can only cost precious resources and destroy the competitiveness of the family company center of the litigations. In many cases the remaining shareholders have not the possibility to buyout the remaining stakes in the company and alternative solution have to be validated. The use of debt might be a way to keep control in the hands of the family, but leveraging the firm can be done only in limited circumstance to avoid harming the growth potential of the company itself. Depending on the size of the business, a plurality of equity partners can be found: Private Equity can come handy in these situations, also providing management capabilities to the table. Another route, if size allows its implementation, is the public listing of the firm with the absolute or relative control of the family (Ward J. L., 2011). Both strategies can work providing mutually an exit option for a class of shareholders (secondary offering) and fresh capital (primary offering), with the aim of eventually boosting the growth potential of the business.

The ownership axis of the family business developmental model is quite complex, since it encompasses a plurality of factors influenced by personal sentiment/feelings of the parties involved, as well as specific characteristics of the company. The ownership axis is therefore probably the most complex to analyze, yet categorizing it in few steps as well as defining specific challenges to look at is very useful both for companies themselves and for the study of this subject. Indeed, the evolution of the ownership structure and the different interests that play a strategic role in the business development are determinant drivers of merger and acquisition activities, both sell and buy side.

The Family Dimension

The study of the development of the family dimension is more closely linked to social science rather than to classical business academic perspective, however it is crucially important in evaluating family businesses. Many of the issue that these companies face can be summarized as: the entry of a new generation, the passing of authority from parents to children, the relationship between siblings and cousins, and the effect of marriage and the retirement can be described. All of these can be evaluated only in a model that considers the passage of time. The family development axis combines the theory of Yale Professor Daniel Levinson on the comprehensive development of adulthood, and the theory of family life cycles. Both theories highlight that the individuals, man and woman, as well as the family itself, go through stages or eras during their lifecycles. The shifting moments across different stages ultimate shape then outlook the family and the company lined to it. The stages defined in the axis are *"young business family"*, *"entering the business family"*, *"working together family"* and *"passing the baton family"*. The key driver of the evolution of these steps is, as we said, time, or even better, the biological aging of the family members. Moreover, this axis is unique in the sense that is the only purely linked to family businesses. Indeed, the complexities that arise from the ownership axis are similar for all shareholding structure of a corporation, while the business axis just describes the evolution/maturity of the company in terms of size and market positioning (Combrinck-Graham, 1985).

The first phase is the *"young business family"* which the primordial step is the creation of a family. There are many factors shaping the successful management of this phase that have a direct impact on the business itself, especially if the latter is also in a start-up phase. The key task that has to be performed by the close family members is to create an environment with defined roles and obligations to balance the relationship between family and firm. The creation of a workable marriage enterprise, and the definition of the boundaries about the work-family relationship, are necessary to avoid distributive conflict among family members. Moreover, business families tie their wealth to their business and their ability to perform well on the market. This can create further stress if all the individuals involved derive their income from a common source and had invested with personal assets in the business venture. The relationship management at this initial phase can be very energy expensive and is extended also to the management of the enlarge family, that surely has influence of the young couple. This first phase is the necessary building block to have a solid foundation for a family that can deliver favorable results in business activities and can great a legacy to be left to future generation (Jaffe, 1990).

The second phase arises when the second generation is approaching the beginning of its working life and naturally looks at the family business as a viable option. The management of the midlife transition of the incumbent generation and the definition of their long-term objective, the individuation of the younger generation and facilitating a good process for the career decision of the new generation. For the purpose of this paper, at this point in the family evolution, the key challenge to address is the facilitation of a good process for initial career decision. The complexity of this phase starts from the trade-off between the aspiration of the parents and the personal objective of the children, as well as how the parental relationship between the two has shaped the decision. Firstly, the incumbent generation has to ask itself few questions to better manage its expectation, which can be as simple as the ones following:

- Will the business continue for another generation?

- Should the offspring take an active role in the management of the company or should he/she only be owner of it?
- It is better to define the roles of the offspring in the business, maybe leaving the ultimate control to someone external, or to leave the decision in the hand of the children?
- It is preferable to leave the children to have other professional experiences prior to joining the family business or to directly introduce them to the business activities of the family firm right after the conclusion of their academic experience?

Finding the answer to these simple questions can be very helpful for the incumbent generation to ease the generational turnover process, or at least to help in the clarification of the expectation that the two generations might and will have. Many factors will contribute to shape the aspiration of the parents with their children: the pleasure or struggle they have experienced in building the business, the assessment of the future potential of the firm, and the ability or vocation that their children have. Of same importance are the personal ambition of the offspring, and whether their ultimate desire is to work within the company or build their career elsewhere, having valued the same factors as their parents. The *"entering the business"* phase is very important to create a high-level framework of the generation turnover of the firm; however, parents are a long way to leave the company and many things can change while working together side-by-side with its own family members (Combrinck-Graham, 1985).

The *"working together phase"* is very delicate because two different generations are running at the same time the management of company and the largest issue that usually results from this environment is connected to the unprofessional behavior that both parties may use. On one hand, the older generation may feel superior, more experienced and, in accordance to this, challenge every decision of the newly entrant generation, even feeling armed in exercising its power. On the other side, the new generation may be somewhat arrogant and feel that the company needs a strong update, not giving credit for all the work that have been done up to today by the incumbent management. To avoid all of these disruptive conflicts and establish an environment in which the distinctive characteristics of both generations can be employed at their best to drive value additive initiative to the company, few issues must be tackled. Firstly, communication and cooperation must be established across generation, secondly, productive conflicts must be encouraged to drive innovation and, thirdly, definition and respect of roles have to be ultimately promoted (Jaffe, 1990).

The last critical phase of the family development phase is the so-called *"passing the baton"*, in which the incumbent generation plans its exit from the firm. The key family issues at this stage are the elder generation' disengagement from the business, the change in leadership in the company and the confrontation with the retirement. This phase criticalities are the two counterposing forces of the senior generation's difficulty of leaving, and the junior generation's impatience of waiting. In order to create a smooth process that minimizes the negative impact on the company due to the generational transition, timing has to be properly evaluated. As previously mentioned, the generational turnover is, or should be, somewhat planned during all the steps of the developmental model, to create an environment in which no damages are produced both in the interpersonal relationships and in the company itself. Two different, yet similar, concepts arise when dealing with this ultimate stage of the process: succession and continuity. Succession inevitably reflects the sequential aspect of the transition: the elder generation is now being substituted by the younger one. Whereas, continuity represents the values or specific aspects that have to be preserved across generations. Both elements are necessary to secure the future of the company together with the balance of the two counterposing forces. The elder generation is very often reluctant to leave its seat on the table, given that that position has grated power, respect, and status. The patriarchal family system applied to a family business sees its true criticalities in this phase, the loss of control on the management activities is seen as a parallel loss on the control exercisable on the family. The feeling of becoming less relevant entering the retirement phase is often conceptualized as entering the last stage of the individual's life. For these reasons, the disengagement from the business can be very harsh for the elder generation and it is often driven by an external event both of personal and business nature (i.e. completion of a long-term project). Another important element at this stage is the concrete transfer of leadership from the exiting generation to the entrant one. The leadership transfer can be done smoothly across phases (working together and passing the baton phase) as well as suddenly, as it happens in the majority of cases, usually due to external factors. The critical aspect of the leadership transfer is that it is to be done both formally and informally. In fact, the elder generation cannot silently keep the control of the company, because this will lead to tension among generations and inefficiency in relationship management with external shareholders. A possible win-win solution is to appoint the incumbent generation some sort of honorably title to give a sort of triumph status after a life dedicated to the family company. The idea is to involve the seniors in the high-level strategic vision of the firm, but separating the day-to-day business activities (Combrinck-Graham, 1985).

Conclusively, the family developmental axis describes a circle in constant evolution that repeat itself over time. The latter is a unique feature of family businesses, because it is driven by evolution of the family standalone with, indeed, great influence on the health of the business.

This process analysis was presented to highlight the main evolutionary steps and challenges that a family faces, and to discuss few attention points. Nonetheless, the ultimate success and integrity of a family in relation to its evolution and business is the internal culture that is created generation after generation with the awareness that time is a determinant variable that can radically influence the behavior of the member of a family.

The Business Developmental Dimension

The business developmental model is concerted on the analysis of the evolution of the company, on the matter there is a considerable amount of literature considering that this particular subject is not purely related to family businesses, but widely to companies as a whole. The importance of analyzing this process is related to the need to be aware of the differences in term of size and structure of family businesses that could be both small retailers or large multinational companies. Obviously, as the complexity and size of companies rise, also the interests and intricacy in managing the shareholders base increase as well. The evolution of companies is driven by many internal and external factors that are not central to this paper, what is important for this analysis is to provide the knowledge to cluster a company in a specific phase of its evolution. In this of course a simplified approach, but the evolutionary steps con be summarized in: start-up, expansion/formalization and maturity. To help the analysis, the definition of two common factors that drive the process are necessary: growth and complexity, namely. Growth is a very broad concept that is strongly linked to performance measurement of the company. A firm can grow in terms of financial metrics (i.e. revenues, market cap), as well as in terms of market coverage or innovation and R&D activities. Growth is probably the most important variable, because it can be empirically measured, however it is insufficient to define where a company stands on the developmental axis being a possible common denominator of all stages. Although, a start-up is generally expected to innovate more than a mature enterprise, a healthy, yet established, company is still expected to growth and innovate. The second variable to be taken into consideration is complexity. Complexity refers to the management structure of the firm, its corporate governance and employee base. Generally, a small company is directly managed by its owner with few or none middle managers and employees that respond directly to the owners. On the other hand, larger companies need middle managers, external executives and a larger employee base to be manageable and be successful. Moreover, large enterprises benefit from a structured board of directors with independent and non-executive directors that can add value to discuss and provide new capabilities to the firm. The combination of these to variable helps to define the stage in which the company is located on the axis (Barry, 1975).

Briefly, below the key challenge that a company generally face in each step of the process will be analyzed. The start-up can be defined as the primordial phase of the company, in which there still is an informal organizational structure, with the importance centrality of the owners as managers/employees. Moreover, on average, the star-up is focusing on delivering or developing a single product or service to enter the market. At this stage newly born companies face the struggle to survive and to find their space in the reference markets, as well as experie3ncing a reality check for the actual performance and the expectation of the business venture. The central survival points of evaluation are the ability to enter in the market finding an opportunity without competition (i.e. blue ocean strategy), the business planning as understanding of the necessary investment, technologies to develop the product/service, and the scalability of it to drive profitability. Moreover, financing capability is another crucial survival factor much related to the business planning activities. Once, the investment cost is projected, the entrepreneurs have to secure the proper financing through personal assets, other equity contribution (i.e. venture capital funds) and/or debt through a variety of financial institutions. The struggle one of the above survival factors could mean a deal breaker and a failure of the overall venture. A great deal of risk is involved in this phase, and the overall planning is necessary to mitigate it, as well as ensuring a healthy start of the business. The second challenge that entrepreneurs face starting up the business is the confrontation with the reality. Founders need to have the ability of balancing their personal expectation, passion and dreams about the project and, at the same time, keep an objective look at the evolving situation of it. This first phase for any company is a gamble that entrepreneurs take, but has to be planned and managed with the awareness of the main criticality of the process (Gersick K.E., 1997).

The second stage that an enterprise undertake under this model is the expansion/formation phase, where the firm is expanding its business activities through product differentiation and is starting to increase its market position at geographical level, nationally or internationally. The expansion is escorted by a structuring; therefore, the organization starts to have different business lines and a plurality of people dedicated to specific tasks (i.e. production, marketing, sale, etc.). Both variables, growth and complexity, are boosted and the company starts to be a reality that influences a variety of stakeholders. Both variables should be taken into account simultaneously to avoid unbalanced situations that, on one hand, could mean extraordinary costs of restructuring after a period of great growth but with inefficient management structure, and on the other hand, could result in an excessive initial investment costs to structure the business prior to sufficient growth level to justify the investment. The challenges at this stage are few, but they are all related to the ability to organize properly the company. Firstly, the founders need to evolve and become managers and professional as representatives of a concrete reality that has to respond to its stakeholders. Therefore, the first challenge relates to the professionalization of the management team. Secondly, at this point the enterprise needs to structure its mission and vision, the process of timely strategic planning is fundamental both to provide guidelines to what the firm want to accomplish and to signal to the market a sense of respect. These two first points are translated into an organizational management of the firm and the draft of internal policies to be followed. This crucial point will conceptualize and form the corporate culture of the firm that previously was something informal mainly linked to the founders. Moreover, financial capabilities are required for expanding the firm and those skills (i.e. cash and resource management) has to be imputed to the company from outside professionals whether not sufficient in the established management team. At this phase, medium enterprises of a certain size (i.e. c.€30m EBITDA) start to become potential target of private equity funds that seek opportunities in growing markets. Private Equity players could help the firm in dealing with the key challenges just mentioned above. They indeed have the financial capabilities, the ability and the task to structure the company to efficiently promoting new growth, for instance international expansion. In addition, they can provide fresh capital to boost investments and maximizing the competitive advantage of the firm. The ultimate objective of buyout private equity funds is eventually to escort companies through this expansion/consolidation phase and, after the necessary holding period, devesting from a mature and sound company. Consolidation patter driven by private equity investor is significant as percentage of total yearly M&A activity and is interesting to look at investment at this evolutionary stage in order to evaluate and experience how the company is escorted toward the next and ultimate phase of the business developmental model, maturity (Gersick K.E., 1997).

All businesses eventually enter the maturity stage, for many, this is last step of the business development journey. Although, maturity is obtained by each company at different rate, it becomes apparent when healthy margins start to thin, when competition increases and when the competitive advantage of the product/service starts to be diluted in market. Successful companies here realize that the expansion/formalization stage is coming to an end. However, many companies last in the maturity phase for very long period, in most cases due to a strong competitive advantage and high entry barriers in the market. For family businesses approaching the maturity stage may mean great rewards in terms of family prestige and influence. In fact, maturity states the ability of the owners' family to have established a place in the industry and the community. Nonetheless, it has to be underlined that maturity is just a phase of the developmental model, not the final destination. Firms tend to look at new opportunities and innovation (i.e. product differentiation, market expansion) to restructure their business and creating new growth and expansion. Many firms value the hypothesis of spin-offing a business unit to have the necessary resources to finance new ventures. Although, researchers advocate for this refocusing process many family firms struggle to radically change their business mix and try to modernize what possible without valuing new market opportunities. The latter phenomenon is particularly influenced by the current status of the two other axis, ownership and family. Strategic refocus, management and ownership commitment, and reinvestment are some of the key challenges that mature companies have to resolve. The strategic refocus is particularly tricky in family companies because it is a balance of opposing forces. On one hand, the acknowledgement that the market conditions have changes and the need to innovate and reinvent the business mix. On the other hand, the influence of the founder's legacy, family's values, goals and the history of the firm. Moreover, the necessity of a change in strategy as increased its frequency in the last decades. The speed in technology development has posed threats to many firms that have to adapt and innovate more quickly than ever before. It can be inferred that the business developmental model is valid in creating a simplified framework, but the speed to which a company moves from one stage to the other has greatly increased. Moreover, it is uncommon that one leader was able to escort the company through all the developmental phases, it is very complex to efficiently adapt to all the requirement that the evolving firm requires. The importance of non-family related management is crucial in delivering an effective organizational structure to the company. However, their contribution cannot be taken for granted and the company has to create the adequate career opportunities to retain the talents. It is often seen that, even in large companies, that top executive positions are filled by family members with maybe lite experience or capabilities to properly run their task. This create a strong limit for non-family mangers, since they are aware that after a certain point their career progression will be inevitably stopped and, therefore they may prefer to look elsewhere for more attractive and rewarding opportunities (Handler-Kram, 1988).

The complexity of reinvestment increases whether it coincides with the passing the baton in the family axis. Senior management tends to be reluctant to radically change the business mix, especially if it means a great use of external resources (i.e. debt). Levering the company to enter a new business, or buying a target company, may be seen as too risky by the elder generation that psychologically perceived it as a threat, forcing them to abandon something it worked for a long time. This may produce an opposite reaction which translates into moving against the expansion/formalization stage. This particular situation can indeed be an interesting driver for M&A activities, both as divesting and reinvesting strategies. The need of focusing on something new, together with the entrance of the new generation, can be a powerful mix to radically shape the family business in a completely new way.

New leader may have new leadership style, new interests and new skills to bring on the table and what to have their moment to expressed them through the management of the family business (Gersick K.E., 1997).

The business developmental axis is very important because it states growth that the company has accomplished and the complexity it has reached during its evolution. Understanding the positioning of a firm on the axis helps to deal with the unique challenges that the stage brings. Moreover, it helps dealing with the complexity of family businesses in relation with the other two axes of the model. Nevertheless, business evolution is not purely driven by internal dimensions, but rather it is shaped by external factors. Firstly, the interaction with the development of the ownership structure and family evolution could be a driving force to the business to reach a unique competitive advantage, or being a disruptive force that slows down the business evolution. Secondly, external market factors can speed up, and slow down the evolution as well. The general health of the economy, the credit market and the industry life cycle are all, among others, determinant factors from which the company can derive beneficial effects or otherwise (Gersick K.E., 1997).

The business developmental model, together with the ownership and family ones, have to be analyzed to provide the necessary theoretical framework of which build the discussion of succession and its relationship with M&A activities. A great emphasis was given to the ownership axis because the study of Professor Ward is often overlooked, and much more attention is given to the business itself rather than the complexities that the different ownership structures can create. In fact, the difference of interest arising in the ownership structure can be determinant factors for the decision of the reorganization of the company itself (i.e. sale), and in the end they have great impact of the business activities. The family and business axes were analyzed more briefly, but all the determinant challenges were presented. The family model was described to provide the general overview of the evolutionary patterns that a business family phase, and the important considerations that influence the other two axes. The business dimension was briefly examined because the evolution of businesses is extensively studied by scholars and it is generally common ground for the majority of Economic Science alumni. However, the influence of the family into the business model was taken into consideration as necessary building blocks for the upcoming elaborations.

2.3 Business vs Family Strategic Planning

Generational turnover is the ultimate test that a company faces when transformed from an individual venture to a family business. The leadership switch is an intense period of adjustment and adaptation for all the stakeholders involved. For many companies, in real life scenarios, the succession process is not planned and anticipated, but it happens without much degree of preparation at the last moment possible. Indeed, meticulously planned or not, the process is still very complex and presents arduous obstacles for the whole members of the three-circle model (Owners, Family members and Employee). Owners much dedicate time and effort in formulating a vision for the future corporate governance structure and decide how to properly divide the ownership among heirs, Moreover, they must organize way to select the most qualified new leaders and promote intergenerational communication to minimize potential damaging tensions as well as setting up contingency measures in case of unexpected events that could threaten their very vision of the future (Gersick K.E., 1997).

According to the research of Professor Lansberg, two core concepts that elaborate the traditional view of generational turnover process can be identified. The first core pillar of Lansaberg's argument is the validation of the range of available post-succession options for the family business, and the fundamentally different processes that have to occur for each of them. In fact, some control transitions do not involve material changes in the corporate organization and culture of the firm, while more complex transitions may need a fundamental reorganization and change of company's principles. The second pillar is that the route to be followed, defined in the first concept, should be driven by a share dream, a juncture of the aspirations of each single family members, woven together to form a collective long-term vision of the family company. The latter point is particular important because it ultimately stresses the difference between the senior and junior generation, as well as their expectation for the future to come, the prestige obtained in the past, or the willingness to drastically change the business mix. The successful process of generational turnover planning is driven by the sharing of the induvial goals and their integration into one objective and one course of action. The shared vision remains only a dream for many family firms due to the strong divergence in personal objectives of the family members and/or the lack of sufficient managerial skill to take over the business and manage its complexities. However, all family members come together to some degree by common shared objectives, financial stability and fulfilment for their offspring are two valid examples. In the end, the positive common denominators of family members have to come together and outweigh the obstacles to have a concrete chance of a successful generational turnover. A key issue with Lansberg's idea is the deal breaking mismatch between the expectation of the senior generation and the goals and capabilities of the younger one. As junior members of the family grow into adults, they start to shape their own personal objectives and hit the wall of reality in terms of the realizability of their dreams and level of personal skills they can offer in managing the firm. Seniors must therefore clarify their personal vision on the future of the family enterprise and realize whether the entrant generation has the commitment, skill set and talent to make that vision work. The major risk here is that the senior generation driven by its leadership style and experience is not able to promptly realize what would be the most effective ownership structure of the firm (i.e. controlling owner, sibling partnership and cousin consortium), and impose an organizational system that is destined to fail and arm both the family and the business. Moreover, incumbent management could not realize or accept that the new generation lacks managerial skills or interest in the firm, and impose a career path that brings only unsatisfactory personal and professional results. Business owners often cannot realize the full implication of their choices, because they cannot properly evaluate the best structure and talents need to guide the firm in the near future. It is very hard for founders to accept the idea that the young generation is not interested in pursuing a career in the family business or their lack of skills and value the possibility to hire nonfamily managers or sell the company (Lansberg, Managing human resources in family firms: the problem of institutional overlap, 1983).

The process of generational turnover is the mean that moves the family business stage after stage on the ownership and family developmental model axes. It is partly organized and partly unintentional, and it goes far beyond the simple switch of managers a generation after another. Succession is a transitionary process constantly evolving over the life of the firm and aging of the family stakeholders. It stars from uncovering and analyzing the personal dreams of the family key players and working together to create an evolving family culture that is able to capture the personal vision of the family members generation after generations (Lansberg, The Succession Conspirancy , 1988).

To manage the compelling complexity of creating a shared vision and guiding both the family and the firm toward success, the family business should put in place organizational structures and operational plans that easy the natural procession of the axes of the developmental model. The rational idea of the following pages is to provide a series of best practices that scholars and family advisors have found to be effective in real life scenarios to manage the transition across phases. Each of the three dimensions benefit from a coordination structure, which drives the accomplishment of its expansion. The creation of an organized structure and shared planned are the most useful instruments to clarify the position of stakeholders lying in the common subsystem areas of the three-circle model.

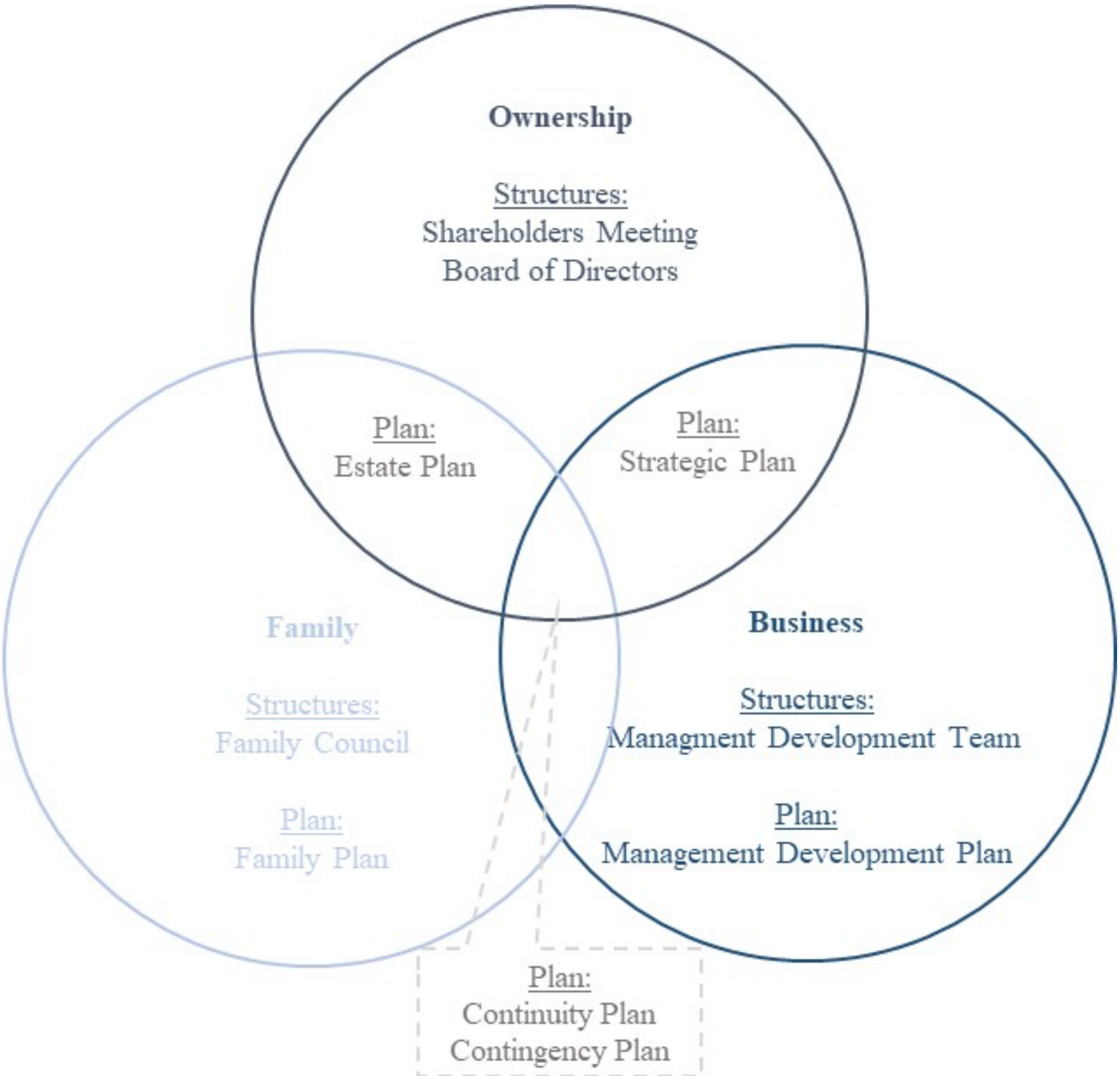


Figure 5: Three-dimensional developmental model structures & plans of Family Business (Gersick K.E., 1997)

The above picture summaries the most implemented and effective tool to deal with each area of the model. The most important organizational structures can be summarized as following: shareholders meeting and board of directors for the business area, and family council for the family area and management development team for the business area. On the other hand, the most useful plans to structure effective management of the complexities arising from the overlapping subsystems are: estate plan, strategic plan, management development plan, continuity plan, contingency plan and family plan (Gersick K.E., 1997).

Ownership Dimension Planning

The ownership dimension structure reflects the corporate governance system put in place by the firm. The two most relevant tools are, as said before, the shareholder meetings and the board of directors. The shareholders meeting in medium and large corporation is usually done once a year among only the shareowners of the firm. It has an informational scope; the management team has the role of explaining the financial performance of the previous year and setting the key objectives for the one to come. Most importantly, the shareholders meeting has the objective to appoint the member of the board of directors. For family businesses the shareholders meeting has also an important symbolic scope, it is an effective opportunity to create a strong spirit of ownership with the ultimate objective of reinforcing the bond of the later generation of the family business. It is an occasion for owner-managers to get together with nonemployee owners and to underline the importance of both roles, managers and investors. Moreover, this meeting is a change to share different views on succession and on how to organize it creating, if necessary, a proper internal capital market to avoid arm on the business activities. However, shareholders meetings are ineffective in dealing with general family issues not related to stock ownership, such as resolving disagreement about a deceased parent's estate plan or the family's role in the community. In fact, shareholder meetings are designed to discuss the general vision of the business and to highlight the past financial performance of the firm, as well as appointing the board of directors to guide the management. Researchers suggest that even in small and medium family enterprises shareholders meeting and board of directors meeting should be kept separated even though they include predominantly the same individuals to integrate these instruments in the corporate governance culture of the firm from the start (Gersick K.E., 1997).

The most fundamental tool for effective corporate governance in family businesses, as well as all firms, is the board of directors. The role of the board will be strongly influenced by the stage of evolution of the firm in the developmental model, especially in the ownership and business dimension. However, three fundamental principles for the board are valid across all the stages. Firstly, the board has to consider and to represent the owners' interests. Secondly, it has to define and to control the long-term strategic vision of the company. Thirdly, it has to be the principal advisor of the management team. In family businesses, the main criticalities of these generally accepted principle are the fact that, often, members of the board of directors are also the managers of the company. For instance, the founder could be the largest shareholder, chairman and CEO of his firm and it is clear that advisory and monitoring activities of the board are eliminated whether the chairman is also the CEO. Moreover, many family companies struggle to appoint effective board of directors and prefer to have the so-called paper board just for incorporation reasons. They fear that a well-structured board with independent directors could arm their autonomy. Market experience has shown that the benefit of a properly developed board can often maximize the competitive advantage of the company and be one of the determinant factors that makes the difference between failure and survival. Obviously, the need of a larger and more formalized board with independent nonexecutive directors proportionally increases with the growth and complexity of the company. The business and family evolution are key determinant factors of the formalization of the board. A large and structured board is not effective in adding value in a start-up with one or two founders, controlling owner and start-up situation. On the other hand, it is an absolute necessity in a large cousin consortium and mature business situation (Vance, 1983).

The ideal director has to act independently and to be able to complement the skills provided by the owner-manager of the company. The independent directors need to counterbalance the force of the owner-managers to maximize the overall health of the business and the whole shareholder base. Indeed, the role of the independent directors in a family company is not to challenge the vision of the owner-managers, but, on the contrary, to help the family to reach their ultimate family business vision guiding the firm and the family in each step of the development (Vance, 1983).

Whenever the ownership base is extended, for instance in a large sibling partnership, cousin consortium or and hybrid form of the two, and the complexity of the business structure is large, an effective tool to be implemented is the holding company. The holding company has the benefit of unifying the ownership of all the operating companies and creating different boards of directors that can maximize value creation. Operating companies' boards, dominated by external directors and outside management, while holding companies board with higher family members. This system can help families to diversify risk and limit the complication of distribution of proceeds. Moreover, it can help to maintain the structure of the overall family company and to create the internal capital marker needed in case of shareholders willing to sell their stake. The holding company is an effective instrument to create and preserve business family values and to address questions of the overall condition of the businesses, the investment needed and the dividends obtainable. Furthermore, it can assist to ease the potential tension among family managers and nonemployee owners providing to the single business units the possibility to keep the necessary resources to grow and creating in the holding company the family treasure (i.e. liquidity or other investments) that can come to hand in stressed situations and need of capital (Gersick K.E., 1997).

Another useful tool, that could be preferred by family businesses worried to lose some degree of control over the management of the firm, is the board of advisers. The latter is an external body that performs advisory services to the board of directors, and is mainly composed by family members. The potential upsides of the advisory board are: it can be preferable by owners that fear loss in control, it can be more fitted for certain business structures (i.e. distribution dealers and franchisees), and the risk of directors is very limited compared to classical board of directors. However, board of directors are legally demanded for the incorporation of an enterprise, therefore it may seem inefficient to put in place of bodies and not structuring a well function board of directors (Gersick K.E., 1997).

The ownership dimension structures, especially the board of directors, has the ultimate task of guiding the company in obtaining its objectives respecting the interest of the shareholders. The board in accordance with the senior management draft the strategic plan for the firm. The strategic plan is a common business practice aimed at defining the nearby goals of the company setting the overall strategic outlook and the milestones to accomplish it. The strategic plan is a useful tool to clarify the future of the firm for all stakeholders mainly involve in the ownership and business dimension. Moreover, the board is involved in the creation of the continuity plan and contingency plan. The continuity plan is aimed at highlighting the blueprint for the generational turnover. The board aims at supporting the determination of the family preferred ownership structure for the upcoming generations helping to set up the rules and guidelines for the new candidate leaders of the firm. The board plays the role of the companion in the delicate generational turnover process with the continuity plan to ultimate satisfy the long-term potential of the firm. The continuity plan functions as intermediary between the ownership and family dimension. On the other hand, the contingency plan is a tool put in place to deal with unexpected events that effect all three dimensions. The idea is to prepare the company to survive from unexpected negative event from one or more dimension, for instance an economic crisis, an incident that affect the management or a litigation among family members that lead to the breakdown of the ownership structure. The final objective of the contingency plan promoted by the board is to put in place the right countermoves to defend the company from idiosyncratic events, to keep a reserve of capita, while setting up an effective holding company are two among many possible other examples of contingency strategies.

Family Dimension Planning

Families are no other than organizational system and as such they need some structures to be managed, especially if they are commonly grounded on a business venture and the members number is large. The most useful tool to satisfy the family dimension is the family council, this tool becomes fundamental in cousin consortium as well as in sibling partnership, whenever new family branches are being created. Family council periodically puts together all members of the family to discuss issues arising from their family's involvement in the business. The aim is to provide a place in which family members can articulate their values, needs, and expectations vis-à-vis their interest toward the company and drafting policies to safeguard its long-term maintenance. There are four main drivers that make family councils a powerful tool to be implemented. Firstly, it provides the ideal frame for educating family members about the responsibilities that come with business ownership and management. Secondly, it helps clarifying the boundaries of the involvement in the actual daily management activity of the firm, and it gives the chance for nonemployee owners to express themselves. This particular point is aimed at limiting the damaging tensions arising between -/employee family members. Thirdly, the schedule of the council avoids family discussion in non-appropriate moments, such as holiday celebration or personal events. Lastly, family council creates the appropriate framework to develop the share dream so fundamental to establish a family culture that enables smooth generational turnovers. Conclusively, family council are tremendously helpful in providing opportunities to define interlocking interests and goals and constructively develop them with the common ground on the continuity of the business and the family. In relation to the family council it can be interesting to look at the role of in-law's relatives and reflect whether they should be included in the discussion or not. Generally, it is believed that the presence of in-law's relatives can be beneficial as they get accustomed to the family corporate culture and feel a sense of inclusion that is ultimate beneficial in the long-run to avoid fractionalization of the diverse family branches. However, the incorporation of the in-law's relative is a very delicate matter and should be evaluated on a case by case basis, the ideal situation could be to include these relatives in the family council giving them the feeling to be part of a larger and more cohesive group that share basic values and long term objectives, but avoiding the participation on business related discussions (Schein, The role of the founder in creating organizational culture, 1983).

Family council works at its best whenever there is a structured process in which it is defined the key matters under discussion and the schedule of the meeting. On the other hand, it should take an informal look and dealt with for instance a family weekend in the family estate. The council, as the board of director, is responsible to draft its own plan, in this case the family plan. The family plan includes a comprehensive analysis of the family history to create a sense of pride and key values to share among the members. Seeing the past as building block of the family culture. This common history is then useful to think about the vision about the future and realized as standalone individuals and family has a whole the evolution desired. After having reflected on the past and future, the family plan should focus on clearly stating the family mission defining the shared philosophy and the commitment in maintaining the business. Ideally, this is the phase in which the family culture is defined on paper as guidance of inclusion for a group of people. The last step pf the family plan is to actually put in place the guidelines previously defined. This includes the creation of programs and activities for family members, for example training and educational programs, developing a code of conducts and establish processes for resolving disputes. The family council should promote investment that unify the family and ultimate maximize the interest alignment of the family owners and their commitment toward the family company (Schein, Organizational Culture and Leadership).

Business Dimension Planning

The business dimension encompasses an extensive literature on corporate governance systems that are influenced by national cultures and best practices that legal systems have included in their framework to boost market efficiency and its soundness. Nevertheless, corporate governance is s subject so extensive and compelling that cannot be summarized considering a purely standalone approach on the business circle of the model developed across this chapter (Gersick K.E., 1997).

Family firms need structured management organization to be driven in their evolution across the developmental model and across generations. The professors that firstly developed the model presented in this chapter introduces the concept of management development team as key structure to tackle the business dimension in an easy yet convincing way. The management development team is a governance body, as it is the board of directors, composed by the key management figures of the firm. Moreover, it should also include members of the younger generation that are committed to pursue a career in the family venture. The key takes away is to give the possibility to senior and young generation managers, and managers-to-be, to come together to discuss overall management structure of the company, business needs and strategies. This tool should help senior generations to identify the best suited managers for the future as well as tailor the best corporate governance possible to efficiently rule on the firm. The management team should meet regularly, and their outcome should be the draft of the management development plan, where the team's projection of the company's executive staffing needs are defined, as well as whether the family members have the necessary skills to fill up those sits. The team can also set general guidelines on the minimum requirement that young generation need to have to enter the family business. The ultimate objective of the company should eventually fulfill its staffing needs with the best possible resources available in the market, whether they are family or not family members. This is the only way to ensure overall competitiveness of the business as a whole (Ward, 1988).

2.4 Key Takeaways of the Chapter

The second chapter was aimed at highlighting the key themes whenever dealing with family businesses. The objective is to provide a general definition of what a family business is and distinguish it from a private enterprise. Secondly, the chapter gave great emphasis on the development of a theoretical framework that could guide, step by step, the readers through the compelling criticalities and complexities that family businesses face. The theoretical framework was provided thanks to the amazing help of of Kelin E. Gersick, John A. Davis, Marion McCollom Hapton and Ivan Lansberg writing their book titled *"Generation to Generation, life cycles of the Family Business"* published by Harvard Business Review Press. The characterization of a family businesses into three dimensions helped to picture its complexity and highlighted the key challenges on a standalone basis. Moreover, it aided at identifying the common threats and influences that an event has across dimensions. The chapter than proposed a series of best practices tools that family businesses can put in place to maximize the efficiency of each dimension and minimize the potential armful tensions. The most important takeaway is the realization of the complexities that take place in the family enterprises for each of the dimension and acknowledge the necessity to create a common ground among family members. A shared and structure family culture is probably the most difficult aspect to obtain for a family firm, however it surely is the most important driver for overall success. Family culture is the basic building block of the corporate culture that influences all company's stakeholders. Without a sound building block a family business cannot last too long without facing severe threats.

The effect of family/corporate culture is almost unthinkable and can form the determinant driver of the unique competitive advantage that the firm has and its sound relationship with stakeholders, as well as creating damaging situations. The beauty of it is the constant evolution in an unstoppable process, that is very often overlooked. Indeed, it can be stated that it is the organizational structures and systems in all dimensions shape the successful development of the family and businesses together and standalone.

This second chapter aimed at the same goal of the first one, to provide a sound framework for understanding a subject so important for the overall economy. The value of M&A activities and the importance of family businesses are among the most important themes in today's economy, due to their extensive popularity. The following chapter will be dedicated at providing a comprehensive analysis to put together the two subjects in real market scenario.

Chapter 3 – M&A as effective generational turnover strategy in the Family Business space

Transition planning is a crucial element, if not the most important one, for the long-term health of any corporation. Transition is often overlooked or only partially studied and frequently occurs without much degree of planning, but rather it is caused by exogenous events (i.e. retirement of the current leadership, health issues, etc). In the family business space, the transition is even more important that in privately owned or in public companies. As deeply seen in the second chapter, the three developmental model suggests the implications of transition across time in all its dimensions, ownership, family and business. The complexities and interdependences of the variables as the transition occurs are enormous and are even more severe without a proper process structuring. As regard of planning, the second chapter provided extensive emphasis on valuing proper structures and plans to maximize the utility of the family business as a single unit and minimize the potential detrimental impact on the family and business on a standalone basis. One key takeaway of the developmental model is the necessity for the firm to refocus while a generational turnover is occurring, together with the objective analysis of the current market positioning of the company. The majority of family businesses' theories have as common denominators the concept of continuity and preservation, introducing many criticalities of the evolution of the family and the business and how to solve frictions to ensure a successful continuation of a dynasty. The objective of this chapter is to present an alternative interpretation, highlighting how M&A strategies can be used to benefit of both the firm and the family in the process of transition planning for a generational turnover. The evolution of the capital structure of an enterprise is crucial for the preservation and the restore of the firm's competitive advantage, as well as an internalization strategy and an advancement of the management's capabilities. Mergers and acquisitions used as general term to describe both buy-side and sell-side transaction can be used to leverage the desired outcome. On one hand, a buy-side transaction sponsored by junior generation can drive the strategic refocus that the company needs to keep its market positioning. On the other hand, a sell-side transaction grants the family diversification options of its wealth and can enable the firm to thrive under a better suited management and ownership structure. Sell-side transaction, or hybrid form (i.e. dilution through merger) are particularly effective in circumstances in which there is a strong mismatch between the interests and willingness of the senior and junior generations. It can eradicate the issues arising from expectation or capability mismatch that in the long run is armful for both the business and the family themselves. Therefore, the ultimate goal of this chapter and of all the thesis is to present alternative ways for dealing with the generational turnover, underlining the possibility of using M&A as instrument to properly ensure the long-term success of the business. The third chapter puts together the general overview of what M&A is, how and why is executed, with the theoretical framework of family businesses that is fundamental to properly address the current situation of the firm under analysis and asses the better suited solution to deliver value to shareholders. In doing so the chapter will propose a new theoretical model starting from a self-assessment tool in order to value alternative exit strategies leveraging the theory of the three-circle developmental model.

The use of the family business assessment instrument will yield a comprehensive qualitative valuation of the current standing of the family organization, and will enable to define which will be the best suited exit strategy for the current shareholders. Furthermore, it will enable a serious judgement of the validity of M&A strategies as means to address transition planning. The reasoning is based on the value drivers obtainable with the strategy with regard to the matrix Family/Business dimension and Buy/Sell side one. Later, chapter will deep dive into the market analysis of permanent capital investors that are playing, and will continue to do so, a large role into this market.
In the last section of the paper, it will be presented a series of empirical case studies to further underline this increasing trend of families that value alternative option of transition planning while approaching a generational turnover. The ultimate goal of the chapter is to provide an answer to whether a M&A activity can be an effective strategy for a family business dealing with generational turnover.

3.1 Alternative Exit Strategies

Exit strategies, often neglected in the studies of family firms that stress the concept of continuity, is one of the critical components of the entrepreneurial process. According to the framework developed by DeTienne, there are three main classes of exit strategies: stewardship, financial reward and cessation-based strategies. Stewardship refers to the continuity and sense of obligation that the junior generation feels toward the family business, and it is the concept on which the majority of scholars dedicated their analysis. Indeed, stewardship is the most commonly applied exit strategy in the family business space, the senior generation leaves the firm in the hand of the younger one and the family-business relationship continues unmodified. Financial-based exit strategies are tailored to deliver the maximum return possible to shareholders and are characterized by sell side transaction of both minority and majority stakes. Many types of transaction can be tailored to better deliver value to shareholders, but any financial-based exit strategy maximizes economic returns more than any other considerations. The last available exit strategy is the closure of the company throughout the liquidation of asset, this strategy is often preferred in distressed situations whenever the family prefers to safeguard personal assets and wealth rather than reinvesting in an unprofitable business (DeTienne, 2013).

To better address the reason why a family would opt for an exit strategy that involves the sale, completely or partially, of its business the threshold theory must be introduced. The threshold theory applied in the contest of family businesses weight two counterposing forces and look at the trade-off that is created. On one hand, the performance of the business intended as the financial results, market share, growth outlook and competitive positioning of the firm. A variety of elements that determine the financial value of the company and its attractiveness from an investor point of view. On the other hand, the so-called Socioemotial Wealth (SEW) that encompass all the dynamics arising from the personal attachment and interests of the complex network of family members in their role of shareholders of the company. The Socioemotional Wealth is a pragmatic way to incorporate all the elements and/or friction in the Ownership and Family circles of the three-circle model described in the previous chapter. Using the threshold theory to evaluate the exit strategy of a family business grants the possibility to weight the personal interests of the family members and access that the sale of a family business is not a pure relinquishment of equity ownership, but is has strong psychological implications. Family companies tend to share a strong internal culture very long-term oriented and they form their identity on the values that are common of both the family and business culture.

Therefore, family owners may be willing to accept lower performances compared to market levels or even accept unprofitability in order to prevent a loss in their Socioemotional Wealth.

The study of DeTienne and Chirico forms a series of propositions in this contest. Firstly, they point out that a family in which the Socioemotial Wealth is high tend to be more prone to favor a stewardship-based exit-strategies rather than valuing the possibility of divesting from the business (DeTienne, 2013). Moreover, a SEW is often translated in limitation to change and, especially during generational turnover, it can stop entrant owners-managers to rethink about the business and find new market opportunities, also with acquisition whether feasible. Looking at Socioemotinal Wealth from this angle can seem a damaging element for the overall health of the business. This is not the case, SEW, as said, encompass all the dynamics good and bad that shape a family and its ownership in the company. It describes the family culture that in the second chapter is stressed to be a needed element to ensure the proper management and development of the generational turnover. SEW must be balanced, and its dynamics properly assessed, providing to SEW the proper weight that will counterforce the weight credited to the performance of the business. For example, company A is a mid-size company operating in the wine sector in which financial performances are thriving and the older generation is leaving the ownership and management to a young, engaged and prepared generation. The entrant generation feels a strong commitment and pride towards the family business and decides to expand the core business with an acquisition to boost product differentiation and market penetration. In this circumstance both forces are strong and there is no issue regarding succession, the focus for company A is to put in place all the structures and plans to guarantee that interests are aligned to guarantee a smooth pattern across the stages of the developmental model. In the case of A, a strong SEW can be a competitive advantage for the company as it shapes a unified corporate culture and ensure a shared long-term vision. Instead, company B is a large steel producer with a long history in the market but with losing profitability; the family runs the firm and the new generation is approaching the business with strong pressure from the senior generation but without the proper managerial vision. There is a clear mismatch between the expectations of the incumbent owners and future ones. Here, there is an unbalance of the two forces. On one hand, the profitability is lacking and selling the business could be a rational choice to both ensure business continuation with a better suited management/ownership and preserve the wealth of the family. On the other hand, the SEW is strong but based on a mismatch of expectations that does not create a proper environment on which develop an organizational culture that can deliver value in the long term. These two examples are extremes ones to point out to different situation in which an appropriate valuation of the situation is needed to set a strategic route. Many hybrids scenarios are possible between the examples of company A and B, but the valuation of the current situation with the use of the developmental model and the threshold model is a common help to define the proper transition plan.

The second proposition develop in the study of DeTienne and Chirico states that, given what stated above, the market should experience a large number of family companies that are underperforming with strong Socioemotial Wealth. This second proposition does not mean that family businesses underperformed in general, rather the opposite, it underlines that in situation of change (i.e. succession planning) a strong SEW could blind the owners from an objective evaluation of the current situation and limit the vision of the company's future impeding to value alternative solution to the traditional passing the baton (DeTienne, 2013).

The power of SEW on family members and their interests toward the company is negatively related to the evolution of the variables of the developmental model, ownership, family and business. As the complexity increases (i.e. the business is grown larger and needs higher level professional management, the family members are many and fractioned in different subgroups and the ownership is widespread) the intensity of the Socioemotional Wealth decades. The evaluation should be done on a case-by-case basis, but many studies show that as the ownership is in the hand of many fractioned individuals and the management is delegated to external professionals, the family holdings start to resemble the shape of investments in a publicly held company. Therefore, the degree of family identification, pride, commitment and sentiment toward the family business start to shade and the financial interests prevails on them. In this situation, for example a large cousin consortium, it is easier to value alternative exit strategies as the sale of the stake of the company to an external investor (DeTienne, 2013).

A small parenthesis can be made in relation to family companies that hold a portfolio of ventures and that apply the same Socioemotial Wealth rationale on a plurality of assets. As generations pass, the motives and drivers of the members of each generation naturally change and adapt to the current market conditions. The ability of a successful family business management is to address the potential of the holdings that the family has and exploit it. For example, focusing on the historical core business as did by the Antinori family, and leaving other peripheral businesses or refocusing completely the business as did by the Falck family moving from steel producers to renewable energy providers while preserving the same corporate/family values.

Conclusively, the performance threshold helps to picture the dynamics that are shaping the transition planning of a family business, weighting financial consideration with physiological ones. Granting to the latter the proper attention into an analysis that often is only focus on rational market phenomena. Generational turnover, indeed, create a favorable environment in which M&A activities can thrive. It is often overlooked by scholars the volume of M&A transactions that are driven, partially or completely, by the natural generational shift of family enterprises. Contrariwise, financial advisors and financial investors see clear market opportunities in advising and investing in companies that either are willing to value alternative exit strategies or need support in the process of strategic refocus.

3.2 Value Creation of M&A Activities during a generational turnover

At this point the objective of the paper is to propose a framework based on the theories and models presented up to now, to enable the analysis of the generational turnover under new lights, giving strong focus at the use of M&A as driving activity to create value both for the business and for the family. The idea of creating this new framework comes from the necessity of having an easy to use tool to take into consideration all the forces that take place in the family business space. The ultimate goal of this framework is to provide an analytical way to access the choices of entrepreneurs to structures their generational shift as they did, as well as help other companies facing transition planning activities. As well as the Porter Five forces model, this framework would be useful to highlight case-by-case criticalities and point out rational value drivers for both the family and the business. Moreover, the framework can be a useful tool both for family businesses themselves to have awareness of their position in term of transition planning and future outlook and useful for advisors and outside investors (i.e. Private Equity Funds, Strategic Investors, etc) to seek new investment opportunities. Generational turnover is a very specific event in the life of a company, yet it is defined over a long period of time as the new generation has to show interest, commitment and preparation as well as the incumbent one has to create a reactive environment in which the new generation can grow.

Family Firm exit strategy valuation framework

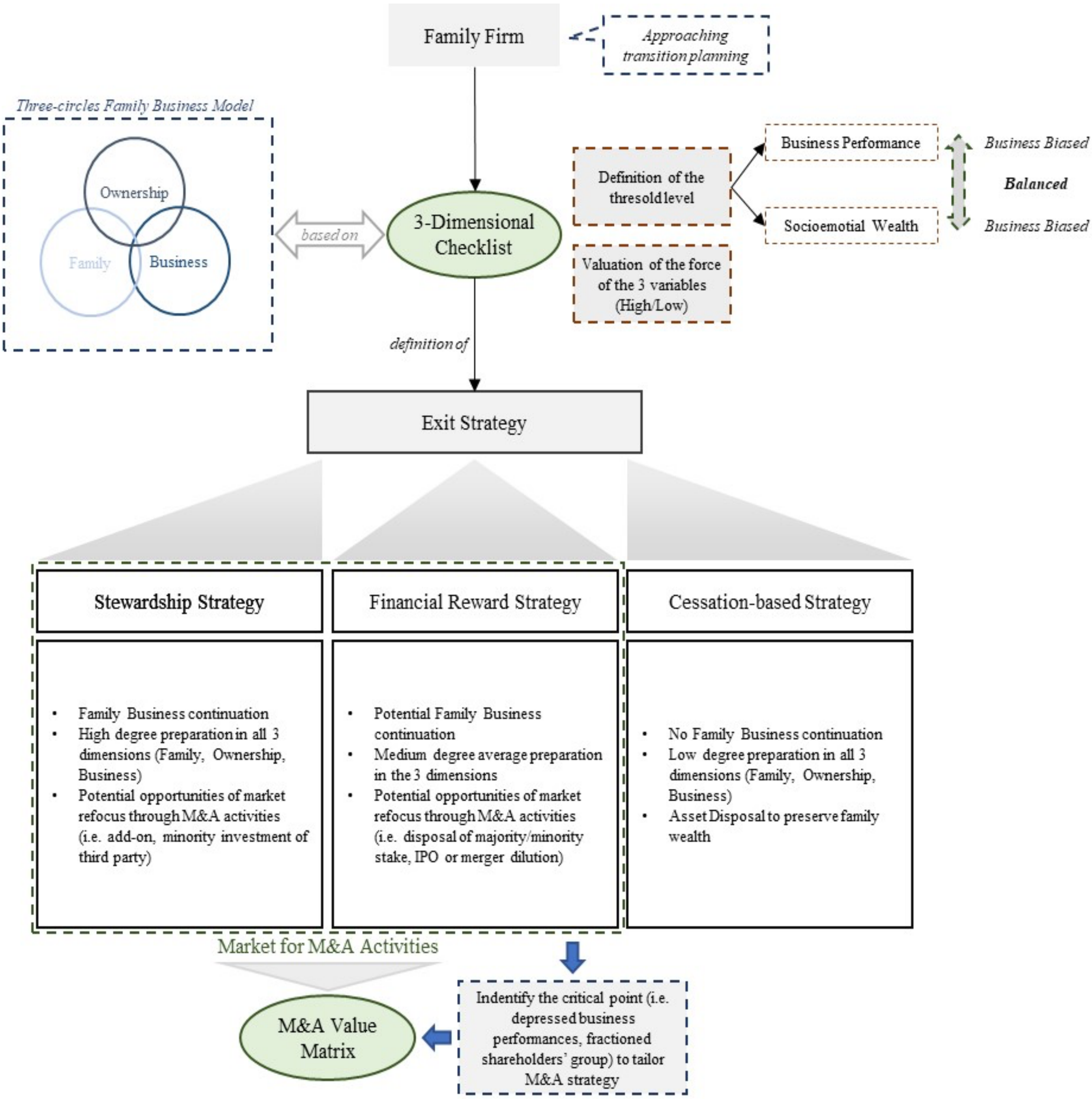


Figure 6: Family Firm exit strategy valuation framework: (own elaboration)

Above it is presented the visual representation of the framework that start from an internal evaluation of a family company that is thinking about its transition planning. The evaluation phase is crucial for the devolvement of the model and should be a common driver for any business that start thinking about the future. The evaluation can and should be helped by external advisors that bring on the table objectives comments on the soundness of the market and business itself and in the identification of the future capital requirement of the company, also human capital. The valuation of the *as-is* situation is supported by the theoretical models presented in the previous sections of this paper. The 3-circle model defines the snapshot of the current dynamics of the Family, Ownership and Business dimensions. It addresses the complexities that are specific of the family business under valuation as well as which structures and plans are already set in the management of all three variables. The effect of using the 3-circle model is a due diligence assessment of the corporate and family culture, the expectations of the players involved, as well as the current evolution of the business from a financial standpoint. Moreover, it highlights how the family is managing the business and the corporate governance structures put in place. The final outcome is the definition of the components and power of the Socioemotial Wealth and the evaluation of the business under a managerial perspective. These two pillars unified together helps identifying the threshold level and establish a first milestone in the definition of the most value-adding exit strategy for the family business. At this point, the first milestone, the family company should have answered to issues such as the trade-off of expectation across generations, recognize, if any, the future leaders of the company, identify whether the governance structure maximize the interest of the business and shareholders without being biased toward some parties. Furthermore, analyze whether the company business, or business portfolio, and market positioning is sustainable with the available resources in the long run. The first evaluation phase can be summarized in a checklist as the one presented in the following page.

3-Dimensional Family Business Checklist

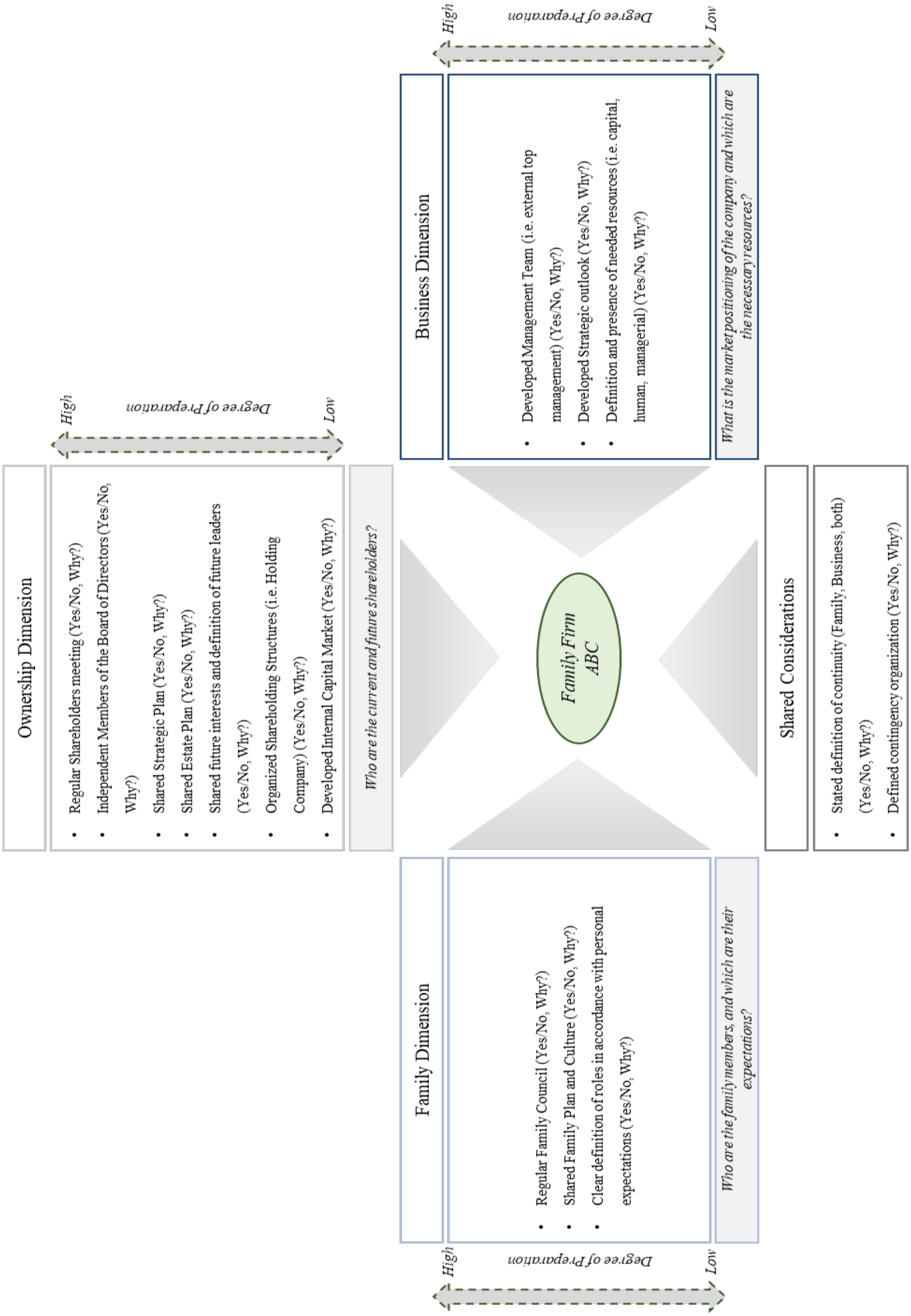


Figure 7: 3-Dimensional Family Business Checklist (own elaboration)

The questions proposed in the checklist are the general concepts proposed in the theory developed in the second chapter arranged in a new pragmatic manner that enable the family business stakeholders, advisors and potential investors to immediately identify the level of awareness and preparation toward the process of transition planning. It accesses whether the overall management of the family business is performed in an organized and efficient way that can deliver value in the long term. Moreover, it yields an analysis to evaluate the different level of evolution of each variable of the model. Often in family businesses the strongest threats can come from inside rather than outside market conditions. The unbalance among Family, Ownership and Business dimensions shown thanks the use of the checklist can point directly at which threats the family business is going to encounter from the most value destroying event would derive. There are many examples of successful family businesses that avoiding the considerations of the family and ownership dynamics have failed to organize a proper transition plans and ended destroying the family company.

The 3-dimensional checklist identifies the forces and dynamics of a family business, and highlights the strength and weaknesses of the current organization of the transition planning. As much as the Porter's five forces strategic model it subject to the evaluation the degree (high or low) of the elements that shape the competitive advantage of a company, this model addresses the 3 main forces that ultimately have effect on the overall long-term preservation of the family business.

It is probably incomplete to transform the 3-dimensional family business checklist into a scorecard and given the resulting score suggest the best suited strategy of transition planning, nevertheless the qualitative analysis that generally identifies a high/low degree of preparation regarding Family, Business and Ownership dynamics can suggest pattern to be followed that can deliver value. At this point of the analysis family business ABC has concluded the self-evaluation, also supported by external advisors, and can start thinking about the next steps or exit strategies. Whether the 3-dimensional checklist yields a clear high degree of preparation for all 3-variables and the business is thriving the family company can profit from a classic succession of the business to the entrant generation. This is the typical case analysis by academics in which the continuity is the ultimate objective for a family business and the studies are aimed at suggesting ways to smooth the process. The counterposing situation is whenever the degree of planning is very low and the business is struggling, at this point an exit strategy that can be seriously be taken into consideration is the closure of the business activity and the disposal of the asset in order to preserve personal wealth of a family and safeguard other assets (i.e. family estate). The closure of a business should not be seen as failure, yet an occasion to safeguard the wealth generated over a long period of time by the senior generation.

It is often the case that the industry characteristics and the technological enhancement required to retain competitiveness in the market are not anymore achievable by the current management due to lack of resources or macroeconomics drivers. Moreover, the family might struggle into finding a common identity and values given the long distance from the belief and objectives of the founding generation. Liquidation of all the family business assets can provide an extreme yet very effective solution to free all the parties that can own their share of the wealth previously linked to the family. The strongest threat to the asset's liquidation is the determination of value and the claims that all the parties involved might have or pretend to have on the assets themselves. For this reason, the use of serious professional advisors is an absolute necessity into determining the value of the assets.

For all the other grey situations in between a very high or very low degree of preparation and awareness of the transition planning phase there is a great market opportunity for the development, in term of volume, of merger and acquisition activities, both sell and buy side. It has to be stressed that not all situations in the range are suitable for performing M&A activities, due to size, market condition, willingness of the shareholders and many other factors. However, the proper analysis of alternative strategies based of M&A activities can create the conditions to solve the generational turnover and deliver value to both the family and the business. So, how value can be created? To answer to this apparently easy question it is necessary to structure a simple matrix that take into considerations buy and sell side M&A activities in all possible declination and the family and business dimension of a standalone basis.

	Buy-Side M&A	**Sell-Side M&A**
	Add-ons, buyout of new business	Minority & Majority Stake Disposal to new financial/strategic partner, IPO, merger dilution
Family	• Rediscover of s shared vision • Redefinition of long-term strategic outlook	• Wealth Diversification • Solve internal interests' conflicts • Creation of internal capital market
Business	• Synergy benefits • Market Diversification • Product Differentiation • M&A to substitute R&D or internal technological development • **Strategic Refocus**	• New partner to deliver new capital and resources (i.e. know-how, managerial improvements) to support internationalization strategies • Synergy benefits • Larger Group with dilutive merger

Value Drivers

Figure 8: Family M&A Value Matrix: (own elaboration)

Buy-Side Activities

The term buy-side encompass all the activities that yields the acquisition of companies, assets or other resources that a bidding company identifies into a target one. The value delivered from a business point of view is related to the synergy effect of the combined entity and the improved marker position of the resulting enterprise, themes deeply analyzed in the first chapter. Buy-side activity is the result of an internal analysis and reflection the family business owners that are aware of the necessity of a strategic refocus of their business to survive and deliver value in the long-run. Acquiring technologies, acquiring new businesses in new marker are all synonymies of internal self-evaluation. In particular, family businesses tend to be very reluctant to change and strongly believe in organic growth and development. Buy-side activities, promoted by the entrant generation and sponsored by the senior one, are occasions to set the strategic outlook the company, define new leaders and consolidate the shared vision. For example, the Ferrero and Agnelli families started a serious process of strategic refocus promoted by the new entrant family management, enlarging the product portfolio and changing the business mix of the family business something that was thought to be impossible just few years earlier.

From the family point of view the decision to start buyout activities bring to light the necessity of reflecting about what would be the long-term vision of the family company. It creates the conditions, in conjunction with a generational turnover, to define and renew the family culture, roles and vision starting from the family council up to the corporate governance systems put in place at enterprise levels. Moreover, it can point out potential conflicts of interests and "silent threats" that could arm the firm in the near future, it could start from establishing a proper internal capital market, whenever feasible, for nonemployee owners that want to maximize their utility rather than committing to expensive takeover strategies. For external advisors, the use of this model can help to identify other implications rather than pure performance related ones to propose feasible transactions that can ultimate delivering value. The consideration of the family dynamics cannot be overlooked, given its centrally in the decision-making process. Reflecting about buyout strategies to enlarge the business and change the strategic outlook of the firm in family council is crucial especially in large cousin consortium with many nonemployee family members. Their commitment toward the company and their interests is as important as the family managers daily working in the company, avoiding acknowledging that can create an armful environment that cannot last without damaging the business itself.

Conclusively, buy-side strategies during the delicate process of transition planning and generational turnover can create a profitable environment in which address performance aspect of the business as well as the evolutionary pattern of the family and ownership circles. M&A strategies involve external agents outside the scope of family businesses, such as lending institutions, financial and industrial advisors, this external exposure point credibility issues whenever the process is not dealt with the necessary commitment and organization. Therefore, prior to the engagement of any such activity, the family business must properly self-access its current situation and solve internal issues that could arm the process. The successful reinforcement of family values, definition and realization of the different interests of the parties involved in the Family and Ownership circles are all fundamental elements that shape the future success of the family, and the use of buyout strategies can accelerate the benefit both of the business, the family and the combination of the two.

Sell-Side Activities

Sell-side activities comprehend a variety of transactions that ultimately are translated in the sale or dilution of a stake in a corporation by the existing shareholders, in this case the Family owner. Precisely, sell-side activities encompass minority or majority transactions, IPO and mergers that cause the dilution of the shareholders. These types of transactions are aimed at providing new and fresh resources to the company through cash injection to foster growth in case of financial investors or through synergic benefit in case of industrial partners. The degree, in term of stake, that sell-side activities have on the corporate governance is crucially important to be properly addressed in case of family businesses. Again, the 3-dimensional checklist can be helpful at evaluating the best suited strategies in the sell-side space. It helps in identifying whether the family can extract higher value through the complete business disposal or through the disposal of a minority stake in order to address the weaknesses in one or more forces of the three-dimensional model. As previously mentioned, the evolution of the capital structure is fundamental for the long-term health of an enterprise and the generational turnover planning is the perfect moment to address it.

Thanks to an increased structuring of a financial culture within the Italian environment both throughout the entrepreneurs and the advisors Private Equity funds are now seen as effective means to leverage growth thanks to their flexibility. A growing number of Private Equity funds are willing to consider minority investments in target companies, adopting a longer-term strategy compared to classical private buyout. Moreover, these funds are considered to be among the few players that could drive a serious industrial policy that could escort companies in their dimensional evolution, provided with market capabilities that can sustain corporate reorganization, changes in governance and resumption of productivity (Commissione M&A AIFI, 2019).

Considering transition planning as the path that a family company begins evaluating itself through the 3-dimensional checklist to identify its main criticalities and aiming at resolving the issue delivering value for both the company and the family it is easy to state that there is a great market opportunity in assisting a company in this process. With the main objective of creating a stronger family company sustained by three pillars, firstly, the creation of a corporate structure that attract talents and formed management, secondly, an international oriented strategy that is can be quickly implemented but with effective results. Thirdly, the evolution of the capital structure of the firm aimed at growing and lasting in time. Minority investors can bring all these positive value additive solutions to a family business, while maintaining the control to the existing shareholders and focusing on a long-term strategy that is naturally linked to the continuity of a family business. The importance of minorities investments, especially from financial players such as permanent capital funds, are particularly important in the family business space given their ability and flexibility at addressing specific issues highlighted with the 3-dimensional checklist. For example, a family business that what to keep the control in the hand of the family but need fresh capital to preserve its competitive advantage and internationalization strategy can use the help of permanent investors to properly structure the strategy to achieve this results. Moreover, it can help in creating an internal capital market to liquidate existing family members not interested in continuing with the family business as well as creating the conditions in which the next generation can have the choice of being owners & managers or just owners of the company (i.e. through a subsequent IPO) (Commissione M&A AIFI, 2019).

Due to the complexities and variety of conflict of interests highlighted in the second chapter, minority transactions can be effective tools to resolve crucial issues in all dimensions of the family business model in all those circumstances in which there are no dominant forces of family, business or ownership dimensions that require a strong divesture from the firm. Large restructuring and severe family conflict cannot be easy resolve with investments of permanent capital players, which maximize value bringing stronger management capabilities and means to effectively promoting long term value to the business. On the family side, permanent capital investors can help resolving internal conflict and bring together the family shareholders to addressing the continuity of the family business with another partner and reshape the corporate culture of the organization. Likewise, it can help creating a favorable environment to structure internal capital market for shareholders willing to leave the company and diversify their wealth, and therefore reinvigorating the existing shareholder base. Given the centrality of minority investments in the family business space, the next section of the chapter will be dedicated the Italian market evolution of this class of transactions and a deep dive of the permanent capital investors.

3.3 The evolution of the Italian market for minority transactions and permanent capital investors

The strong evolution of minorities transactions within the Italian market is symbol of a gradual, yet strong cultural shift for companies that seek to preserve and increase their market positioning and competing strength on a global stage. The classical bank lending is not enough at providing the necessary resources to companies that need to pursue a strong reorganizational strategy. Therefore, minority investors can be a suitable solution in providing managerial capabilities beyond capital injections, and ease generational turnover processes and wealth diversification strategies of existing shareholders. The capital raise is typically done through private placements with specialized financial partners or an initial public offering in case in which the corporate governance structure is already well organized. Typically, equity partners are private equity funds, permanent capital investors and other investment company, such as sovereign funds (i.e. Cassa Depositi e Prestiti in Italy), SPAC among others.

In the period 2014-2018 the M&A market of minority transactions grew on an average rate of 12%, counting 830 deals in period with a total deal value of €88 billion representing respectively 22% and 29% of the overall Italian market, as showed in the graph below (Commissione M&A AIFI, 2019).

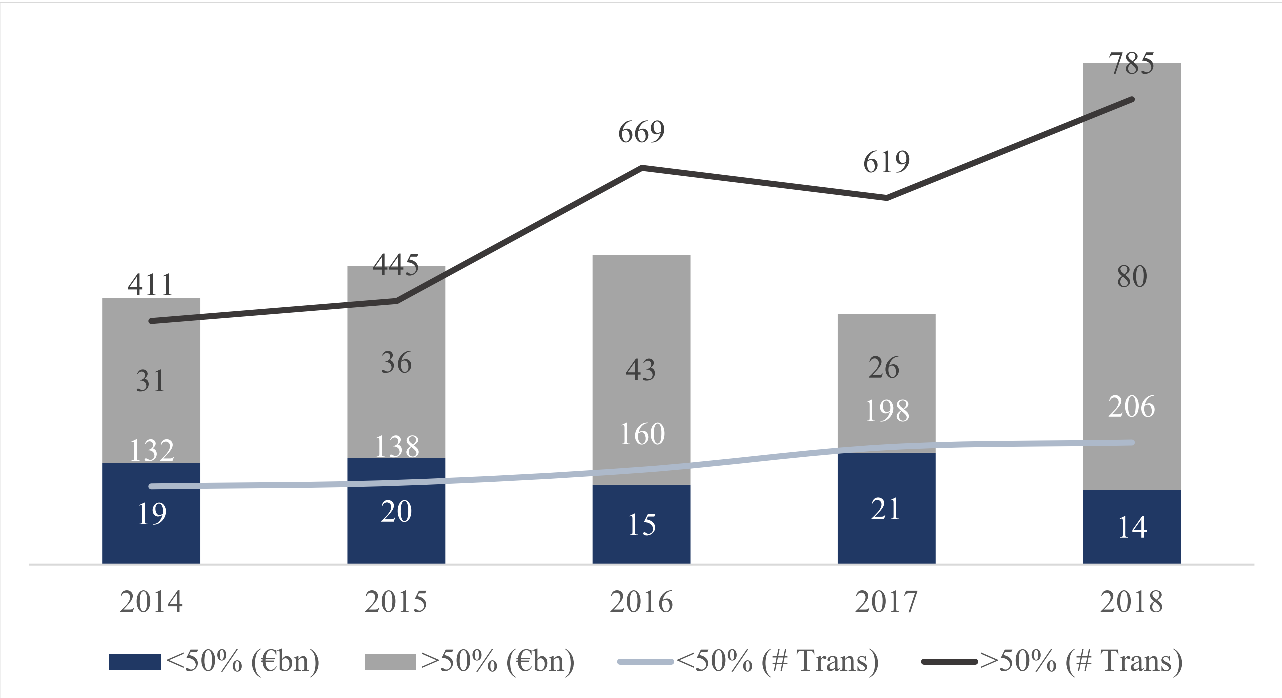


Figure 9: 2014-2018 Market Evolution of Minority M&A Transactions in Italy (Commissione M&A AIFI, 2019)

Moreover, during the same period the principal acquirers can be distinguished in eight principal classes. Emphasizing the increases importance of private equity and permanent capital funds that are seen by entrepreneurs and family businesses as a valid alternative to bank lending as a mean to support growth, a partner to sustain an effective internationalization strategy and a way to approach the regulated capital markets. Available public data underlines that the 106 transactions concluded by private equity funds for a total deal value of ca. €4 billion were mainly undertaken by foreign investors in terms of investment size, €3 billion over 49 transactions, while the remaining share performed by Italian private equity players. The research clearly suggest that foreign players are focusing on larger ticket transactions compared to domestic ones (Commissione M&A AIFI, 2019).

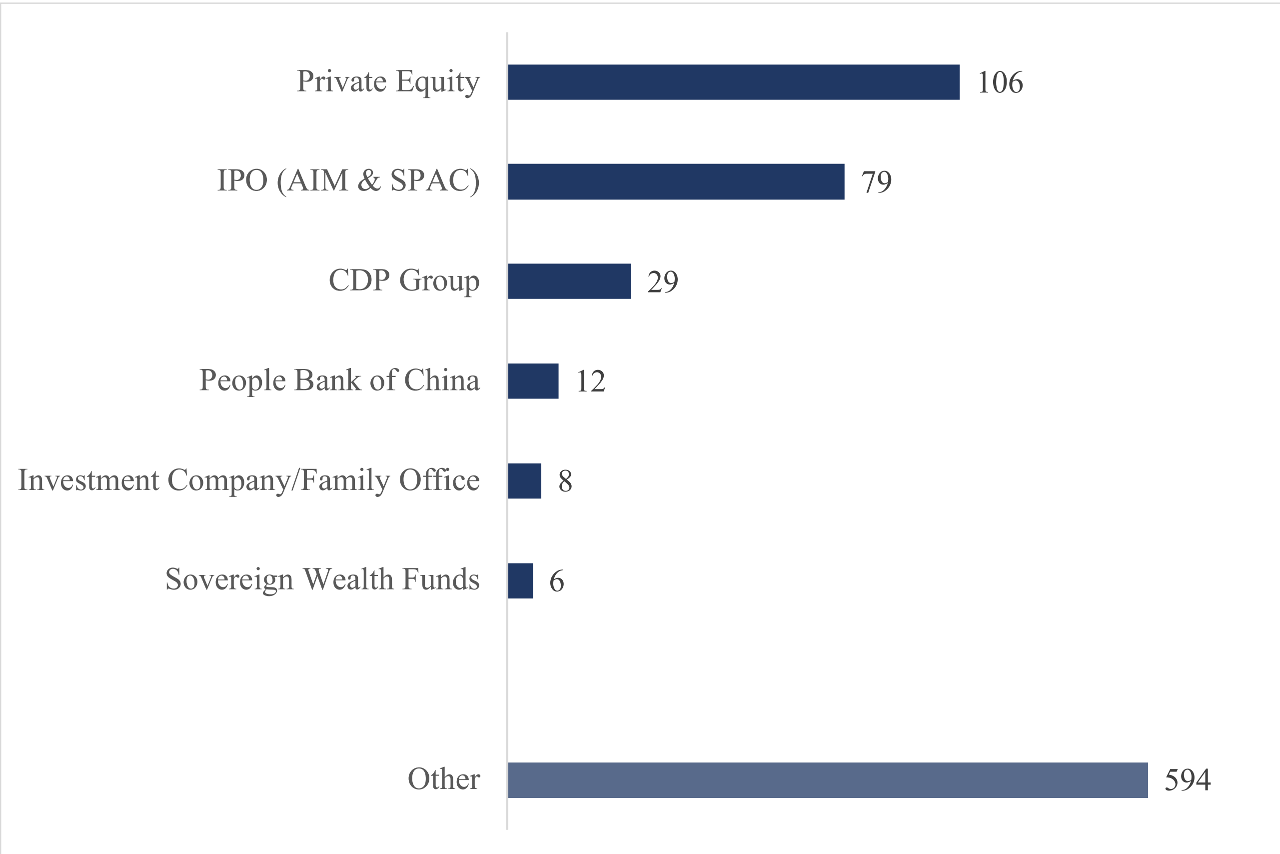


Figure 10: Acquiror Classes of Minority M&A Transactions in Italy (Commissione M&A AIFI, 2019)

The buyout activities performed by these financial players were mostly focused in the Consumer Markets 35%, Financial Services Markets 26% and Support Services & Infrastructures 20% in the 2014-2018 period. In the family business space, Blackstone played an important role acquiring in 2014 a 20% stake in the Versace fashion group from the family to support their development and, later, in 2017 a ca. 33% stake from the DeNora family of their business group. The family believed Blackstone to be a sound and well-known international partner to support the business in the entrance of new international markets. Cassa Depositi e Prestiti with its dedicated team CDP Equity (once Fondo Italiano Strategico) focusing on providing capital to sustain the development and internationalization processes of Italian family businesses. Among the major investments of CDP Equity there are the investment in Missoni fashion brand (42% stake) and the acquisition of 35% of Lumson, cosmetic packaging company. All these investments are targeted in sustaining the business future development and together, from the family point of view, to address the generational turnover issue and guarantee continuity of the business. Indeed, the entrance of professional investors with minority stakes in family businesses can solve the delicate aspect of control that is so essential in the Italian business environment together with granting fresh capital, know-how, international network and strategic advisory to the company. All of these without threatening the entrepreneur and family leadership. However, minority investments made by financial investors can deliver value only in case there is a clear interest alignment between the family business and the financial partner. The latter is seeking to invest into successful companies that want to leverage their market positioning with an internationalization process and managerial enhancement and need capital to sustain this strategy. This need to boost the competitive positioning of the family business often is sponsored during the generational turnover after the proper analysis of the expectation of both senior and junior generations. There are two major threats that limit the attractiveness of a family business from a minority investor standpoint: the relation with control and the exit. The control issue is much discussed in this thesis, minority investors seeks to maximize the company's value defining a long-term strategy shared with the existing leaders, increasing the managerial capabilities and reporting standards to better compete an international level. Generally, financial investor of this sort leaves the day-to-day management of the firm in the hand of the incumbent managers, therefore without damaging the authority of the family managers on their organization. However, the financial partner requires veto rights on extraordinary matters, such as acquisitions, recapitalization, etc., that are outside the scope of the shared strategy previously agreed. The other threatening issue is the exit strategy, financial investors derive great value from the disposal of their stake in the business after the holding period in which the strategy was applied. The exit from the firm is a normal, yet critical part of the business model of any financial investor as mean to cash in the rewards of the investment made. From the investor point of view the exit strategy has to be evaluated immediately taking into consideration diverse scenarios: the substitution of the minority partner with a new investor, the listing on the regulated capital markets, the repurchase option granted to the majority shareholders or the complete disposal of the business (Commissione M&A AIFI, 2019).

The exit strategy of the minority investors is a potential deal breaker in the investment phase if the proper boundaries are not defined. Family business owners should value all the option with an open vision and, again, looking at the 3-dimensional checklist to constantly reinvigorating their vision and capture all the market opportunities presented to them.

The solid development of permanent capital investors in the last 10 years testifies the market opportunities of minority investments for financial operators and resolves some of the major criticalities of traditional Private Equity players, especially in dealing with family businesses. As mentioned earlier, the exit strategy, the active management, and duration of the investment of the financial partner are all potential issues in the relation majority-minority shareholders. Permanent capital are investment vehicles with an undefined temporal limit, therefore, by nature, they are tailored to be part of the capital structure of an organization with a very long-term outlook (i.e. 10 years or more). The difference in the investment holding period of these patient financial players is not the only difference compared to classical private equity funds, different deal structuring, and corporate governance management are among other factors. In terms of corporate governance, they create fewer requirements in terms of board sits, veto of business plans and M&A activities, capital structure among other aspects, underlying their commitment into solid enterprises that need support and not restructuring of their business operation. Permanent capital investors are characterized with lower risk profile compared to private equity and, therefore, seek to invest in mature and establish companies with developed managerial framework. They focus on establishing lasting relationship with their industrial partners and escorting them with know-how and financial capabilities in their further development or resolving generation turnover issues. As minority investors, they focus less on active day-to-day corporate governance issue of the company, but more into creating a solid and lasting strategy to extract value *in itinere.* The other major difference of permanent capital and private equity investors relates to the exit strategy, as previously mention to be critical in case of family businesses. Patient investors extract less value from the disposal of their stake because they focus on maximizing the cash generating capabilities of the firm to be translated into dividend distribution over the long-lasting holding period. Whenever approving the exit of their investment, the available routes are the initial public offering on the regulated market or the disposal of the stake to the majority investor or other external partners. The, so-called drag-along clause, is not underwritten in the deal between the company and the permanent capital investor. The drag-along policy enables the minority shareholder to negotiate the disposal of the totality of the corporation in which it has invested, not only the stake owned. This policy is typically applied by classical private equity funds that focus on maximizing the exit price to extract value and higher returns from their investment. However, it is clear that the application of this policy favor permeant capital investors over traditional private equity operators in dealing with family businesses that want to preserve their family heritage linked to the firm (Commissione M&A AIFI, 2019).

There are three major classes on permanent capital investors: family holdings, sovereign wealth funds and tactical funds. The first two players are commonly characterized by their excess liquidity and ability to find cheap capital resources. Family holdings are particularly interesting from family businesses because they share the same intrinsic nature. Family holdings seek to differentiate their portfolio into sound companies in which they can bring their financial know-how and fresh knowledge in dealing with family business issues. Family backed investors look for long term commitments with fewer stringent requirements in terms of short-term returns and exit options. Sovereign Wealth funds are state-backed financial institutions that have recently started direct investment strategies and consider minority investment in sound companies to assist them in the long-term with passive strategies. Typically, these national funds adopt a risk-adjusted strategy over a 5 years' time frame and co-invest with other financial players with higher active involvement in the target management. On the other hand, tactical funds are dedicated teams of traditional private equity players that have identified an interesting market opportunity in investing with patient capital strategies. However, they are still more active in the corporate governance setting, requirement of returns and exit strategy outlook compared with the two previously mentioned categories (Commissione M&A AIFI, 2019).

Conclusively, minority investments and the coming of specialized permanent capital investors create a serious point of reflection for family businesses dealing with generational turnover. This investor class can be the first opening to external capital of the family firm that identifies some degree of complexity into addressing a healthy long-term strategy. As mentioned, many times, the complexities may arise due to internal issues of the family/ownership circle and structure or due to external business-related matters. The objective of presenting the minority investment markets and the permeant capital players was to highlight a concrete solution that many family businesses are adopting after a proper self-evaluation in dealing with their transition planning. M&A, in terms of minority disposal, can be a solution to cover many grey areas highlighted by the implementation on the 3-circle developmental model and the definition of the proper exit strategy of the senior generation. This type of investors may, also, be the first step for opening the capital structure of the family business that will enable continuity of the company and capture market opportunities that were not conceivable by the close family ownership.

3.4 Application of the model & Key Takeaways

Here below there will be presented a series of case studies to project the real-life application of the qualitative model developed in this chapter. The case studies have been selected among famous international companies that have used various M&A strategies to modify their outlook and solve the generational turnover issue. However, it has to be pointed out from the beginning that the theoretical model has been developed for the use of corporate insiders and advisors that have first knowledge on internal family business matters. Nevertheless, the model can be applied by outsiders with some degree of simplification on specific family & ownership matters.

The case studies selected are aimed at displaying the validity of the model and how in situation of generational turnover it is possible to tailor a merger and acquisition strategy that delivers value to the family business, with the mutual respect of the business and family interests. As mentioned, though the development of the threshold theory and the concept of Socioemotional Wealth, many family companies care way too much on the family side of the business rather than the business activity itself and during the delicate phase of generational turnover this can be damaging for the firm's performances.

The first case study will be developed in more depth highlighting the importance of the transaction between Luxottica and Essilor, moreover the nature of the Luxottica family business points out an interesting occasion to test the validity of the model. First of all, the complexity of all dimensions is very high and given that the group is listed there are extensive researches and data available. The family complexity is very high as well given the three marriages and six children of Mr. del Vecchio that have claims on the family group. Moreover, this case study proposes a transaction that is very interesting from a combined entity point of view and it is rarer compared to traditional sell-side transaction in the family business space. The extensive data available on the business and the family are crucial factor for the proper development of the case study, which is designed for internal use of the family and its advisors. The other case studies are dealt with fewer emphasis given the less complexity presented by the family business. Nevertheless, they are important for testing the model and understand the rationale behind certain transactions. Moreover, the last case studies are developed in an accelerated manner to enable to readers to independently apply the model. They are designed to present the framework and complexity of the family business under analysis, while leaving the space to self-define the three-dimensional checklist and construct the value matrix.

Luxotica and the dilutive merger with Essilor

Luxottica, founded in Agordo (Belluno, IT) in 1961 by Leonardo del Vecchio, is an Italian listed company leader in the design, manufacturing and distribution of fashion, luxury and sport eyewear. It produces eyewear products for both owned brands (i.e. Ray-Ban, Oakley, Persol, Oliver Peoples among others) and licensed brands from other luxury fashion houses (i.e. Giorgio Armani, Burberry, Bulgari, Channel among many others). Moreover, a major competitive advantage of the Luxottica Group is the global footprint throughout the fully owned distribution network, which encompass approximately 9,100 retail stores (i.e. Sunglass Hut, Salmoraghi & Viganò, etc) in 150 countries worldwide. The vertical integration of the group is not purely down streamed toward the distribution and logistics, but also up streamed with the production of ophthalmic lenses, design and engineering.

In terms of financial performances, the group concluded the 2018 financial year with €8.9 billion in sales, 64% generated through the retail channel and the remaining through wholesales one. 58% of sales were generated in the United States, 21% in Europe and the remaining mostly in the Asian markets. Gross profit and operating income stood at €5.7 and €1.3 billion respectively underlining a strong cash generating facility.
Luxottica group is not unaccustomed with the use of M&A strategies to boost growth. In fact, the group has historically performed a series of important acquisition to boost vertical integration and its competitive positioning. The company started with the purchase of La Meccanoptica Leonardo in 1981 to boost its production and engineering capacity to the expansion of its distribution network internationally (i.e. LensCrafter 1995, Sunglass Hut 2001, OPSM Group 2003, Cole National 2004 (Target Optical & Sears Optical), GMO 2011, Salmoiraghi & Viganò 2016, Oticas Carol 2017, Spectable Hut 2018). Moreover, Luxottica was able to leverage its buyout of distribution networks to further organically expands them in new markets with strong synergy benefits. During the same period the company work to enhance the technological development of its production and engineering capabilities strongly investing in R&D and contract important partnership with Intel. Furthermore, the firm expanded its product portfolio with the acquisition of new brands (i.e. Persol 1995, Ray-Ban 1999, Oakley 2007, etc) (Luxotica, 2018).

From an Ownership perspective Luxottica, prior the merger with Essilor, was controlled by Delfin S.a.r.l. holding company fully controlled, in terms of voting rights, by Leonardo del Vecchio (the founder). The ownership stakes of the holding company are divided as follows: 25% directly controlled by the founder and the remaining 75% divided among the 6 children. This shareholding structure of the holding company was defined in November 2014 prior to the merger with Essilor and aimed at retaining the lawful disposable share of Leonardo del Vecchio in its hand while ensuring their stakes to the children. Delfin, prior to the merger, controlled Luxottica with a c.a. 62% stake in the company, while the remining stake was mainly held by the public. Moreover, the del Vecchio holding has stakes in major Italian banks and insurance companies (i.e. Mediobanca, Assicurazioni Generali).

From a family standpoint, Leonardo del Vecchio, now 84, has 6 children from 3 different marriages. From the first marriage, Mr. del Vecchio had 3 children: Claudio, Marisa and Paola. Only Claudio has been previously involved in the Luxottica business during the expansion on the company in the United States since 1986. However, since the beginning of 2000s he moved away from the family company acquiring the Brooks Brothers fashion house. From the second marriage, Mr. del Vecchio had only one children Leonardo Maria del Vecchio, now 24, who currently sits in the board of directors of Luxottica and it is head of retail Italian market. From the third marriage, the founder has 2 children Luca and Clemente, which are currently underage. Nevertheless, Leonardo del Vecchio remarried his second wife Nicoletta Zampillo in 2010, who since that moment pretended a more active involvement in her interests toward the family holding company.
After this brief, yet comprehensive, description of the of the Luxottica Family group it is possible to quickly apply the three-dimensional developmental model and understand where this company stands to give an enlarged framework on which it can be applied the three-dimensional checklist and tailor the better suited strategy to ensure wealth preservation for the family and value creation for the company.

Ownership Dimension

The ownership dimension highlights the ownership structure of the company and the configuration of the interest that the diverse family parties have on the company. Luxottica is a large and established company that in the last 30 years and grown and developed. The fact that the company is listed on the regulated market and that the management has been in the hand of external professional supervisor suggest that Mr. del Vecchio has been keen to develop a strong corporation not purely linked to himself and his family. In fact, the corporate governance systems adopted, as well as the board of director were not dominated by family members. Nevertheless, prior to the merger with Essilor, Leonardo del Vecchio had full control, in terms of voting rights, in his company through his holding company Delfin. Therefore, it can be stated that the ownership of Luxottica is characterized by a controlling owner that has formed a corporate governance system to limit the potential downside effect that a patriarchal owner can do on his company. As mentioned in the second chapter, the key issues of controlling owners are: ownership concentration, securing adequate capital resources and devising an ownership structure to foster continuity. Mr. del Vecchio has been able to properly address two of the above cited issues, through the IPO has been able to create a large corporation that has facilitated access to capital and thorough the injection of high level professional management he limited the challenges related to the balance between the control of the sole owner and the constructive inputs of other stakeholders.

Nevertheless, the third major challenge of devising an ownership structure to foster continuity has been addressed by the founder, but there is no clear outcome out of the nearby generational turnover. On one hand, the founder created a holding company of which 75% ownership is in the hand of his 6 children, while the remaining 25% was kept in his hand to be distributed in accordance with its will (and in accordance with Italian regulation). This shareholding structure of the holding company that controls Luxottica was drafted in November 2014, when Mr. del Vecchio exercised a call option to increase its stake in Delfin from 1.72% to 25%., while maintaining the 100% of the voting rights. This change in ownership structure has been seen by the market as a way to secure the generational turnover and satisfy its current wife (also the one of the second marriage) that wants a more active involvement in the family business grating to her Mr. del Vecchio 25% stake (Sole 24 Ore, 2014).

From this standpoint it is imaginable that the generational turnover of the Mr. del Vecchio is unclear given the variety of interest of the parties involved. In accordance with the three-dimensional model, the future ownership structure will be a hybrid form of sibling partnership with the addition of a member of the senior generation, the current wife. However, this sibling partnership resemble the shape of a cousin consortium given the natural factionalism of the different siblings group from different marriages and the widely dispersed age difference. Moreover, out of six siblings only two have taken part, at some point in their careers, in the family business, while the other four (two of which currently underage) are nonemployee owners. Furthermore, Claudio del Vecchio, firstborn child, former manager of Luxottica, has left the company in the early 2000s to pursue his entrepreneurial career in the United States. Therefore, currently there is only one family member of the younger generation involved in the company and member of the board of directors for the last few years, Leonardo Maria del Vecchio son of Mr. del Vecchio and Nicoletta Zampillo (current wife entitled of 25% of Delfin).

Looking at the situation, it seems that there is no clearly defined leader for the future that will take the control of the holding company and represent the sibling partnership. Leonardo Maria currently is the only one involved in the family business, but due to its young age and potential relative dominant position in the holding company summing up the stake of his mother (37.5% stake), it is hard to think that the other heir will easily grant him a position of quasi-parental control or fist-among equal. As well as it is unthinkable that the holding company could be managed through an egalitarian way, considering the mismatch of stakes of the siblings (37.5% of Leonardo Maria plus his mother and 12.5% of each of the other 5 siblings). Therefore, no clear leader or future outlook of the family involvement in the company has been defined whenever Mr. del Vecchio will pass the baton. The critical point in the Luxottica case is the difficult alignment of interest of the nonemployee owners, which are the majority, the difficulty in this diverse group of forming a shared vision and the creation of the family capital market that can take into consideration the interests of all parties.

Family Dimension

The family dimension is the hardest to be evaluated for outsiders, because it focuses on internal dynamics such as the capabilities and personal ambition of the offspring. However, from an outside point of view it is possible to infer that Luxottica can continue for another generation, but that at the situation prior to the merger with Essilor, meaning the absolute control in the hand of Mr. del Vecchio, demands for a future leadership definition. Even though the company was publicly listed, almost 62% of it was controlled by the sole owner that has ultimate control on the company strategic outlook. An absolute control position as such ask for a clear definition of leadership, which is fundamental for the future business performance and signal a positive position to marker investors.

As cited in the Ownership dimension the future shareholding structure does not create a clear definition of the future leader that could substitute Mr. del Vecchio in is role of controlling owner. The large presence of nonemployee owners also creates a threat in the definition of business continuity and succession. Nevertheless, the founder is working together with one of his children and this points out a delicate phase in which the role needs to be properly defined and respected to the mutual benefit of the family and business relationship. Moreover, as the founder approaches a senior age, the necessity to start thinking about generational turnover and to define a process for a smooth passing the baton becomes inevitable.

The divided sibling groups can create an environment in which it is difficult to create a shared family & business vision able to encompass the diverse interests all the party involved. Therefore, it is almost impossible address all the family members and satisfy their personal expectations. In this case there is no clear definition of the process of passing the baton that is needed for the definition of the leased that has to control the absolute majority of a large listed company.

Business Dimension

On the business axis it is easy to state that this company is in a mature and consolidated phase, it is strongly vertically integrated and strongly invests to preserve its competitive positioning as market leader. Moreover, it is enjoying record high market valuation in part sponsored by quantitative easing. During the second chapter, specifically dealing with the business axis of the model, it has been stated that mature companies' criticalities includes the need of strategic refocus, internationalization, technological enhancement and need of professional management. Luxottica is well aware of the challenges that a mature company faces and has structured a corporate governance system rooted on professional external management rather than family members. Even, Mr. del Vecchio is not involved in the company as CEO but rather as Executive Chairman (Luxotica, 2018).
The presence of a structured corporate governance based on professionalism has been positively sponsored by minority shareholders and, according to the three-dimensional model, testify the awareness of the Luxottica toward the best practices to promote and sustain a healthy business.

After the Initial Public Offering, Luxottica has pursued a strong acquisition strategy to foster growth a complete its vertical integration pattern. It focused on preserving and empowering its competitive advantage and fortify the market barriers to entry. Additionally, it constantly monitored its market positioning and value new internationalizing opportunities and product portfolio enlargement strategies. However, the industry in which Luxottica operates is mature and growth margin are thin, therefore there are potential additional benefit of merging with another large group to exploit cost synergies. Conclusively, it is possible to state that on the business dimension the company is in a mature phase but continues to exploit new market opportunities to increase its competitive advantage and therefore there could be future market development to further consolidate the business and derive economic benefits.

<u>Appling the three-dimensional checklist on Luxottica</u>

The application of the three-circle developmental model on the Luxottica case enables the creation of a comprehensive framework that is the building block to test the validity of the three-dimensional checklist to identify valid motives to explain that M&A strategies can deliver value during the process of generational turnover. Previously, Luxottica was presented on a standalone basis prior to the consideration of the merger with Essilor. The idea is to apply the checklist as the pre-merger status, and to highlight way the dilutive merger of equal with Essilor was a valuable strategy both from a family and standpoint.

Here below the Luxottica's three-dimensional checklist

Ownership Dimension: *Who are the current and future shareholders?*

- Regular shareholders meeting? Yes, Luxottica is a publicly held company that respects the best practices in terms of corporate governance
- Independent members of the Board of Directors? Yes, Luxottica is a publicly held company that respects the best practices in terms of corporate governance
- Shared Strategic Plan? Yes, Luxottica agrees to pursue a business plan promoted by the board of director and voted by the shareholders meeting
- Shared future interests and definition of future leaders? No, there is no clear definition of who will be the future family leader and how to address the divergence in interest between employee and nonemployee owners. Claudio del Vecchio might leave its business and come back to run Luxottica or Leonardo Maria could take the seat of his father. Many scenarios are possible and there is not yet a clear definition of the outcome.
- Organized Shareholding Structure? Yes, the family stake in Luxottica is held though a holding company that gives 100% voting right to Leonardo del Vecchio
- Developed Capital Market? No, currently all the voting rights are held by Mr. del Vecchio. However, the heirs might find way to structure an internal capital market prior to dispose their stake directly to the public market.

Conclusively, it can be inferred that the company has developed advanced corporate organizational structures to properly run the business and satisfy the best corporate governance practices. However, it lacks of defining the degree of involvement, active or passive, that the family heirs will have in the business and fails to define the future leadership profile. Therefore, the degree of preparation on the ownership dimension is *Medium.*

Family Dimension: *Who are the family members, and which are their expectations?*

- Regular Family Council? Not publicly available information
- Shared Family Plan and Culture? No, given the factionalism of the siblings group from different marriages and the strong influence of current wife it is very hard to think that there is a common and shared family vision that encompass the mutual interests of all parties involved. Moreover, there could be strengths play of controlling groups toward the other shareholders.
- Clear definition of roles in accordance with personal expectations? No, given the factionalism stated in the previous point and the unclear definition of the future leadership profile there is no clear characterization of the family members' roles.

Conclusively, from the analysis it can be inferred that that the degree of preparation of the family dimension is *Medium/Low.*

Business Dimension: *What is the market positioning of the company and which are the necessary resources?*

- Developed Management Team? Yes, high level senior management is composed by professional senior management.
- Developed Strategic Outlook? Yes, the company has constantly presented feasible business plans and it has achieved the forecasted results
- Definition and presence of needed resources? Yes, the company is well aware of its market positioning and has clear understanding of how to accomplish the company's objectives

Conclusively, Luxottica has developed a proper corporate governance system able to deliver the expected financial performances. Furthermore, it is strongly aware of its market leader position and can further expand its vertical integration stream to boost growth in the long run. The degree of preparation of the business dimension is *High.*

Shared Considerations

- Stated definition of continuity (Family, Business, Both)? Not Clear, from an outsider point of view there is no neat understanding of how continuity is defined in the del Vecchio family. As cited, the different groups of siblings may have strongly different view on their interest in the family business, accounting for factors such as: age difference, different marriage and employee-nonemployee interests' trade-off.

- Defined contingency organization? Not publicly available information, however the holding company, as currently structured, includes the majority of the financial interests of Mr. del Vecchio and it is the ultimate safe for the family's heirs. Nevertheless, as the holding company control ca. 62% of the Luxottica group dominating the voting rights an active involvement of the holding is demanded to ensure that the business interests are preserved. Therefore, the lack of definition of the leadership coming from the holding company can be a harmful factor for the business itself due to potential conflict in the designation of key management figures and seats on the board of directors. The unclear path from the sole owner ownership dimension toward a hybrid form of sibling partnership may severely impact the contingency structures.

The application of the three-dimensional checklist enables to extract two major milestones. Firstly, it defines the transitional shift that occurs in terms of the threshold during the generation turnover. The Socioemotional Wealth of the founders is considerable higher compared to the one of the second generation, simplifying the diversity among the heirs (i.e. employee vs nonemployee owners). Looking at the heirs it is expected to identify a higher SEW of Claudio, former manager, Leonardo Maria, currently on the board of directors, and Nicoletta Zampillo, influential current wife of Mr. del Vecchio. For the seek of clarity, SEW encompasses all the personal interests and sentimental claims that individuals have on the family business. As mentioned in the second chapter, there is a negative correlation between the increased complexity/maturity of the business and the SEW of the family shareholders. Shareholders becomes more like shareholders of publicly held companies, which is a fortified concept in case of Luxottica being listed on the regulated financial markets.

The Second, and most important milestone, is the possibility of utilizing the three-dimensional checklist to tailor the strategy for the transition planning: stewardship, financial reward and cessation-based strategy. Surely, given the excellent financial performance of the group the last strategy is not feasible. Stewardship strategy may be a viable option of Luxottica, however the checklist highlights criticalities in both the Ownership and Family dimension. These criticalities create question marks on whether the undefined future leadership and potential mismatch of the family shareholders can harm the business. The model would suggest that a neat separation between the family and business is essential to avoid damages on the business performances and the wealth of the family. Therefore, it possible to infer that the best suited solution in case of Luxottica is a financial reward strategy to, at least, close together the interests of the future generations.

Given that Luxottica is already listed company the viable strategy to be adopted is a merger of equal in which the business can exploit viable synergy effect and the absolute controlling shareholder of Luxottica, the del Vecchio family, becomes the relative controlling owner of the merger entity. This strategy, realized with the merger with Essilor, enables the future generation to have a choice whether adopting an active or passive shareholding in the merged entity. Essilor is the French-based world leader in the production of ophthalmic optics with ca. € 7 billion in revenues, 69k employees and 32 productions plans. Moreover, the company operates 475 prescription laboratories and 3 R&D centers. The integration of Luxottica and Essilor, concluded in 2017, creates fully vertically integrated group from the production to distribution of optical products. The combined entity pre-merger was around € 46 billion as sum of Enterprises Value at the time of the deal construction.
EssilorLuxottica is able to face the technological enhancement required by the €95 billion eyewear industry, combining the research capacities and online sale capabilities. Moreover, it could benefit of ca. €600m operating synergies and expand further the business expansion with further large acquisition strategies not possible for the entity on a standalone basis (Reuters, 2017). In fact, the group in 2019 was able to bid for the acquisition of the retail rival GrandVision in a €7.1 billion deal to extend its retail reach and exploit logistic synergies (Financial Times, 2019).

The resulting shareholding structure of the merged entities, after exchange offer between the two standalone enterprises, is formed as shown in the graph below.

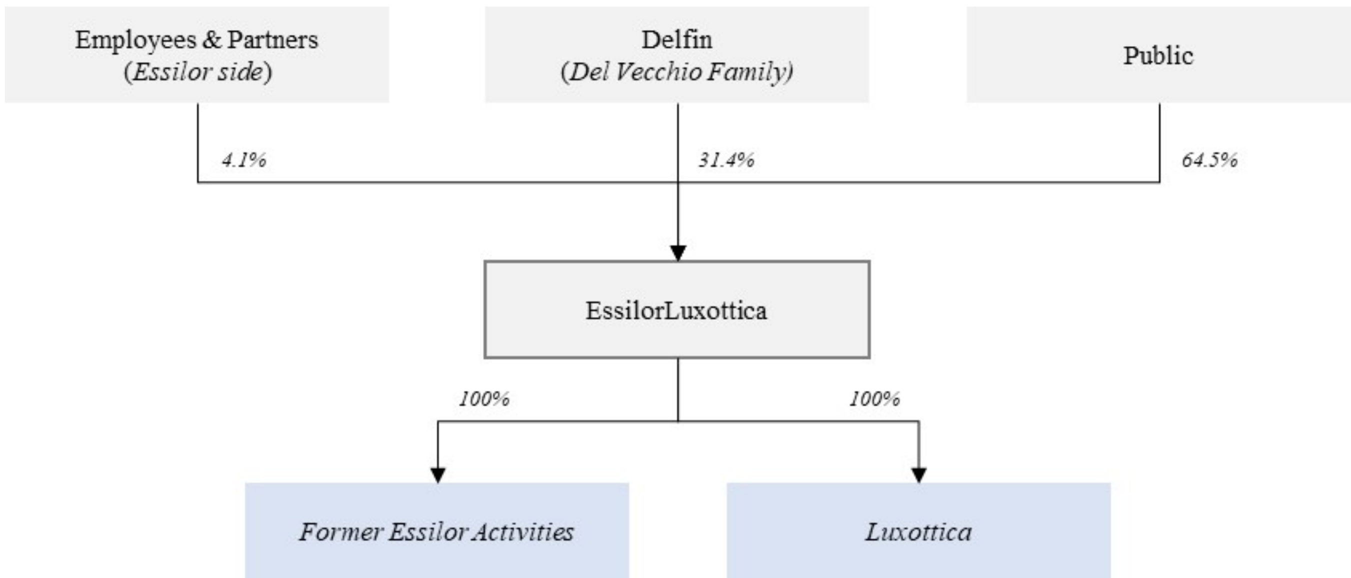


Figure 11: EssilorLuxottica Shareholding Structure, after exchange offer (EssilorLuxottica, 2019)

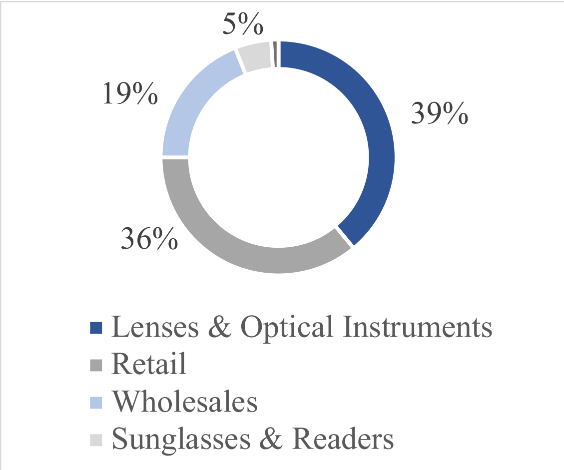
The shareholding structure formed after the exchange offers displays the merger of equal valuation of the two companies on a standalone basis, the companies agreed upon the Combination agreement to tailor a corporate governance structure that would avoid dominance power of one party over the other. Nevertheless, the process of integration incurred in few accidents during the way particularly underlining the delicacy of combining to large companies with defined corporate culture and different leadership styles. The board of directors has been decided to be composed by 16 members, half of which nominated by Delfin and the other as Essilor representatives. The board is rule by an Executive Chairman (Mr. del Vecchio) and a Deputy Executive Chairman (Hubert Sagnières) that share same management power and no casting vote (EssilorLuxottica, 2019). The benefit of this corporate governance structure is that, currently, enables Mr. del Vecchio to exercise a prominent position in the merged group, while leaving the decision to its heirs for their future degree of involvement. In a certain degree Mr. del Vecchio has solved the expectation issue that arises from the definition of a new leader. No one could and would be required to exercise the role of sole owner and entrepreneur that the founder has done in the last decades, enabling future generation to preserve their wealth and decide more freely what to do in their life, inside or outside the corporation. Mr. del Vecchio, in a certain degree, has moved its company from a family business one to a public entity in which he holds a large stake. The use of the M&A value matric would help to define the benefit of this strategy in the Luxottica Case, a schematic representation is displayed below.

	Buy-Side M&A	**Sell-Side M&A**
	Add-ons, buyout of new business	Minority & Majority Stake Disposal to new financial/strategic partner, IPO, ***merger dilution***
Family	• Rediscover of s shared vision • Redefinition of long-term strategic outlook	• Wealth Diversification • Solve internal interests' conflicts • Creation of internal capital market
Business	• Synergy benefits • Market Diversification • Product Differentiation • M&A to substitute R&D or internal technological development • **Strategic Refocus**	• Synergy benefits • Larger Group with extended capabilities

Figure 12: Family M&A Value Matrix Luxottica (own elaboration)

The image shows graphically expresses that the transaction was a sell-side deal, specifically a dilutive merger, and that was driven almost equally by Business and Family factors, with accent on the latter. On the business hand, the company with the merger is expecting to exploit about €420-€600m of synergic benefit from both revenues and cost sources. Cost synergies are expected to be exploited over the coming three to five years after the conclusion of the transaction and account for about €220-300 millions, deriving mainly from supply chai optimization, general and administrative rationalization, and sourcing and savings. Revenues synergy are expected to range about €200-400 given the large cross-selling opportunities. The transaction is highly complementary as Essilor will gain access to Luxottica's leading global retail network of around 9,100 stores (as of the end of 2018), including Sunglasses Hut and LensCrafters franchises, and its strong brand portfolio in the eyewear segment including Ray-Ban and Oakley, as well as licensing agreements under third parties brands (i.e. Giorgio Armani, Burberry, Bulgari, Channel among many others) (Moody's, 2019). Furthermore, the combined entity will be able to generate free cash flow around € 1 billion, excluding cost related to the transactions, which would provide enough financial resources to further invest in organic growth and bolt-on acquisition. As testified by the bid on the Grand Vision group for around € 7 billion. However, the integration of the two large entities carries a certain level of risk, especially related to the difference in terms of corporate cultures. The internal dispute related to the definition of the future leadership style might harm the credit profile of the merged company if stretched over a long period of time, while, up to now, it has not damaged the financial performances. Another potential criticality for Essilor lies on its potential conflict of interest between its newly open retail channel, through Luxottica, and current B2B clientele (Moody's, 2019). The company to smooth the delicate integration process that ultimately defined weather the transaction would deliver value from a business standpoint has created an internal integration committee to identify and execute the different areas of synergies. The committee is led by the Executive Chairman, Leonardo del Vecchio, and the Deputy Executive Chairman (Hubert Sagnières) (Moody's, 2019).

Here below is presented the revenues breakdown of EssilorLuxottica as merged entity



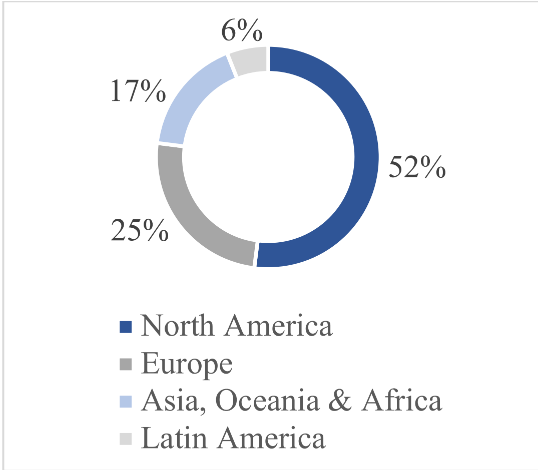


Figure 13: EssilorLuxottica Revenues Breakdown (Moody's, 2019)

On the family business side, the combination of Luxottica with a public company with no dominant shareholder enables Delfin to dilute its interest, while keeping relative control over the combined entity. This will enable the future heirs and shareholders to decide the degree of involvement to have in the company, which is capable to run on its feet. This kind of separation between the family & business is probably the best suited solution in case of undefined future leadership in complex groups. The del Vecchio family points out an extreme example to the application of this model for family business generational turnover strategies given the severe complexity of all three dimensions: Family, Ownership and Business. Nevertheless, the matrix suggests few important benefit considerations for the family that could in certain aspect outweigh the business benefit of the deal. The family has the possibility of internally managing the factionalism created by the diverse group limiting the impact that this could have on the business performances. The involvement of the family will be less and less relevant as Mr. del Vecchio completes in generational turnover, while the business will be administrated by professional, top quality, managers. Surely, the resulting shareholders of the holding company would have to agree upon a shared plan estate plat to, at least, ensure the proper management of the holdings of Delfin. The hybrid sibling partnership would need to find a leadership style that creates an environment in which the mutual interests of all parties are taken into consideration.

Conclusively, the first and most important benefit of the merger is its dilutionary effect on the holding company of the del Vecchio family and the resultant separation between the family and the business, which shifts, up to a certain degree, the family business criticalities on the holding company rather than on the combined entity. Moreover, it enables the definition of the diverse interests of the parties involved offering opportunities for wealth diversification and potentially the creation of an internal capital market. The future heirs would have the possibility of passively keeping their stake in the holding and enjoying the dividend of EssilorLuxottica without an active involvement in the business operations. Furthermore, the family could decide to liquidate other participations of the holding, wanted by Mr. del Vecchio (i.e. Generali, Mediobanca among others), because judged not strategic for the sibling partnership and create liquidity options. The liquidation of non-strategic assets can create the opportunity for one or more shareholders to have the necessary resources to buy-out stake of other family members and create a new phase and shape of the family business holding and ultimately the family business itself. The creation of an internal capital market has the benefit of not radically influencing the corporate governance at company level, levering the separation of family and business achieved with this transaction. Nevertheless, the use of the family business model to evaluate the factors that shape all three modeled dimensioned is not concluded and should not be applied on a retroactive basis. Rather it should used with a forward look to constantly monitor and tailor what is best for the family shareholders and the business itself. It will be very fascinating to look at the evolution of the generational turnover the del Vecchio family and how the three-dimensional variable would mutate in the future.

The LuxotticaEssilor case as example of how a dilutive merger can be used to create value for the family business in accordance with the model developed in this thesis is very interesting and neat in the clarification of the value drivers. The question now is whether this strategy can be used by other sound businesses that currently enjoy extraordinary valuation and have not clearly defined their future leadership profile. Another example that could result in the creation of a European and Worldwide champion is a potential merger of equal between Amplifion and GN Store Nord. Amplifon is the Italian-based listed company engaged in the production and distribution of hearing aid products. In the last decade, it was able to largely increase its business size thanks to organic and bolt-on acquisition sponsored by professional senior management. The company is untimely controlled by the sole daughter of the founder that current seats as Chairman of the Board of Directors. Currently, there is no clear definition of the leadership role of the family in regard to the inevitable generational turnover. On the other hand, GN Store Nord is a Danish public company (i.e. 98% floating) also leader in the hearing aid solution and other audio equipment. The scenarios at a first glance seems to resemble the LuxotticaEssilor case. The transaction could create a European champion that could exploit synergic benefit in terms of research & engineering capabilities as well as distribution network. Moreover, the Amplifon's current controlling owner could had out its stake to a passive shareholder given the limited demand of family leadership in the combined entity. This analysis is very high level and should be deeply analyzed, as did for Luxottica, to evaluate the upside and downside potential of the transaction in accordance of the three-dimensional checklist and tailor the best generational turnover strategy.

Nevertheless, the development of the model to define the strategy suited for a generational turnover and the identification of the value drivers of pursuing a M&A strategy on both business and family dimension has proven to be effective. Finally, it underlines the importance of the irrational component of the family business into the equation of a financial operation. The impact of Socioemotial Wealth and the consideration of the internal family dynamics are crucial to create a full picture of a M&A transaction. And this awareness could create new market opportunities for bankers or private equity funds to generate new opportunities addressing aspect that are generally overlooked and comprehend the family and ownership dimensions.

Other Business Cases

The following section will develop other business cases with fewer emphasis compared to the previous one, but with the same objective of proving the validity of the model and the centrality of M&A strategies during the process of transition planning.

Ferrero

Ferrero is the Italian-based confectionary company famous for the production of the chocolate cream Nutella. The company is privately owned by the Ferrero family and correctly run by the third generation; it has a global turnover of around € 10 billion. The company is a case study example of family business able to succeed across generations and famous for developing though organic growth rather than M&A activities. The firm was founded in 1946 by Pietro Ferrero, but the firm grew under the management of his son Michele since 1949. Since then the company was able to grow internationally and establish a worldwide reach, while enlarging its product portfolio. Michele Ferrero, in his role of sole owner, retired in 2008 leaving the management of the company to his heirs: Pietro and Giovanni. With this first generational turnover, the two brothers established a sibling partnership and were able to create an egalitarian leadership style to run the company being co-CEO of the group. Unfortunately, in 2011 Pietro passed away in an unimaginable accident and created a new transition of leadership. Pietro’s wife and son were either too young or not involved in the business and, therefore the Giovanni took over as sole CEO of the group. In 2015, after the death of Pietro Ferrero the stake in the company were divided equally among the two family branches but appointing Giovanni as first-among-equal as leader of the family business and only owner-manager of it. Applying the three-dimensional checklist to the Ferrero case during the period of transition occurred from yearly 2010s, it is clear that the degree of preparation of the company was high in all dimensions. There was a clear ownership structure of two-family branches and a structured holding company, a family with a strong Socioemotional Wealth tied with the family business accustomed to working together, and a company with sound performances with professional management and international outlook. The high degree of preparation in all dimensions call for a stewardship strategy, therefore family business continuation. However, there still is space to tailor M&A strategies to ensure long-term success of the company. In fact, Ferrero under the management of Giovanni started a series of bolt-on acquisition to further internationalize and consolidate his business. For the Ferrero family this is a big shift from the traditional management style and express a profound change for the future of the family business.

Here below is presented the M&A Family Value Matrix for Ferrero:

	Buy-Side M&A	**Sell-Side M&A**
	Add-ons, buyout of new business	Minority & Majority Stake Disposal to new financial/strategic partner, IPO, ***merger dilution***
Family	• Redefinition of long-term strategic outlook	• Wealth Diversification • Solve internal interests' conflicts • Creation of internal capital market
Business	• Synergy benefits • Market Diversification • Product Differentiation	• Synergy benefits • Larger Group with extended capabilities

Figure 14: Family M&A Value Matrix of Ferrero (own elaboration)

Given the solid financial performances and the will to continue the family business, Ferrero started a series of acquisition (i.e. Buy-side M&A). The acquisition was mainly addressed at the enlargement of the product portfolio of Ferrero, while strengthening the position of international markets especially in the United States. Ferrero, firstly, acquired the confectionary business of Nestlè in the USA (€ ca. 2.5 billion), later the Ferrara Candy Company and confectionary business unit of Kellogg Company (€ ca.1 billions) and recently as concluded the acquisition of the Danish company Kelsen. Furthermore, the company is looking to further expand its business with new acquisition in the coming years (Sole 24 Ore, 2019).

From a business point of view, this aggressive M&A strategy is tailored in accordance with the desire of expand internationally and consolidating the market positioning of Ferrero as a group that can compete globally in the very consolidated Food market. The company is, also, expecting synergies benefits from the acquisitions and consolidation of distribution channels, which are very important to drive margins in the food sector.

On the family standpoint, this type of M&A strategy requires the formation of a shared vision at family and ownership level to properly develop Estate & Family plans that create an environment in which the interests of all parties are preserved. As to pointed out, that this process was smoothen by the possibility of defining a new leadership style in a system with a lower level of complexity compared to the Luxottica case for example. As for now, there is only one member of the family involved in the company due to the young age of the future heirs of both family branches. It will be very interesting to measure in the future the threshold level of the family's heirs and looking at which strategy would be best to safeguard both family and business dimension.

In this case study the model has briefly, yet successfully, highlighted the conditions that suggest a stewardship strategy and business continuation. Business continuation seems to be the easiest root for a family business, because it does not involve much degree of change, however it has to be addressed as any other long-term strategy with deep analysis of the current standing of the firm in all its dimensions. The inhqability to acknowledge the need of change in terms of poor business performances or unorganized common family visions and interests are strong threats to the future survival of the business. From this internal analysis the family business has the obligation to address its criticalities and look for alternative solution that will ensure continuation. For the Ferrero family strong internal threats are not apparent, up to know, but with the increasing in complexity of the ownership and family dimensions the group will inevitably face the challenges of transition planning of any family company.

Minority Investor Case Studies

As mentioned in the dedicated section of the chapter, Minority Investors could play a dominant role in assisting companies through their generational turnover. There are many market examples that testify how the entrance of a third party has helped companies achieving structure, professional management and international outlook. These types of situation are dominant in the market and characterized by middle cap private company backed by a family or entrepreneurs, different in size and complexity compared to the two case studies previously presented. Being private companies the public information available on the internal dynamic of the family businesses are very limited. Nevertheless, it is a priority to present two case studies to briefly apply the model to a phenomenon that is occurring regularly. The first case study will be focused on an important company of the *"Made in Italy"* that has decided to look for an equity partner to strengthen its business and support the generational turnover. Conversely, the second one will be addressed at another important Italian company that has preferred an IPO as way to consolidate its financial profile and lease to the future generation the choice of the degree of commitment in the Family Business.

Missoni is the famous Italian fashion house founded in 1953 and currently run by the third generation has agree in 2018 for a capital increase for a total of €70 million. The resulting shareholder structure is formed by the family with 58.8% stake and the remaining in the hand of FSI. The Missoni family has looked for a financial partner with which undertake a strategic refocus of the company, attract professional management and boost the internationalization process. On the other hand, FSI saw an interesting market opportunity in providing capital to a family with such an iconic brand and escorting the company to new growth and potentially a listing on the regulated market (Sole 24 Ore, 2018).

The arrival of a permanent capital player for a corporation can define the beginning of a new phase, the three-dimensional checklist can escort the family business in addressing the threats and opportunities the company faces and decide how to tackle the transition planning. Looking at Missoni as example of thousands of companies facing challenging times helps to realize how important a family business has to critically look at itself. The model strongly highlights how in case of a medium level of preparation in one of more dimensions the stewardship strategy might not be the best suited strategy and how a financial reward one could deliver better long-term outcome for both the family and the business. The realization of threats in the future and the definition of a transition planning supported by a specialize partner can deliver extraordinary outcomes and, in case of Missoni, help the coming generation to take part in the business with a shared vision sustained by professionalism.

Here below the Family Value Matrix of Missoni:

	Buy-Side M&A	**Sell-Side M&A**
	Add-ons, buyout of new business	Minority & Majority Stake Disposal to new financial/strategic partner, IPO, ***merger dilution***
Family	• Redefinition of long-term strategic outlook	• Redefinition of long-term strategic outlook • Solve internal interests' conflicts
		MISSONI
Business	• Synergy benefits • Market Diversification • Product Differentiation	• New partner to deliver new capital and resources (i.e. know-how, managerial improvements) to support internationalization strategies

Figure 15: Family M&A Value Matrix of Missoni (own elaboration)

San Lorenzo is an Italian yacht manufacturer that has decided to initiate the process of IPO in 2019 and its shares are currently exchanged on the Italian stock exchange. The company after the IPO will continue to be controlled by the family entrepreneur, Massimo Perotti, that has decided to open the share capital of his company to decrease the debt and prepare the company for the next business cycle with slower growth rare compared with the last few years exceptional results. The company is approaching a more mature phase and needs a properly developed structure to ensure long-term healthy performances. The entrepreneurs reckon that the IPO would create the right corporate structure and separate the business from the family with the objective of preserving both. Moreover, he believes that the IPO is the first step of his generational turnover, enabling his heirs to freely choose their future, inside or outside the company. Mr. Perotti clear obkective is to ensure that his company survives in the long-run without his or his family obligation to intervene. On the other hand, it creates the condition to attract professional management to support the future generation in the definition of their role (Commissione M&A AIFI, 2019).

These two last case studies are aimed at underlying the typical sale-side transaction that occurs in the market. They are briefly developed to provide more emphasis on the first case study about Luxottica. Nevertheless, the punctual application of the model would yield the brief, yet conclusive outcomes described above.

The last section of this chapter was aimed at testing the model and it is possible to conclude that it is a valid instrument to look at M&A transactions acknowledging different variables compared to standard valuations. The main driver of this model and this thesis is to provide to family businesses an easy to use instrument to assess their current standing and come together in the definition of their strengths and weaknesses in the business, family and ownership dimensions. It is a way to measure the work done up to that moment and identify what to do next in terms of plans and structures. It is an innovative way at looking at family business continuity, which is expressed as continuation of the family and the business on a standalone basis. It is a radical shift from the traditional theories that highlight processes aimed at smothering the family business continuity, it is a way to lock a both pillars separately and suggesting that the separation of the two is best in many circumstances. Furthermore, it is a way to look at the threshold theory under new lights and understand the impact of Socioemotial Wealth on family business.

Nevertheless, the final takeaway of this model is that it has many criticalities and it is a simplified version of how the complexities of the reality can be represented, but it is an initial point of evaluation. The model will need to be elaborated and further tested on real life scenarios and used in *ex-ante* situation rather than *ex-post* ones. The final outcome would be the creation of a strategic framework that family businesses could use without limitation and create a new step in the study of family businesses.

Final Remarks

The paper was centered in the development of a model that could explain the complexities of a generational turnover and explain why the use of Merger & Acquisition strategies could deliver value for both the family and the business. This was the ultimate proposition of the thesis to challenge the common wisdom about family business as a perpetual bond that does not need to change. However, today the technological enhancement and internationalization pressure are challenging thousands of family businesses worldwide that need to rethink about themselves and open to new market opportunities. The generational turnover is one of the more complicated moment in the life of a company, the leadership change can trigger harmful effects on the business and the family if not properly managed. Often, this critical phase is overlooked, and transition planning is not seen as a necessary activity to be planned in advance. Nevertheless, the family business theory presented in the second chapter suggests a great deal of complexities in dealing with family companies and the three dimensions of which they are formed: Ownership, Family and Business.

The theory developed in the "*Generation to Generation"* book published by Harvard Business Review was a necessary building block for the development of the model in the third chapter. The theory proposed suggested that family businesses are sustained by three pillars (i.e. Ownership, Family and Business) and highlighted all the complexities that arise in the management of them. Furthermore, the theory expressed the model under the condition of time and stated that as complexities grow in all three dimensions the behavior of family members mutate and diverge from an unify family group. The management of these complexities call for the creation of structures and plans to tide up the diverse interests of the stakeholders involved. The academics behind the development of this very useful framework to understand the complexity of a family business had clearly in mind the objective of suggesting ways to achieve traditional family business continuity.

On the other hand, the last chapter was aimed at developing a new framework that could yield the theory about traditional family business generational turnover and suggesting a new approach in dealing with transition planning. The new framework is designed to be a self-evaluation instrument that family businesses together with their advisor should use to define the better suited strategy for the long-term health of the family enterprise. The use of this model enables the family to address family issues and not only business matters, weighting business performances with socioemeotional wealth. The acknowledgement of the current standing of the family firm, prior to the generational turnover, in all its dimensions enables the shareholders and advisors to identify the level of preparation and awareness of potential issues in all the three pillars. The outcome of the self-evaluation is a clearer understanding of the forces that will shape the future of the group.

The self-evaluation tool proposes three main strategies for the transition planning, two of which potentially involve M&A activities, depending on the level of preparation of the family company in all dimensions. Business continuity is preferred when preparation is high, when business is healthy and future leadership definition is not a critical issue. New family leaders could leverage their positioning in the family company and utilize acquisition strategies to boost growth and consolidate their leading positioning, while defining the long-term vision of the company. Financial reward strategies cover the majority of situation given the diverse sell-side strategies that can be tailored on a case-by-case basis. The common denominator of a financial reward strategies is the lack of preparation in one or more dimensions, while having a sound company. For example, the need to internationalize supported by a third party or the willingness to create a larger group not so centered with a family through IPO or merger dilution. Majority and Minority transaction can benefit both the family and the business enhancing wealth diversification options and providing new resources for the company to drive growth.

These two main strategies can leverage the use of M&A to accomplish a well structure transition planning. Merger and Acquisition, analyzed in the first chapter, can provide the necessary resources on the family business table and directly address the issues highlighted with the three-dimensional checklist. M&A is surely driven by financial objectives to create accreditive effect on the business and exploit synergies, but in the family business environment the acknowledgment of the internal family dynamics cannot be overlook as necessary condition for the finalization of an M&A transaction.

The model wants to help the definition of the generational turnover strategy and show how M&A can create value for both the family and the business on a standalone basis. Furthermore, it suggests that business continuation is achievable and can be vital for certain companies, but it is a condition to be earned with a constant management of the family, ownership and business structure. The final objective of the model is to be implemented in real life scenarios and further developed to create an instrument that can become central for the valuation of the generational turnover pattern of a family company. As of now the work done in this thesis is focused on creating awareness about the complexity of family business generational turnover and suggesting a way of creating an instrument to address the potential damaging issue. Family businesses will be vital for the future economic landscape as they have been in the past, the family dynamics can create a competitive advantage as well as disadvantage if not understood properly.

Appendix

Figure 1: Types of strategic combinations (Hauser, 2015)

Figure 2: The M&A Process (Hauser, 2015)

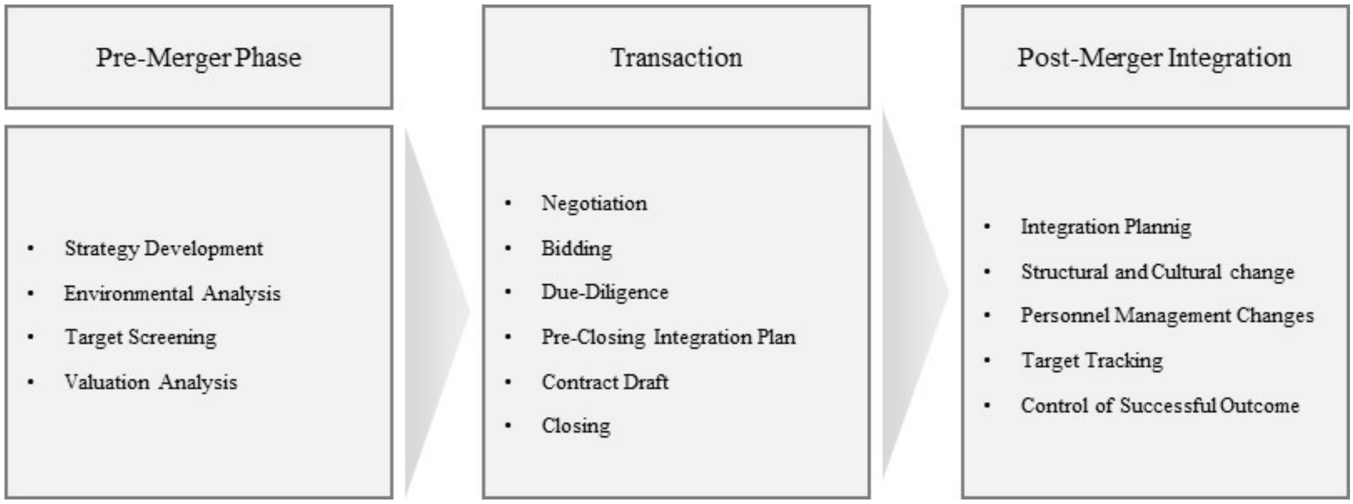


Figure 3: Three-circle model of Family Business (Gersick K.E., 1997)

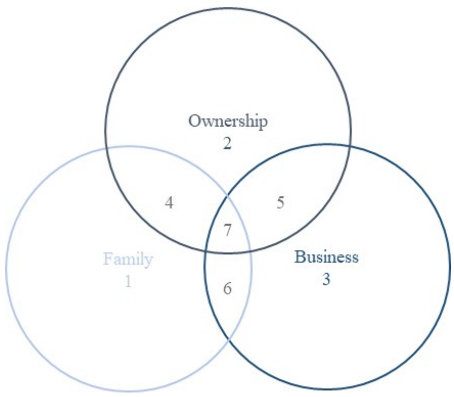


Figure 4: Three-dimensional developmental model of Family Business (Gersick K.E., 1997)

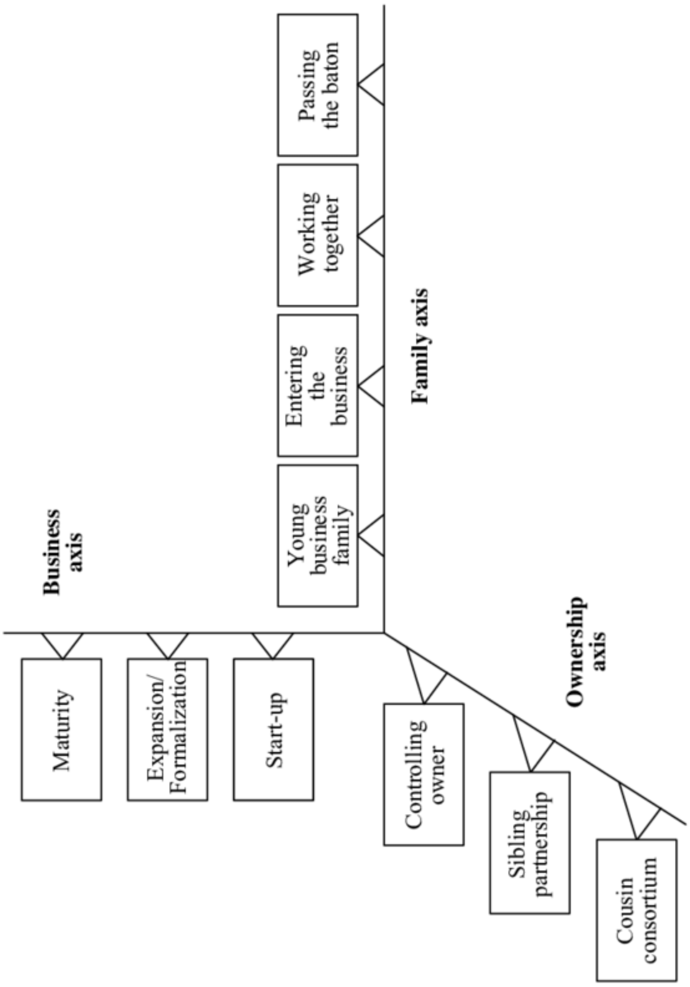


Figure 5: Three-dimensional developmental model structures & plans of Family Business (Gersick K.E., 1997)

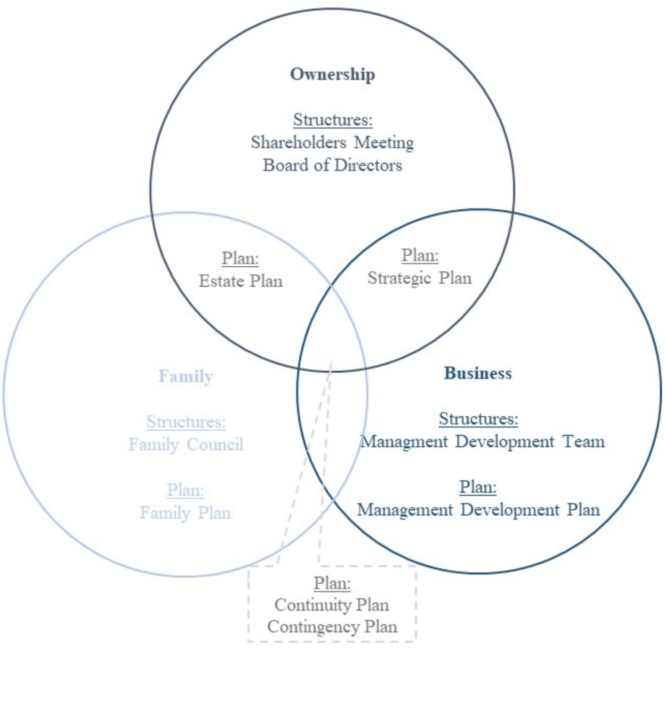


Figure 6: Family Firm exit strategy valuation framework: (own elaboration)

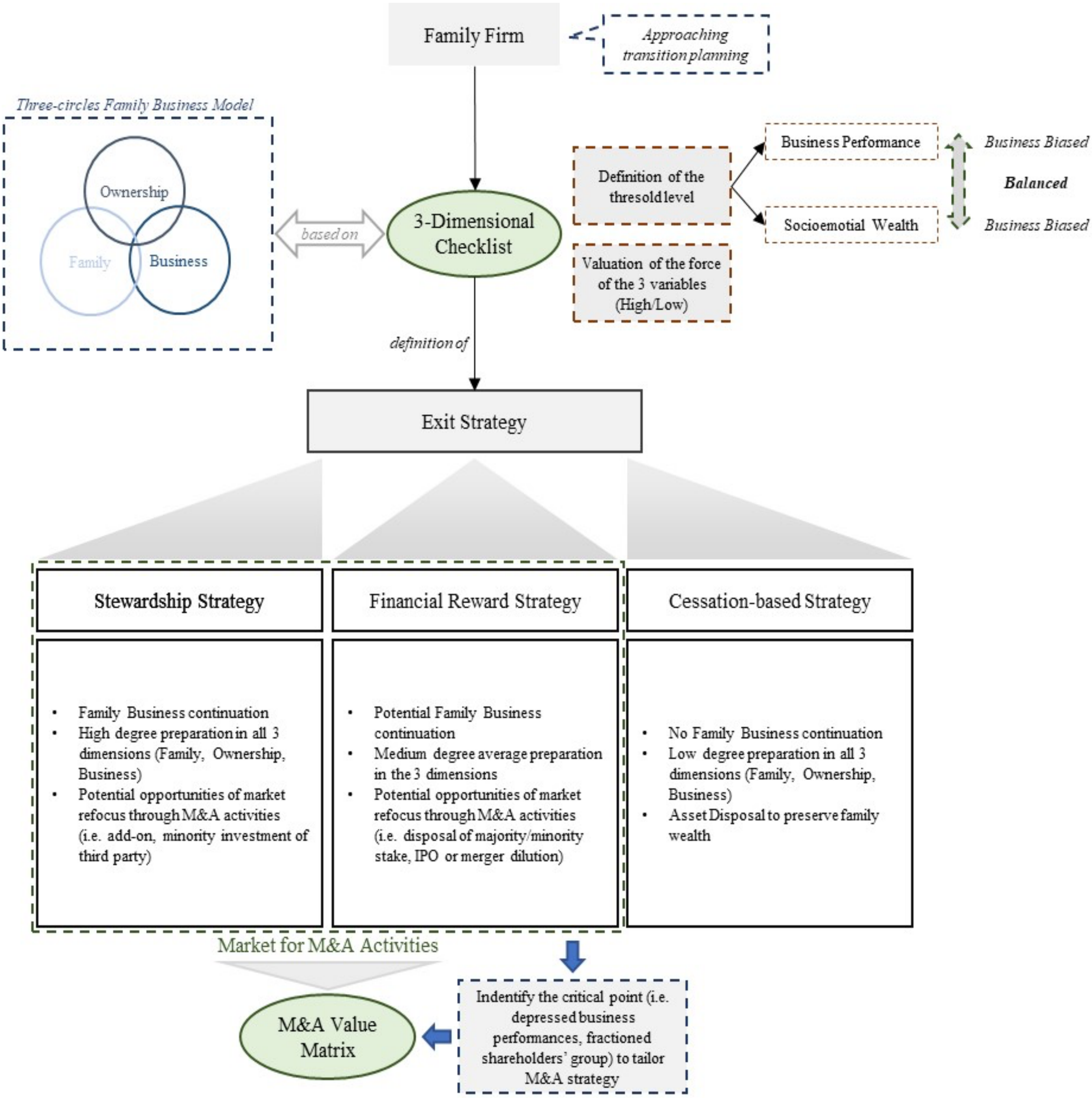


Figure 7: 3-Dimensional Family Business Checklist (own elaboration)

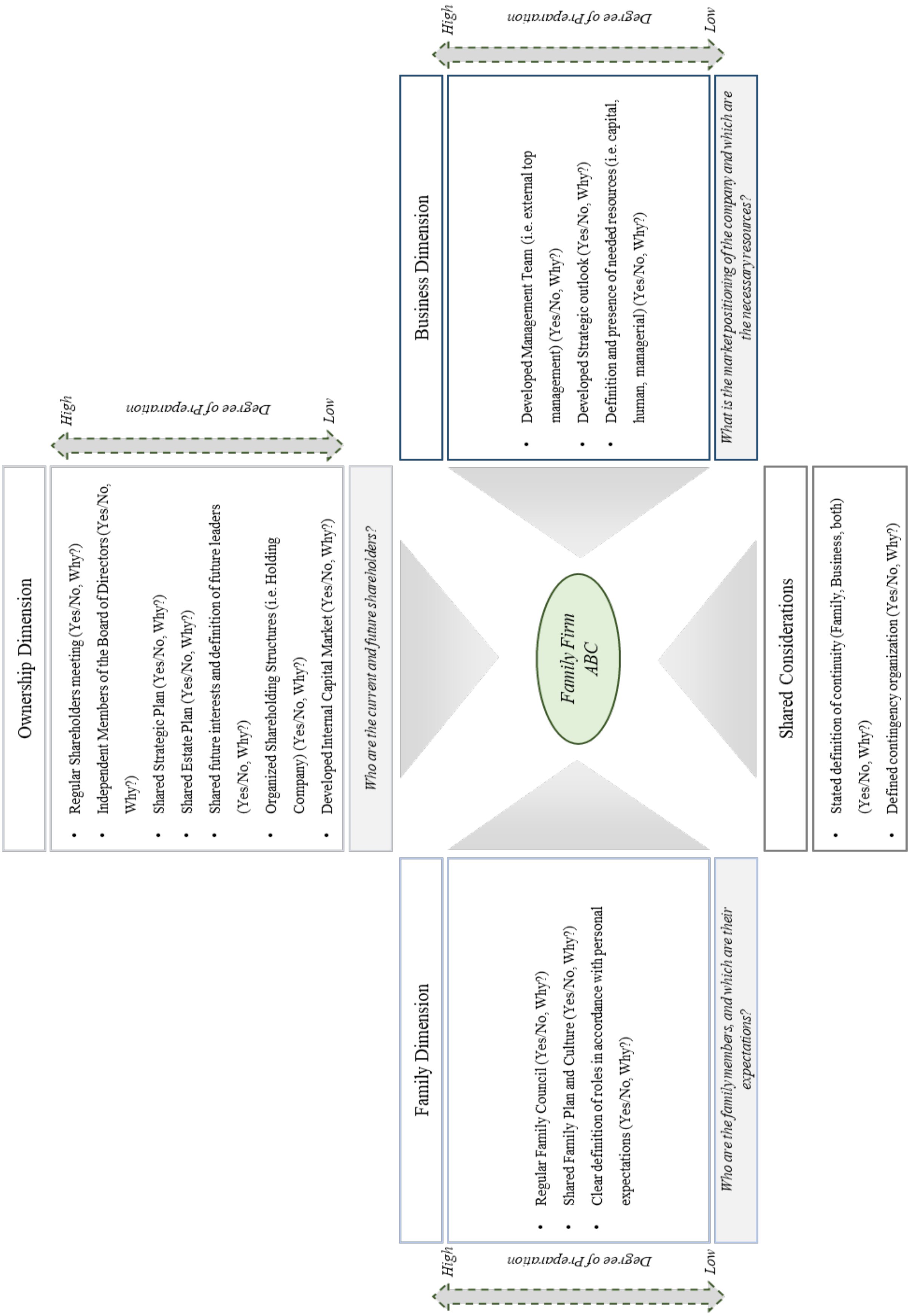


Figure 8: Family M&A Value Matrix: (own elaboration)

	Buy-Side M&A	Sell-Side M&A
	Add-ons, buyout of new business	Minority & Majority Stake Disposal to new financial/strategic partner, IPO, merger dilution
Family	• Rediscover of s shared vision • Redefinition of long-term strategic outlook	• Wealth Diversification • Solve internal interests' conflicts • Creation of internal capital market
Business	• Synergy benefits • Market Diversification • Product Differentiation • M&A to substitute R&D or internal technological development • **Strategic Refocus**	• New partner to deliver new capital and resources (i.e. know-how, managerial improvements) to support internationalization strategies • Synergy benefits • Larger Group with dilutive merger

Value Drivers

Figure 9: 2014-2018 Market Evolution of Minority M&A Transactions in Italy (Commissione M&A AIFI, 2019)

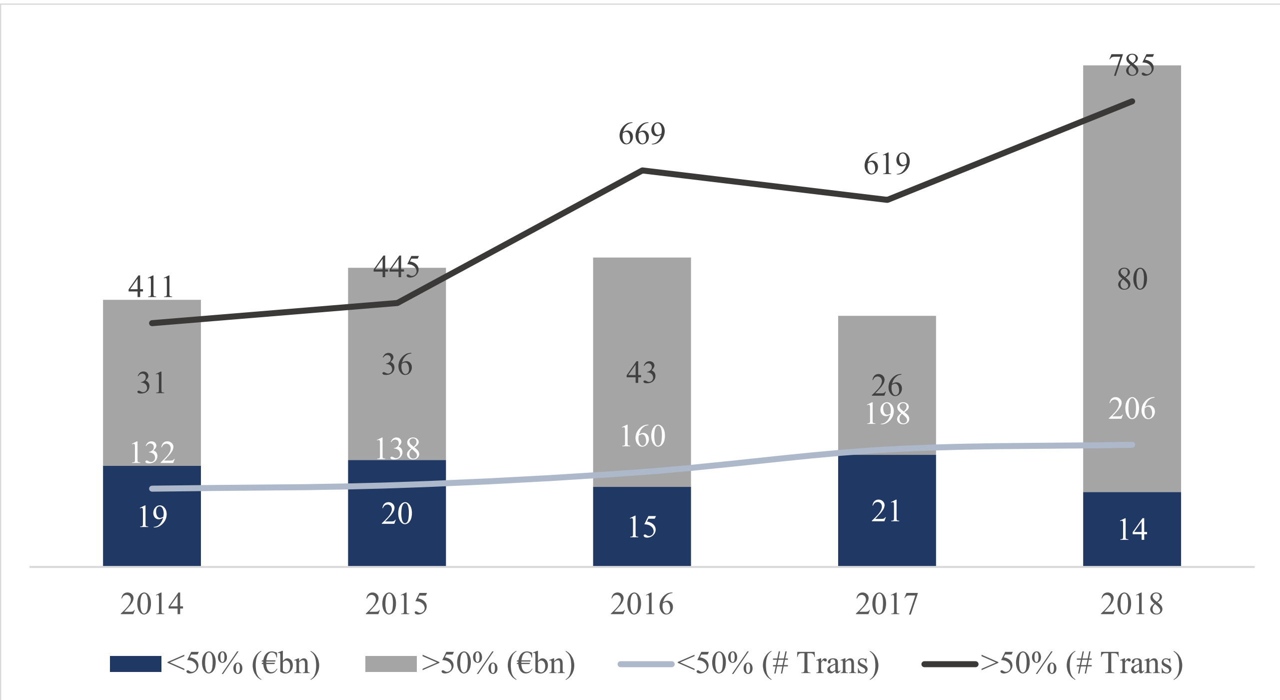


Figure 10: Acquiror Classes of Minority M&A Transactions in Italy (Commissione M&A AIFI, 2019)

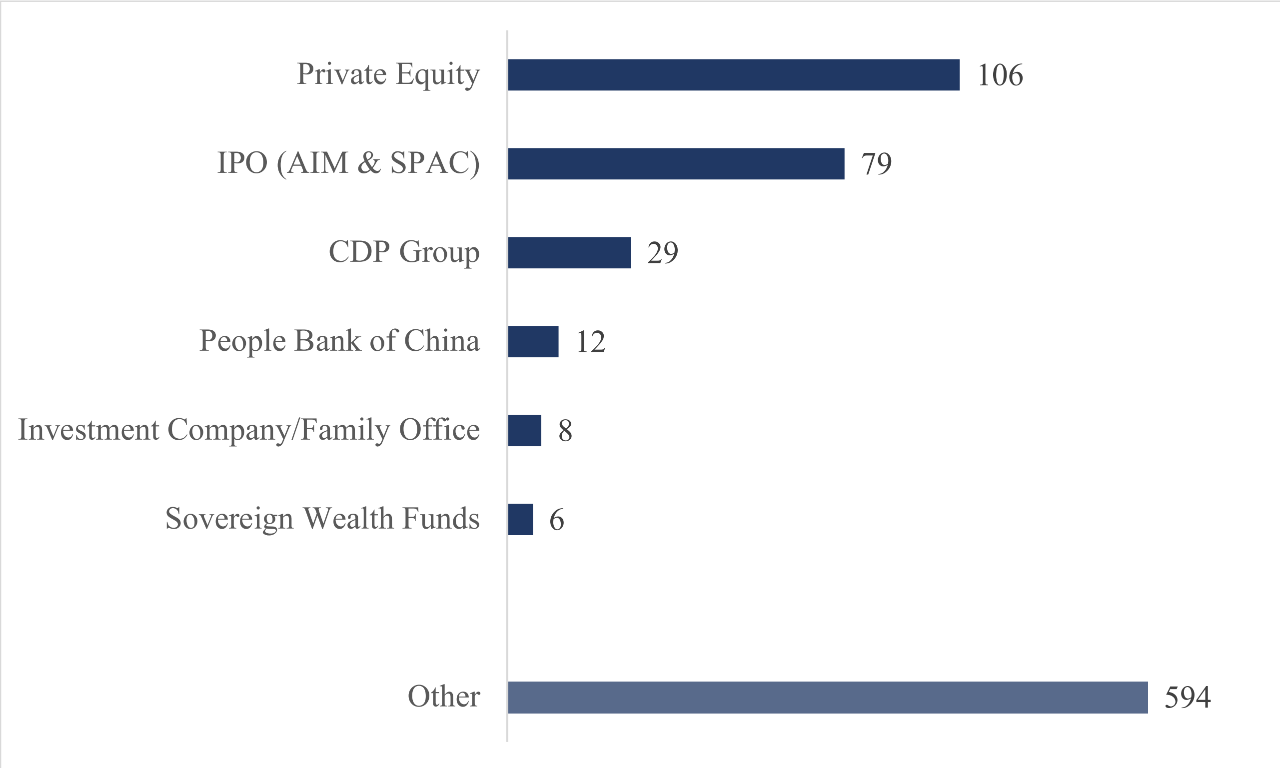


Figure 11: EssilorLuxottica Shareholding Structure, after exchange offer (EssilorLuxottica, 2019)

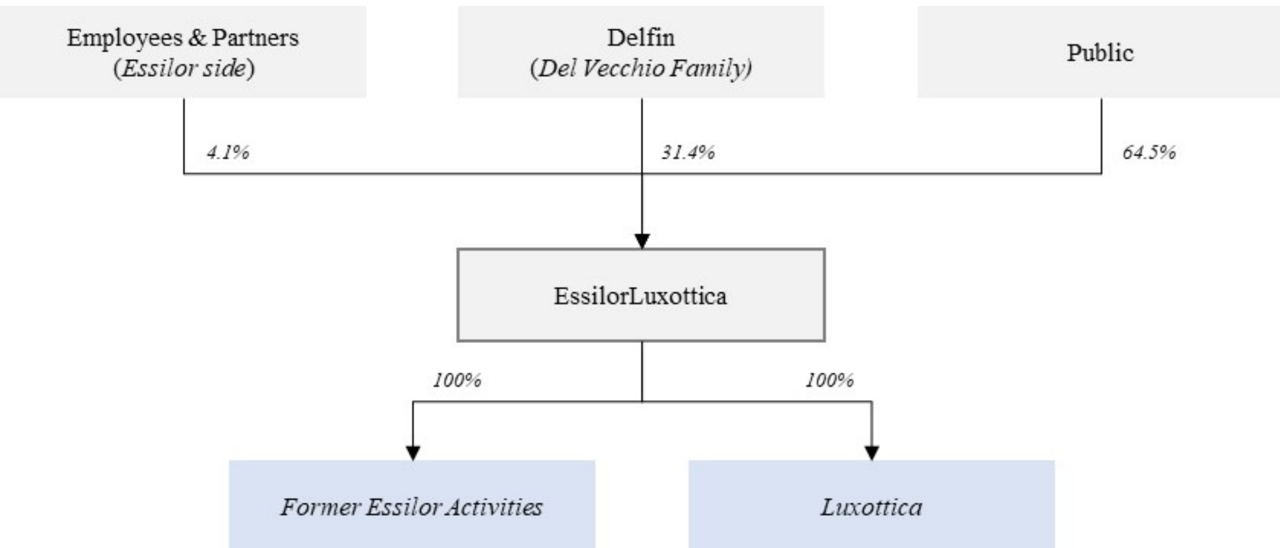
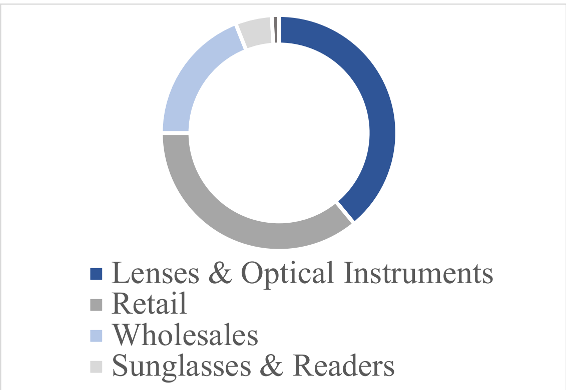


Figure 12: Family M&A Value Matrix Luxottica (own elaboration)

	Buy-Side M&A	**Sell-Side M&A**
	Add-ons, buyout of new business	Minority & Majority Stake Disposal to new financial/strategic partner, IPO, ***merger dilution***
Family	• Rediscover of s shared vision • Redefinition of long-term strategic outlook	• Wealth Diversification • Solve internal interests' conflicts • Creation of internal capital market LUXOTTICA
Business	• Synergy benefits • Market Diversification • Product Differentiation • M&A to substitute R&D or internal technological development • **Strategic Refocus**	• Synergy benefits • Larger Group with extended capabilities

Figure 13: EssilorLuxottica Revenues Breakdown (Moody's, 2019)



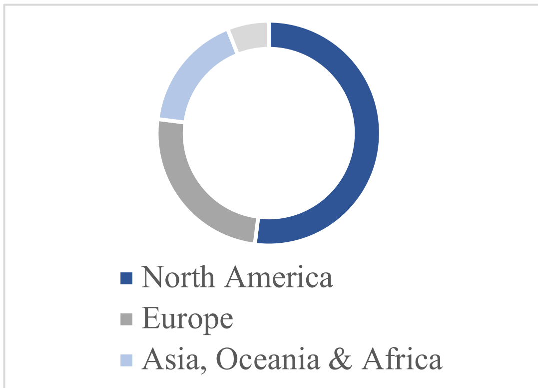


Figure 14: Family M&A Value Matrix of Ferrero (own elaboration)

	Buy-Side M&A	**Sell-Side M&A**
	Add-ons, buyout of new business	Minority & Majority Stake Disposal to new financial/strategic partner, IPO, ***merger dilution***
Family	• Redefinition of long-term strategic outlook	• Wealth Diversification • Solve internal interests' conflicts • Creation of internal capital market
Business	• Synergy benefits • Market Diversification • Product Differentiation	• Synergy benefits • Larger Group with extended capabilities

Figure 15: Family M&A Value Matrix of Missoni (own elaboration)

	Buy-Side M&A	**Sell-Side M&A**
	Add-ons, buyout of new business	Minority & Majority Stake Disposal to new financial/strategic partner, IPO, ***merger dilution***
Family	• Redefinition of long-term strategic outlook	• Redefinition of long-term strategic outlook • Solve internal interests' conflicts
Business	• Synergy benefits • Market Diversification • Product Differentiation	• New partner to deliver new capital and resources (i.e. know-how, managerial improvements) to support internationalization strategies

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Abstract

Family businesses are crucially important for the economy at worldwide level and are the largest type of businesses worldwide. They encompass small and large enterprises and define a specific corporate governance style. Family companies are so important for the entrepreneurial economy that there are dedicated academic studies that try to comprehend the difficult dynamics that escort a business linked to a family. These studies attempt to put together rational financial metric for measuring performances and competitiveness of these firms with qualitative analysis derived from socioemotional behaviour to point out their strength and weaknesses. The fundamental aspect is to recognize that family companies are not seen as common businesses from a stakeholders' point of view, but they involve a degree of personal attachment and commitment that inevitably influence strategic business decisions.

The complexities of family businesses are maximized during the generational turnover phase and its planning, creating an important point of reflection for scholars. General theory and general opinion link family business generational turnover with the concept of continuity, underlining a sort of perpetual bond between the family and the business. The objective of this thesis is to challenge that claim and propose an alternative view for which Family and Business are two separate entities that can greatly work together but need to be accessed on separate terms. The idea is to realize a model to guide family businesses in their generational turnover phase and access weather pure business continuation is the best suited strategy to ensure healthy growth for the business and the family on a standalone basis. The increasing complexities that firms face due to technological enhancement and internationalization are potential threats to firms that are not able to acknowledge the need to change and redesign their strategies. This market pressure summed to the complexities of running large and complex families characterized by factionalism and disperse interests are enormous damaging aspects if not properly addressed. For these reasons, the model proposed in this thesis values merger & acquisition strategies as valid tool to be accessed by family businesses to escort their transition planning phase. M&A can play a central role in aiding family companies to find new partners that enable the family business to have the necessary capability to compete in todays' world. However, not all transactions in this context have to be sell-side ones, buy-out strategies can help companies to refocus and set a new competitive advantage. Ultimately, this thesis does not criticise family business continuity in all forms, it states that family business continuity can be successfully achieved at some determined conditions. Otherwise, the family firms should consider alternative strategies to maximize the utility of both the family's wealth and business's performances.

General overview of M&A

The first building block of for this analysis is determining the key aspects in regard to M&A activities and their potential benefit on the business and shareholding structure. Merger & Acquisition constitutes an important tool for corporate development and maximization of companies' growth potential. M&A is the main corporate strategy related to growth through external means. Over the past decades, it has become increasingly commonplace as the means of international expansion for companies seeking global reach (Hauser, 2015). Pursuing corporate strategy focused on growth and expansion throughout M&A activities has always been seen as a faster route to achieve the benefit of a larger company, both in terms of cost savings and revenue enhancement. It has to be pointed out that there are several rational behind the decision of pursuing a corporate level strategy based on M&A activities, both driven by purely return-oriented reasons and by governance motivations. The difference of those motives and their interpolation as determined the evolution of the M&A trends, delimiting specific historical periods (i.e. waves) (Gaugham, 2018). The simplistic goal of merging and acquiring new firms is usually to improve company overall performances, as mentioned, by achieving synergies, or as more commonly described, the ``2 + 2 = 5" effect between two business units, that will increase competitive advantage (Appelbaum, 2000).

An activity of Merger & Acquisition comprehends financial operations aimed at changing the landscape of a firm, the process might include the transformation of the business in terms of industrial focus (i.e. diversification), capital structure, and corporate governance. It may also involve a number of different transactions, such as concentration of undertakings, sales and purchase of assets/firms, cooperation, privatization, alliances, joint ventures management buy-outs and buy-ins, as well as IPOs. Researchers (Haspeslagh & Jemison, 1992) see M&A as an instrument for managers to make decisions about reallocating resources. In a very simplistic scenario, the difference between Merger and Acquisition can be explained as follows: through a merger a firm decides to share its asset with the ones of another business entity, creating a larger company that should increase its competitive advantage. On the other hand, throughout an acquisition the buyer is attempting to achieve this competitive advantage in the market buying a target company. (Hauser, 2015).

Integrating two companies is complex, but it is necessary to enable resource and capability transfer, as well as knowledge transmission and synergy creation. The complexity and the related result of the strategy depends on various factors, starting from the rationale behind the operation, the market condition, the corporate cultures of the businesses, the overconfidence of the managers and the mismanagement in the post-merger phase. Especially in cross-border transactions, where the corporate culture distance is greater, the integration becomes even more complex and the soundness of the assumption of valuation, the corporate governance and the motives of the strategy are tested at the most. Although, as previously mentioned, M&A transactions provide access to competences and assets without starting a venture from zero, over half of these integrative ventures end up reporting failure. This poor result has been traced back to an inadequate strategic vision, a lack in pre-acquisition planning and valuation, and poor post-acquisition implementation management. Moreover, cultural differences partly reflected in the corporate governance of the companies have been blamed for this high failure rate, both in domestic and cross-border deals. The true challenge is linked to the lack of inclusion of the impact of the corporate culture in the evaluation phase of the transaction, the corporate culture might be rooted on the type of shareholder structure that the firm has and the key management figures of the company (Satu Teerikangas, 2006).

Nevertheless, merger and acquisitions are clearly a synonymous of growth. Firms seeking to scale up their production capacity, their market share, or their market product line can easily see the benefit of M&A to achieve the desired result. The choice for a company standpoint is to go through an internal and organic expansion program or through an acquisition of a target enterprise that meets the aimed strategic outcome. A key disadvantage of organic expansion is the length of the process, depending on the outcome aimed, the set-up from stretch of a new production site or the development of new product or services is evidently a slower process than acquiring directly on the market. For example, if a company seeks to expand and has a window of opportunity that will remain open for a limited time frame, slow internal growth it is not a viable option for the company. In a very competitive market environment time is a crucial variable to be addressed by corporation, pursuing an internal growth strategy has its clear benefit, but the time lag that it creates could provide a competitive advantage for fast growing competitors and dramatically increase their market share. Especially nowadays, a period of time in which technological development is thriving and shaping the future of many industries established companies may find very difficult or even impossible to provide the necessary technological innovation in their processes and products in-house, making M&A the only viable solution to keep the company market position and not becoming obsolete. Acquisition activities are of particular interest whenever the firm is operating in a paten-dense industry with strong investment in Research & Development activities. M&A, in this contest, yield the possibility for the bidder the substitution at a certain degree of research cost with an acquisition of a target enterprise with appealing technology, patens or new products. This strategy has proven to be very attractive for the chemical and drug industries, the great consolidation pattern occurred in the last twenty years was mainly driven by the willingness to create large group with combined R&D

department and joined project capabilities. Another example of using M&A to facilitate growth is when a company wants to expand to other geographical areas. In many instances, it may be quicker and less risky to expand geographically through acquisitions than through internal development. In an international expansion the variables that take place are many and many could be the differences of firm's domestic economic contest and the targeted one for expansion. To pursue an effective organic growth in a foreign market, the corporation needs to know all the nuances of the new market, understand the legal system, recruit new personnel and circumvent many other obstacles (i.e. custom barriers). Again, weighing these issues and external strategy may provide for a safer and less time-consuming solution. Nevertheless, the criticalities of this strategy are many and much related to the due diligence and valuation phase of the transaction.

Conclusively, Merger and Acquisition are a delicate matter that influence a plurality of stakeholders and are correlated to a high degree of risk. Nevertheless, they are necessary activity that can reshape static industries and bring market enhancement for both shareholders (i.e. returns) and stakeholders (i.e. consumers). The company growth opportunities brought by acquisition relies on strong operational enhancing possibilities through the exploit of beneficial synergies effects as well as the potential upside of bringing new technologies and knowhow. These kinds of activities will always be part of the market and constantly will define the expectation of the market and the willingness of companies. Moreover, it will be always part of the natural evolution of companies through their life considering the separation between the enterprise and its shareholders and managers.

Generational Turnover in Family Business

Family businesses include some of the best know companies around the world as well as thousands of unknown ones. The variety in terms of size and organizational structure is enormous, however these companies share the common denominator factor of being connected to a family. It is this connection, as well as how this connection takes form, that makes these companies a peculiar kind of business. Family business owners are aware of the difference in their role compared of being shareholder of a public listed company. This difference, often analogous to a sense of pride, is also present at employees' level, who know, in general terms, the impact that the family control makes on their life, on the company corporate culture and their prospective careers. The influence of the Family company on the stakeholders that live around it is shaped by unique factors that only these types of business can deliver. The Indian researcher Vikram Bhalla, in its study on the matter of comparing mature family businesses in emerging and developed countries, highlights how in younger market the family business can deliver higher potential performance due to trust-based relationships with the company stakeholders. He points out that in the Indian market the fact that behind a business venture there is a family is a reinsurance for the banks' lending capital and supplier proving goods and services (Bhalla, 2015). This particular point is also true at global level, indeed thinking about Italy, the personal relationship between a family and the community, banks and supplier has been, and should continue to be, a competitive advantage of family businesses.

In the *"Generation to Generation"* book is presented a conceptual model of Family firms that will be the central as a crucial tool to enable a proper analysis of the factors that shape the generational turnover. The model derives its rationale from concepts resulting from the management and organizational theory as well as behavioral and psychological analysis in order to create a comprehensive tool useful to model all the forces in the family business environment.

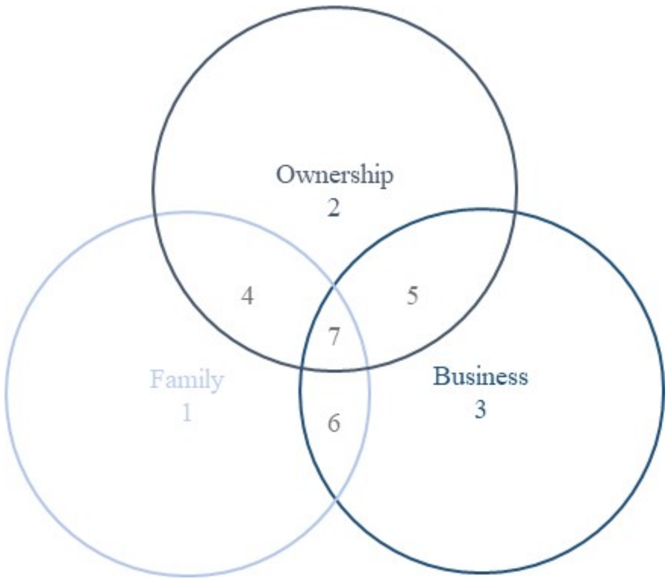

Figure 1: Three-circle model of Family Business (Gersick K.E., 1997)

The three-circle model describes the family business as three mains independent, but with certain overlapping subsystems, areas. In the seven areas created by Business, Family, Ownership and its subsystems, any individual part of a Family Company can be placed. The model is very self-explanatory; however, it provides a very easy instrument to understand the difficult interpolation of tasks or relationships that take place. For example, a retired entrepreneur may have left the management of the business to its first son while keeping the ownership of the company, whereas the daughter, not interested in the family business, has started its own career. In this often-seen scenario, the father lies in the 4th area (ownership and family), the son is in the 6th area (family and business) while the daughter is in the first area (family). The model depicts a snapshot of the *AS-IS* situation of a family business in a particular point in time, and, as in the example, helps everyone to evaluate how organizational roles can define a person's point of view and interests. Continuing the example, the family may struggle over dividend policy or succession planning taking into perspective the different positions that every individual has in the three-circle model. An individual in sector 4 (owner, family member and nonemployee) may rationally prefer to increase dividend payout to maximize his/her gains, while an individual in sector 5 (owner/business) or sector 7 (owner, business and family) may prefer to keep as much resources as possible within the company in order to foster growth throughout larger investment activities (Gersick K.E., 1997).

The dynamics of the model increase drastically in complication when the company is approaching a generational turnover, in which the cards of the three-cycle model are reshuffled on the table, especially between current and designed leaders. The model helps to keep in mind that, not one, but three separate transitions takes place, and they may occur at different time as well as involving different participants. The ultimate goal of the three-cycles model is to clarify the motivation and perspectives of individuals at various locations in the overall system. The model is inevitably influenced by time that is a crucial variable because of the critical role played by key individuals over long time spans, especially family businesses that are affected by the inevitable aging of people. Time has to be taken into account, also considering the cyclicality effect of the different situations, when taking about generational turnover. The members of the new generation that are now taking ownership of the firm and that have to decide its strategic future and will pass the ownership to the next coming generation in the future. Moreover, the company size itself is influenced by time, starting from a start-up to potentially become a larger company through growth over time. The different dimensions and needs of the firm also shape the decision of its owners, making time a critical variable to evaluate the majority of dilemmas that a family business can encounter. They involve changes in the organizational structure, in the family outlook and in the distribution of ownership (Barnes-Herson, 1976).

Generational turnover is the ultimate test that a company faces when transformed from an individual venture to a family business. The leadership switch is an intense period of adjustment and adaptation for all the stakeholders involved. Owners much dedicate time and effort in formulating a vision for the future corporate governance structure and decide how to properly divide the ownership among heirs, Moreover, they must organize way to select the most qualified new leaders and promote intergenerational communication to minimize potential damaging tensions as well as setting up contingency measures in case of unexpected events that could threaten their very vision of the future (Gersick K.E., 1997).

According to the research of Professor Lansberg, two core concepts that elaborate the traditional view of generational turnover process can be identified. The first core pillar of Lansaberg's argument is the validation of the range of available post-succession options for the family business, and the fundamentally different processes that have to occur for each of them. In fact, some control transitions do not involve material changes in the corporate organization and culture of the firm, while more complex transitions may need a fundamental reorganization and change of company's principles. The second pillar is that the route to be followed, defined in the first concept, should be driven by a share dream, a juncture of the aspirations of each single family members, woven together to form a collective long-term vision of the family company. The latter point is particular important because it ultimately stresses the difference between the senior and junior generation, as well as their expectation for the future to come, the prestige obtained in the past, or the willingness to drastically change the business mix. The successful process of generational turnover planning is driven by the sharing of the induvial goals and their integration into one objective and one course of action. In the end, the positive common denominators of family members have to come together and outweigh the obstacles to have a concrete chance of a successful generational turnover. A key issue with Lansberg's idea is the deal breaking mismatch between the expectation of the senior generation and the goals and capabilities of the younger one. The process of generational turnover is the mean that moves the family business stage after stage on the ownership and family developmental model axes. It is partly organized and partly unintentional, and it goes far beyond the simple switch of managers a generation after another. Succession is a transitionary process constantly evolving over the life of the firm and aging of the family stakeholders. It stars from uncovering and analyzing the personal dreams of the family key players and working together to create an evolving family culture that is able to capture the personal vision of the family members generation after generations (Lansberg, The Succession Conspirancy , 1988).

This second section aimed at the same goal of the first one, to provide a sound framework for understanding a subject so important for the overall economy. The value of M&A activities and the importance of family businesses are among the most important themes in today's economy, due to their extensive popularity. The following section will be dedicated at providing a comprehensive analysis to put together the two subjects in real market scenario.

M&A as effective generational turnover strategy in the Family Business space

This section puts together the general overview of what M&A is, how and why is executed, with the theoretical framework of family businesses that is fundamental to properly address the current situation of the firm under analysis and asses the better suited solution to deliver value to shareholders. In doing so, it will be proposed a new theoretical model starting from a self-assessment tool in order to value alternative exit strategies leveraging the theory of the three-circle model. The use of the family business assessment instrument will yield a comprehensive qualitative valuation of the current standing of the family organization and will enable to define which will be the best suited exit strategy for the current shareholders. Furthermore, it will enable a serious judgement of the validity of M&A strategies as means to address transition planning. The reasoning is based on the value drivers obtainable with the strategy with regard to the matrix Family/Business dimension and Buy/Sell side one. The idea of creating this new framework comes from the necessity of having an easy to use tool to take into consideration all the forces that take place in the family business space. The ultimate goal of this framework is to provide an analytical way to access the choices of entrepreneurs to structures their generational shift as they did, as well as help other companies facing transition planning activities. Moreover, the framework can be a useful tool both for family businesses themselves to have awareness of their position in term of transition planning and future outlook and useful for advisors and outside investors (i.e. Private Equity Funds, Strategic Investors, etc) to seek new investment opportunities. Generational turnover is a very specific event in the life of a company, yet it is defined over a long period of time as the new generation has to show interest, commitment and preparation as well as the incumbent one has to create a reactive environment in which the new generation can grow.

Family Firm exit strategy valuation framework

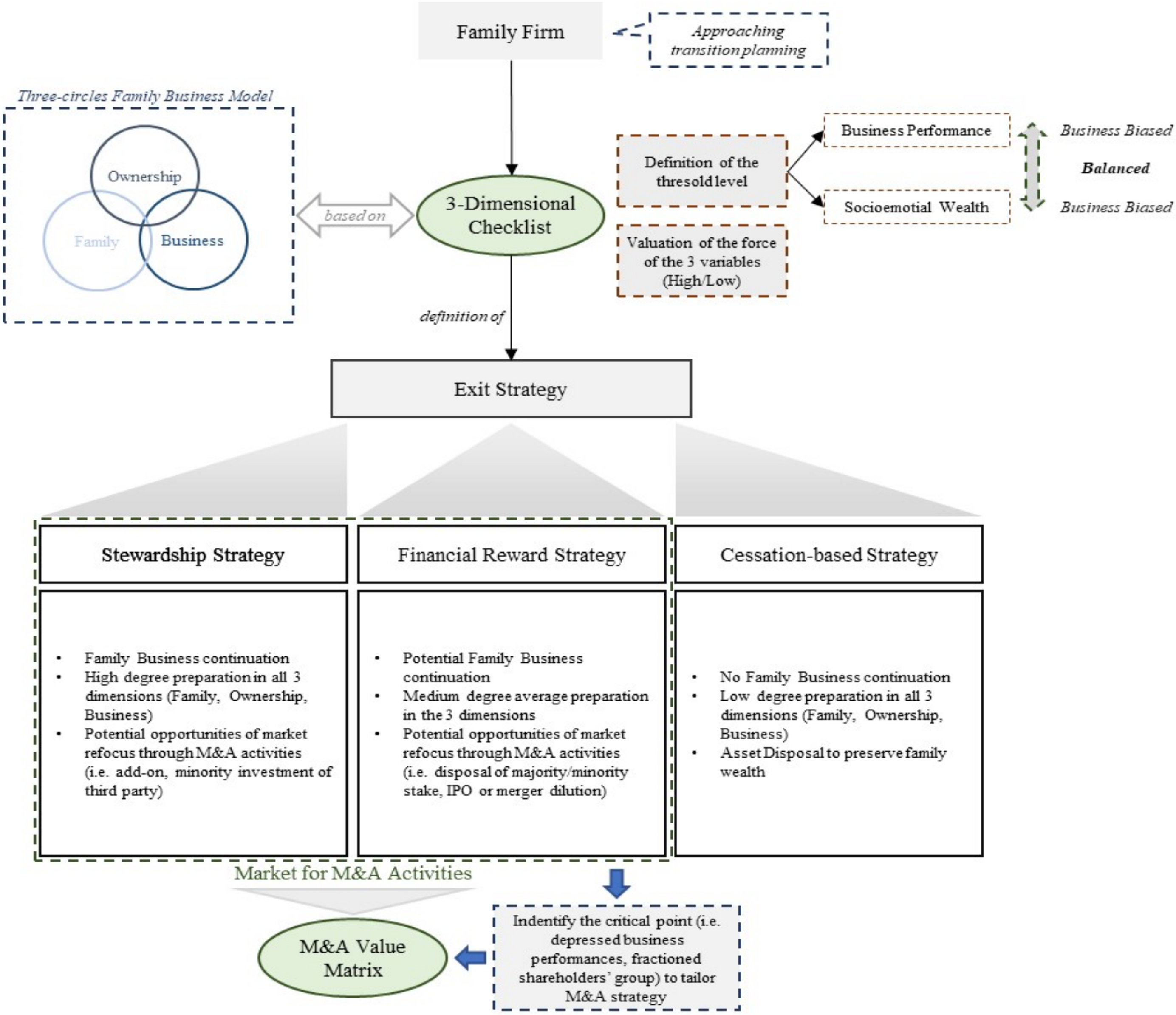

Figure 2: Family Firm exit strategy valuation framework: (own elaboration)

Above it is presented the visual representation of the framework that start from an internal evaluation of a family company that is thinking about its transition planning. The evaluation phase is crucial for the devolvement of the model and should be a common driver for any business that start thinking about the future. The evaluation can and should be helped by external advisors that bring on the table objectives comments on the soundness of the market and business itself and in the identification of the future capital requirement of the company, also human capital. The valuation of the *as-is* situation is supported by the theoretical models presented in the previous sections of this paper. The 3-circle model defines the snapshot of the current dynamics of the Family, Ownership and Business dimensions. It addresses the complexities that are specific of the family business under valuation as well as which structures and plans are already set in the management of all three variables. The effect of using the 3-circle model is a due diligence assessment of the corporate and family culture, the expectations of the players involved, as well as the current evolution of the business from a financial standpoint. Moreover, it highlights how the family is managing the business and the corporate governance structures put in place. The final outcome is the definition of the components and power of the Socioemotial Wealth and the evaluation of the business under a managerial perspective. These two pillars unified together helps identifying the threshold level and establish a first milestone in the definition of the most value-adding exit strategy for the family business. At this point, the first milestone, the family company should have answered to issues such as the trade-off of expectation across generations, recognize, if any, the future leaders of the company, identify whether the governance structure maximize the interest of the business and shareholders without being biased toward some parties. Furthermore, analyze whether the company business, or business portfolio, and market positioning is sustainable with the available resources in the long run.

3-Dimensional Family Business Checklist

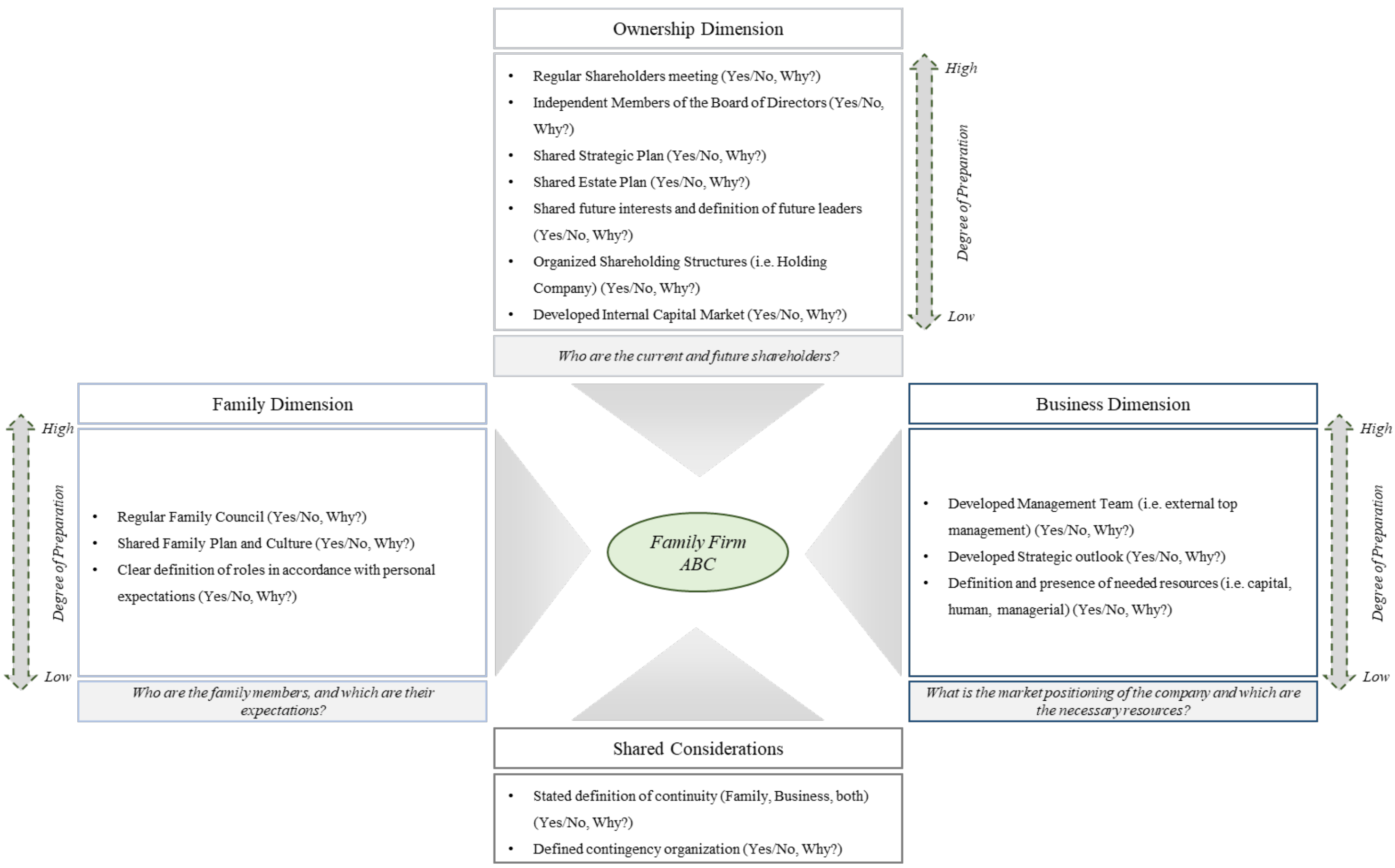

Figure 3: 3-Dimensional Family Business Checklist (own elaboration)

The questions proposed in the checklist are the general concepts proposed in the theory developed in the second chapter arranged in a new pragmatic manner that enable the family business stakeholders, advisors and potential investors to immediately identify the level of awareness and preparation toward the process of transition planning. It accesses whether the overall management of the family business is performed in an organized and efficient way that can deliver value in the long term. Moreover, it yields an analysis to evaluate the different level of evolution of each variable of the model. Often in family businesses the strongest threats can come from inside rather than outside market conditions. The unbalance among Family, Ownership and Business dimensions shown thanks the use of the checklist can point directly at which threats the family business is going to encounter from the most value destroying event would derive. There are many examples of successful family businesses that avoiding the considerations of the family and ownership dynamics have failed to organize a proper transition plans and ended destroying the family company.

The 3-dimensional checklist identifies the forces and dynamics of a family business and highlights the strength and weaknesses of the current organization of the transition planning. As much as the Porter's five forces strategic model it subject to the evaluation the degree (high or low) of the elements that shape the competitive advantage of a company, this model addresses the 3 main forces that ultimately have effect on the overall long-term preservation of the family business.

It is probably incomplete to transform the 3-dimensional family business checklist into a scorecard and given the resulting score suggest the best suited strategy of transition planning, nevertheless the qualitative analysis that generally identifies a high/low degree of preparation regarding Family, Business and Ownership dynamics can suggest pattern to be followed that can deliver value. At this point of the analysis family business ABC has concluded the self-evaluation, also supported by external advisors, and can start thinking about the next steps or exit strategies. Whether the 3-dimensional checklist yields a clear high degree of preparation for all 3-variables and the business is thriving the family company can profit from a classic succession of the business to the entrant generation. This is the typical case analysis by academics in which the continuity is the ultimate objective for a family business and the studies are aimed at suggesting ways to smooth the process. The counterposing situation is whenever the degree of planning is very low and the business is struggling, at this point an exit strategy that can be seriously be taken into consideration is the closure of the business activity and the disposal of the asset in order to preserve personal wealth of a family and safeguard other assets (i.e. family estate). The closure of a business should not be seen as failure, yet an occasion to safeguard the wealth generated over a long period of time by the senior generation.

It is often the case that the industry characteristics and the technological enhancement required to retain competitiveness in the market are not anymore achievable by the current management due to lack of resources or macroeconomics drivers. Moreover, the family might struggle into finding a common identity and values given the long distance from the belief and objectives of the founding generation. Liquidation of all the family business assets can provide an extreme yet very effective solution to free all the parties that can own their share of the wealth previously linked to the family. The strongest threat to the asset's liquidation is the determination of value and the claims that all the parties involved might have or pretend to have on the assets themselves. For this reason, the use of serious professional advisors is an absolute necessity into determining the value of the assets.

For all the other grey situations in between a very high or very low degree of preparation and awareness of the transition planning phase there is a great market opportunity for the development, in term of volume, of merger and acquisition activities, both sell and buy side. It has to be stressed that not all situations in the range are suitable for performing M&A activities, due to size, market condition, willingness of the shareholders and many other factors. However, the proper analysis of alternative strategies based of M&A activities can create the conditions to solve the generational turnover and deliver value to both the family and the business. So, how value can be created? To answer to this apparently easy question it is necessary to structure a simple matrix that take into considerations buy and sell side M&A activities in all possible declination and the family and business dimension of a standalone basis.

	Buy-Side M&A	**Sell-Side M&A**	
	Add-ons, buyout of new business	Minority & Majority Stake Disposal to new financial/strategic partner, IPO, merger dilution	
Family	• Rediscover of s shared vision • Redefinition of long-term strategic outlook	• Wealth Diversification • Solve internal interests' conflicts • Creation of internal capital market	*Value Drivers*
Business	• Synergy benefits • Market Diversification • Product Differentiation • M&A to substitute R&D or internal technological development • **Strategic Refocus**	• New partner to deliver new capital and resources (i.e. know-how, managerial improvements) to support internationalization strategies • Synergy benefits • Larger Group with dilutive merger	

Figure 4: Family M&A Value Matrix: (own elaboration)

The self-evaluation tool proposes three main strategies for the transition planning, two of which potentially involve M&A activities, depending on the level of preparation of the family company in all dimensions. Business continuity is preferred when preparation is high, when business is healthy and future leadership definition is not a critical issue. New family leaders could leverage their positioning in the family company and utilize acquisition strategies to boost growth and consolidate their leading positioning, while defining the long-term vision of the company. Financial reward strategies cover the majority of situation given the diverse sell-side strategies that can be tailored on a case-by-case basis. The common denominator of a financial reward strategies is the lack of preparation in one or more dimensions, while having a sound company. For example, the need to internationalize supported by a third party or the willingness to create a larger group not so centered with a family through IPO or merger dilution. Majority and Minority transaction can benefit both the family and the business enhancing wealth diversification options and providing new resources for the company to drive growth.

These two main strategies can leverage the use of M&A to accomplish a well structure transition planning. Merger and Acquisition, analyzed in the first section, can provide the necessary resources on the family business table and directly address the issues highlighted with the three-dimensional checklist. M&A is surely driven by financial objectives to create accreditive effect on the business and exploit synergies, but in the family business environment the acknowledgment of the internal family dynamics cannot be overlook as necessary condition for the finalization of an M&A transaction. The model wants to help the definition of the generational turnover strategy and show how M&A can create value for both the family and the business on a standalone basis. Furthermore, it suggests that business continuation is achievable and can be vital for certain companies, but it is a condition to be earned with a constant management of the family, ownership and business structure. The final objective of the model is to be implemented in real life scenarios and further developed to create an instrument that can become central for the valuation of the generational turnover pattern of a family company. As of now the work done in this thesis is focused on creating awareness about the complexity of family business generational turnover and suggesting a way of creating an instrument to address the potential damaging issue. Family businesses will be vital for the future economic landscape as they have been in the past, the family dynamics can create a competitive advantage as well as disadvantage if not understood properly.

The main driver of this model and this thesis is to provide to family businesses an easy to use instrument to assess their current standing and come together in the definition of their strengths and weaknesses in the business, family and ownership dimensions. It is a way to measure the work done up to that moment and identify what to do next in terms of plans and structures. It is an innovative way at looking at family business continuity, which is expressed as continuation of the family and the business on a standalone basis. It is a radical shift from the traditional theories that highlight processes aimed at smothering the family business continuity, it is a way to lock a both pillars separately and suggesting that the separation of the two is best in many circumstances.

Nevertheless, as final takeaway of this model it can be stated that it is a simplified version of how the complexities of the reality can be represented, but it is an initial point of evaluation. The model will need to be elaborated and further tested on real life scenarios and used in *ex-ante* situation rather than *ex-post* ones. The final outcome would be the creation of a strategic framework that family businesses could use without limitation and create a new step in the study of family businesses.