UNDERSTANDING EXIT FROM THE FOUNDER'S BUSINESS IN FAMILY FIRMS

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ABSTRACT

In this chapter we investigate the role of family-specific factors in facilitating or constraining business exit in family firms. Family business literature seems to have an implicit bias toward continuity and persistence in the founder's business. This is explained by heavy emotional involvement and development of path-dependent core competences over generations. However, several long-lived family firms were able to successfully exit the founder's business. Exit allowed them to free significant strategic resources, which were later reinvested in exploiting novel entrepreneurial opportunities. Our aim is to investigate the process of exit from the founder's business in family firms, to explain both triggers and obstacles to decommitment and de-escalation. We address this issue through the study of the Italian Falck Group's exit from the steel industry in the 1990s, followed by successful startup of a renewable energy business. By carefully triangulating different data sources and different voices within and outside the controlling family, we develop a framework describing family-specific facilitators and inhibitors of business exit, and

Entrepreneurship and Family Business
Advances in Entrepreneurship, Firm Emergence and Growth, Volume 12, 31–85

ISSN: 1074-7540/doi:10.1108/S1074-7540(2010)0000012005

subsequent startup of a new business. Three types of family-specific factors emerge as relevant in shaping a family firm's likelihood and speed of exit from a failing business: family-related psychological triggers and obstacles to business exit; family-specific components of the structural de-escalation context; family responses to ensuing de-escalation and exit needs. The emerging framework offers a more nuanced interpretation of decommitment activities in family firms, pointing to the differential role family-specific factors may play as facilitators or inhibitors of business exit. We also suggest how these family-specific results may contribute to a deeper understanding of exit in nonfamily *firms. Our results also have practical implications for family business entrepreneurial management. Actively managing the different determinants of exit choices that emerged from our study will set the stage for de-escalation from a failing course of action – a dynamic capability all family firms should learn and practice if they intend to transfer their entrepreneurial orientation to next generations.*

INTRODUCTION

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Family business research has long focused on determinants and implications of business continuity, while little attention has been paid to the question of whether the continuity of a family business is always a good thing (Drozdow, 1998; Kaye, 1996). Family firms are often characterized by having long-term commitments to businesses and resource combinations (Collins & Porras, 1994; Schein, 1983), a significant influence of founders on firm culture, decisions and performance even beyond their tenure (Davis & Harveston, 1999), and intense psychological ownership revolving around and fueled by family and business history (Koiranen, 2006). Research has shown a strong tendency of even dynamic family firms toward replicating inherited organizational routines and strategic perspectives (Drozdow & Carroll, 1997). Some authors explicitly refer to a "generational shadow" as the enduring effect of previous strategic paths and practices on a family firm's subsequent evolution (Davis & Harveston, 1999).

Yet, the history of many long-lived entrepreneurial family firms is punctuated by divestment of key businesses and shedding of strategic assets (Miller, Steier, & Le Breton-Miller, 2003). Although often neglected, de-escalation (Simonson & Staw, 1992), decommitment (Hayward & Shimizu, 2006), and exit strategies (Burgelman, 1994, 1996) that shed resource combinations that are no longer creating value are critical preconditions for future entrepreneurial activities as markets undergo change (Eisenhardt & Martin, 2000; Sull, 1999a, 1999b). Jettisoning unproductive businesses will often liberate resources and managerial attention to pursue novel and prospectively more valuable entrepreneurial opportunities (Burgelman, 1994, 1996; Hayward & Shimizu, 2006). Because it liberates scarce resources, business exit or contraction may be a precondition to new entrepreneurial activities by the entrepreneurial family. Hence, focusing research efforts on processes leading to business exit in family firms, and on the specific family-related antecedents of exit processes, may significantly contribute to our understanding of how family firms sustain their entrepreneurial drive and economic viability over long time spans.

The purpose of our research is to advance knowledge of the overlooked topic of business exit in family firms by developing a framework for understanding how family firms overcome the obstacles to de-escalation and exit strategies from long-established businesses.

Because we knew little about the antecedents, context, and processes of business exit in family firms when we began this research, we chose to pursue our investigation inductively, relying on a qualitative, interpretive approach. Interpretive research focuses on building an emergent theory from a perspective that gives voice to the interpretations of those living an experience (Corley & Gioia, 2004), in this case business exit as experienced by both family and nonfamily members. To aid in understanding this process, we identified an organizational context in which de-escalation and exit has been successfully completed, thus making it possible for insiders to openly acknowledge and discuss experienced problems and solutions (Burgelman, 1994, 1996).

We did so by means of a longitudinal study of the Falck Group, a rich example of successful exit from the founders' business and subsequent startup of a novel and markedly different entrepreneurial business. Falck moved away from steel production in the first half of the 1990s, after nearly two decades of almost uninterrupted losses, and later entered the renewable energy business, which is currently the family's main entrepreneurial activity. We selected Falck for our investigation as a distinctive case because the features of this remarkable family firm may illuminate behavior of a much broader set of family-controlled organizations (Yin, 1998).

There are three contributions. First, our analysis reveals the extent to which successful exit strategies of family-controlled firms may prime subsequent pursuit of novel entrepreneurial opportunities. This suggests that paying due attention to exit strategies is essential in understanding survival and prosperity of many family firms. Second, we highlight the fact that successful exit strategies are favored by some contextual conditions, such as: clear and unavoidable industrial decline, chronological distance from the founder, the presence of a limited number of active family members coupled with the presence of interested family shareholders, which may counterbalance the impact of members contrasting exit choice. Finally, and most importantly, we develop an aggregate framework of de-escalation and exit based on psychological and social factors, besides the organizational and contextual determinants on which exit research has focused so far. This relatively original focus allows us to single out a set of de-escalation procedures which, in the Falck case, were found to be most effective in surpassing the organizational and, more importantly, psychological and relational problems inherent in the exit choice. Besides having several managerial implications, these contributions have important consequences for the literature on business exit and family business long-term entrepreneurial behavior.

THEORY

Business Exit as a Strategic Option When Performance Deteriorates

Exit from a losing course of strategic action is a difficult endeavor for organizations. There is considerable evidence in the empirical literature that managers are reluctant to decommit even to a losing course of action. Decommitment involves drastic strategic choices such as exiting capital-intensive projects (Keil, 1995; Montealegre & Keil, 2000), closing a plant (Deily, 1991), withdrawing from unsatisfactory joint ventures (Ghemawat & Nalebuff, 1985), acquisitions (Chang, 1996), or even from the firm's core business (Burgelman, 1994, 1996). All this is true for any type of firm, regardless of ownership, governance, and management configurations. In this study we focus on *business exit*, defined as the divestment of a whole business unit, or part of it, resulting from the decision to withdraw from an existing business (Duhaime & Schwenk, 1985).

Business exit is usually pursued when the discrepancy between expected performance of the business and actual results is perceived as being unmanageable by relevant stakeholders. Poor performance is viewed as an important motivation factor for a firm's exit behavior. This performance-driven motivation (Greve, 2003), however, fails to operate under certain circumstances. Our focus in this study is on situations in which different factors reduce, or even eliminate, the likelihood of strategic change, even in the presence of increasingly negative results. This inability to perform radical change even when facing negative results forces organizations to persist with detrimental strategies. We define these situations as *escalation of commitment to failing courses of actions* (Brockner, 1992; Garland, 1990; Harrigan, 1981; Keil, 1995; Staw, 1981, 1997).

Determinants of Commitment Escalation in Organizations

Escalation of commitment refers to situations in which commitment persists despite evidence of negative results (Staw, 1976, 1981, 1997; Staw & Fox, 1977; Staw & Ross, 1978, 1987; Teger, 1980; Brockner & Rubin, 1985; Arkes & Blumer, 1985; Ross & Staw, 1986; Brockner, 1992). Decision makers act as if they are entrapped (Brockner, Shaw, & Rubin, 1979; Brockner & Rubin, 1985) in a failing action without recognizing it is time to implement a new strategy, i.e., exit, or startup of another business (Staw, 1976, 1981, 1997; Brockner, 1992).

Escalation of commitment is likely to be influenced by several determinants. Reviews of the business and managerial literatures suggest seven main organizational and psychological factors as major contributing elements in the spawning of escalation of commitment. Some are common to any organization – (1) a history of success, (2) sunk costs, (3) institutional inertia, (4) problems of internal communication. Other factors – (5) emotional attachment, (6) feeling of personal responsibility and related illusion of control, (7) perceived investment of effort – play a stronger role, and take peculiar features, in family owned and controlled firms. For this reason, we believe investigating such factors within a family business setting will provide relevant contributions to exit theory in both family and nonfamily firms.

1. Certainly, a "*history of success*" may instigate managers to insist with failing investment decisions (Keil, 1995). Action patterns that proved fruitful in the past may be seen as favorable even in the face of recent negative outcomes. Steinbruner (1974) contributed to explaining the underlying psychological reasons. When decision makers have to make an important decision that involves several alternatives, they are sometimes engaged in "*single outcome calculation.*" This means that they may commit their efforts to the single alternative initially chosen for achieving the final object, especially when it proved successful in the past. All negative aspects will be related to the nonpreferred alternatives (e.g., business exit).

2. *Sunk costs* – i.e., resources invested in an organization which are difficult to recover – are also viewed as an explanation of the escalation of commitment to failing businesses. They may provide a psychological obstacle to exit by continuing to influence people's decisions and behavior over time (Arkes & Blumer, 1985; Garland, 1990; Staw & Hoang, 1995; Staw, 1981) because they have "too much invested to quit" (Teger, 1980). This leads to a psychological commitment (Fichman & Levinthal, 1991) or an escalation of commitment (Staw, 1981), which prevents exit even in case of losses (MacDonald, 1986; Garland, 1990; Agarwal & Gort, 1996; Staw, 1981). This tendency to "throw good money after bad" (Garland, 1990) can be explained by prospect theory (Kahneman & Tversky, 1979; Bazerman, 1984; Whyte, 1986), which assumes that decision makers in negatively framed situations simply act in a risk-seeking manner to convert failing situations into positive ones. In other words, they tend to view the upcoming decision as a choice between the sure loss which already occurred (i.e., choosing to exit from the business and avoid investing more money) and a future loss that is less certain (i.e., risking more funds in the hope of positive returns).
3. Another key concept preventing the withdrawal from a failing business is organizational inertia, labeled "*institutional inertia*" by Staw (1997) as it is based on organizational determinants of resource allocation behavior. The ability to facilitate and support entrepreneurial strategies is hard to achieve. Firms are often inflexible, resistant to change, and based on path-dependent traditions and culture hostile to new proactive entrepreneurial strategies (Hannan & Freeman, 1984; Gersick, Davis, McCollom, & Lansberg, 1997; Aronoff & Ward, 1997; Staw, 1997). Hence, firms tend to be locked into their policies, rules, and procedures so that current courses of actions appear to be heavily institutionalized and hard to change (Gilmour, 1973; Staw, 1997). The firm's core business itself may become a trap generating rigidity against exit (Levitt & March, 1988; Leonard-Barton, 1992).
4. Firms are often slow to respond to changes in the environment also because of *internal communication problems*. Internal communication is an essential factor for a successful divestment process. Decision makers need to openly discuss problems and build consensus toward alternative course of actions (Montealegre & Keil, 2000). Otherwise, even when the need for radical change is acknowledged, change may not occur (Staw, 1997). In other words, decision makers tend to continue with old policies without reassessing past decisions (Payne, Bettman, & Johnson, 1988).

Commitment Entrapment of Entrepreneurial Families into Failing Courses of Actions

While the first four factors determining commitment escalation described in the previous section are common to all organizations, family firms are often described as potentially having specific difficulties in terms of psychological barriers in recognizing failing courses of actions, and in deciding to decommit because of family members' strong dedication to the family organization. Investigating these factors would significantly enhance knowledge of family business strategic behavior, and of exit in both family and nonfamily firms.

Family firms are characterized by long-term orientation, strong family values, extraordinary commitment, and the desire to keep the family business alive across generations. Statements like "this family business shall last forever" are often included in family firms' mission reports, as if failure can never happen (Harris, Martinez, & Ward, 1994). Accordingly, family firms tend not to exit from a business in troubled economic times, not necessarily because it is a "good business," but because of a controlling family that is willing to make personal sacrifices (Rosenblatt, 1991; Haynes, Walker, Rowe, & Hong, 1999; Stewart, 2003).

The three determinants of commitment to failing courses of action indicated by existing psychological and managerial literature as more specific to family firms are: emotional attachment, which captures the deep feelings of family members toward the business entity (e.g., Astrachan & Jaskiewicz, 2008; Zellweger & Astrachan, 2008); perceived sense of responsibility, which refers to the sense of duty, loyalty, and obligation attached to managerial control (e.g., Cater & Schwab, 2008; Lumpkin, Martin, & Vaughn, 2008); and perceived investment of effort, resulting from intense investment of time, human effort, and financial capital (e.g., Kellermanns, Eddleston, Barnett, & Pearson, 2008; Zellweger, 2007). Obviously, these three factors also play a role in nonfamily firms. However, the tight interplay of family and firm results in stronger and more clearly traceable patterns of relationships between these factors and strategic commitment in family firms, which are hardly apparent in their nonfamily counterparts.

5. *Emotional attachment* that family members harbor a strong sense of emotional attachment to their founder's business enterprise is now well documented (Collins & Porras, 1994; Habbershon & Pistrui, 2002; Sharma & Irving, 2005; Astrachan & Jaskiewicz, 2008). Indeed, the very

robustness of this emotional tie has prompted some researchers to argue that founders and their heirs actually perceive the family business as part of their own identity, which ultimately escalates their sense of commitment to an excessively high level (Handler & Kram, 1988; Miller et al., 2003; Sharma & Irving, 2005). However, in the face of a failing situation (e.g., no longer a profitable entity), strong emotional attachment to the family business can give rise to inappropriate strategies such as "hanging on" just because it was created and operated by their ancestors during the past generations (Harris, Martinez, & Ward, 1994; Miller et al., 2003). For example, Duhaime and Grant (1984, p. 303) report that "the fact that so many divested units deteriorated to unprofitability before divestment suggests that personal attachments to units may influence divestment decision making, preventing earlier, more timely decisions" (see also Staw, 1976, 1981; Burgelman, 1994; Keil, 1995).

Clearly, strong emotional attachment to the family business would appear to play a critically influential role in the decision-making processes so much, so that it works against divestment even in light of a justifiable need to adapt to a changing business environment (Olson et al., 2003; Sirmon & Hitt, 2003; Sharma & Manikutty, 2005). Becoming psychological barriers against business exit, such forces make family members able to tolerate negative results in a continuous escalation of commitment (Staw, 1981; Kaye, 1996). In this regard, Lansberg (1999) has argued that family members often avoid, delay, or deny such reality, preferring instead to continue operation of a failing business for affective, rather than for profit reasons (Jaffe & Lane, 2004).

Taken together, research suggests that the strong emotional attachment of family members to the family enterprise renders the business itself a trap against exit. In this sense, the family business appears to be institutionalized making it difficult, if not impossible, to either modify or divest (Staw, 1981; Davis & Harveston, 1999).

6. *Perceived responsibility*. A second family-specific psychological factor that can trigger the presence of commitment entrapment is one's perceived sense of responsibility for the business accompanied by a related sense of control. Perceptions of responsibility and control, of course, go hand in hand with the extent to which one feels tied to a business enterprise with high levels of these attributes serving to enhance self-perceptions of efficacy and competence (Pierce, Kostova, & Dirks, 2001, 2003; Van Dyne & Pierce, 2004). In the same sense that strong emotional attachment to a business leads its members to perceive the

> entity as a reflection of their own identities, as noted earlier, so too perceived responsibility for the business stimulates a desire to take control of the business as part of themselves (Malone, 1989; Kaye, 1996; Drozdow & Carroll, 1997; Miller et al., 2003).

Not surprisingly, when confronted with a deteriorating entrepreneurial scenario, family business members tend to feel personally responsible for its failure. As a result, they tend to reject any notion of implausibility regarding its revitalization and feel ashamed to entertain any thoughts of business exit (Kenyon-Rouvinez, 2001). Indeed, exit from the founder's business is perceived as negatively influencing family power, visibility, status, and reputation both within and outside the family (Sirmon & Hitt, 2003; Jaffe & Lane, 2004).

These reactions to failure of the family business on the part of its members are clearly explained by self and external justification motives which, in turn, precipitate the escalation of commitment to a failing course of action (Staw, 1981; Brockner, 1992). For example, Staw (1981) demonstrated that people are more committed to decisions for which they feel personally responsible. As such, they sense a need to demonstrate the rationality of their original decision, to defend their original initiatives and, at the same time, to protect their reputation both within (self-justification) and outside the company (external justification) (Brockner, Rubin, & Lang, 1981; Brockner, 1992; Bobocel & Meyer, 1994). For example, Harrison and Harrell (1993) reported that managers tend not to recognize a failing course of action when their external reputation is at risk. Perceived responsibility for negative business outcomes profoundly impacts decision-making processes bearing on both the allocation of resources and the evaluation of information pertinent to appropriate courses of action to be taken. In general, there is an illusion of control which not only leads to an overestimation of the likelihood of positive events, but also, that previous negative results can be reversed (Taylor & Brown, 1988; Staw, 1997).

Analogously, members of a family business tend to reject information regarding the decline of their family organization. Working from a strong feeling of control, their vision of the problem, albeit narrow, is typically optimistic about their ability to manage the fate of both the business and themselves (Malone, 1989; Kaye, 1996). Consequently, family business owners are likely to postpone divestment decisions in lieu of seeking new and/or alternative opportunities of exploitation. In summary, when confronted with a failing proposition regarding the family business, an illusion of control leads its members to view any potential losses as merely temporary and not worthy of serious consideration, a phenomenon termed the "deaf effect" by Keil and Robey (1999).

7. *Perceived investment of capital.* A third family business-specific psychological factor that may influence the spawning of commitment entrapment is perceived investment of capital in the family business with respect to human effort, energy, and personal sacrifices, as well as other capital such as money and time. Consistent with the two previous psychological factors, the greater the investment of these resources in the family business, the more entrapped its members become. However given that family firms are typically long-term oriented, family members are well disposed toward investing "patient financial capital" when faced with crisis situations as the hope is high that the business will recover (Sirmon & Hitt, 2003; Sharma & Manikutty, 2005). Hence, in economic downturns family members are induced by their strong commitment and their strong sense of trust and altruism, to supply extra capital in the form of free labor, monetary loans, use of savings, and the like (Dreux, 1990; Olson et al., 2003). Indeed, Haynes et al. (1999, p. 238) posit that "small businesses actively intermingle business and family resources" to guarantee the continuity of the business. Nonetheless, the same invested monetary and human capital may dissuade family members from releasing resources of the family business for reinvestment in a more profitable venture (Brockner et al., 1979). The latter is particularly true if those same resources contributed to any prior success of the failing business (see e.g., Keil, 1995; Sirmon & Hitt, 2003; Jaffe & Lane, 2004).

Perceived investment of capital then, serves as yet another psychological obstacle in the decision-making processes of the family business. In particular, it plays an important role in dissuading family members from any consideration of possible business exit (Teger, 1980; Staw, 1981; Arkes & Blumer, 1985; Garland, 1990; Staw & Hoang, 1995). This tendency to "throw good money after bad" (see Garland, 1990) is said to be explained by prospect theory which assumes that decision makers, confronted with negative situations, attempt to convert failing situations into positive ones by acting in a risk-seeking manner. In other words, within the context of the family business, members tend to view any forthcoming decisions as a choice between the sure loss that has already occurred (i.e., choosing to exit from the business and avoid investing more money) and a future loss that is less certain (i.e., risking more funds in the hope of positive returns; see

Kahneman & Tversky, 1979; Schneider, 1992). Encumbered with the belief that an alternative course of action will lead to a loss of valued investments, family members typically choose to remain within the founder's business despite the known problems it entails, a phenomenon that Sharma and Irving (2005) termed "successor calculative commitment."

What Is Missing?

From the standpoint of an entrepreneurial family, it is a successful outcome when the whole family survives with their capital free to create new entrepreneurial opportunities for next generations (Kaye, 1996). Business exit may hence be a favorable outcome under certain conditions. In contrast, we observed that family members' emotional attachment, sense of responsibility, and amount of effort paid to the family business may not only prevent family members from exiting a failing activity, but they may also induce them to persist without searching for new opportunities.

What we believe is missing in the literature is hence a deeper understanding of *how* the determinants of commitment escalation are overcome by some family organizations, thus allowing them to recognize when the business needs to be divested and new opportunities exploited. Family-business researchers often assume that continuing the family business is desirable, and that alternatives to divestment are always available (Dreux, 1990; Sirmon & Hitt, 2003). This approach fails to recognize that perpetuating the business is only one of many possible entrepreneurial opportunities, and not necessarily the best one (Kaye, 1996, p. 275). Hence, understanding *why* some family organizations are able to implement exit strategies, whereas most of them fail to do so, is central to filling the existing gap in the literature on family-business long-term entrepreneurial behavior. Indeed, while considerable research attention has been given to de-escalation strategies aimed at avoiding escalation of commitment to failing courses of actions in the strategic management literature (e.g., Simonson & Staw, 1992; Keil, 1995), only scant attention has been devoted to studying the conditions conducive of strategic divestments in family firms (Sharma & Manikutty, 2005). Our longitudinal study of Falck's exit from the founder's steel business, and subsequent successful startup of a renewable energy business, allowed us to develop a framework of business exit in family-controlled firms that may contribute to addressing these open issues.

METHODS

Empirical Setting

Studying exit in organizations, and convincing key informants to talk about it, can be difficult as exit strategies often result from failures and are a source of trauma and distress. We hence needed to identify an organization which had successfully completed business exit. This is often a necessary precondition to the empirical study of business exit, because it makes it possible for insiders to openly acknowledge and discuss experienced troubles, conflicts, and solutions (Burgelman, 1994, 1996).

The Falck case was selected within the context of the *STEP Project for Family Enterprising* – a global research initiative that explores the entrepreneurial process within business families, with the aim of generating solutions that have immediate application for family leaders (http://www3.babson.edu/eship/step/). As a company that successfully engaged in the process of exiting the founder's business and subsequently entering into a markedly different one, Falck is a suitable case to investigate business exit and subsequent startup of a new business within the context of a varied, multigenerational entrepreneurial family.

Falck was the largest privately-owned steel producer in Italy over the period of interest, after FIAT – the other large-scale family-owned steelmaker – sold its steel business, Teksid, to the state-owned steel company Finsider in 1981–1982. Falck was established in 1906 as a steel company, soon becoming one of the largest and most prominent industrial businesses in Italy. The Falck family has accordingly enjoyed the highest standing and reputation among Italian entrepreneurs, financial institutions, public authorities, specialized press, and the public at large. The company history can be broadly divided in two phases: the era of the steel business (1906 to early 1990s) and the era of the renewable energy business (early 1990s to present).

Falck's history in the steel business witnessed the creation of a vast empire, which placed the Falcks among the most prominent European entrepreneurial families. The Falck company developed a strong reputation for being a trustworthy business partner and money borrower, and for being an uncommonly caring employer. The first of several cyclical steel crises in the recent history of the Italian steel industry started in 1964 and was mainly determined by environmental and industrial factors. Throughout the 1970s and 1980s the company and the owner family suffered heavy losses. The deeply rooted entrepreneurial tradition, strong family unity, deep social values, and commitment of family wealth slowed down the realization of the extent and irreversibility of the crisis. Moreover, the steel industry was heavily subsidized by the Italian government and the European Union, in order to reduce the social impact of the unavoidable layoffs following the shutdown of steel plants. This further interfered with the need for quick reaction by the family coalition. However, as financial losses piled up, and attempts at rejuvenating the business through alliances with Italian state-owned steel giant ILVA failed, most family members gradually realized that exit from steel was a painful, though unavoidable choice.

Data Collection

In our study we delve into the details of this entrepreneurial story by carefully triangulating primary and secondary data, which were equally relevant given our aim to cover several decades of company history. Primary data were essential in gathering first-hand reconstructions of the exit process. Secondary data were particularly useful in reconstructing key dates and critical events in the company history since its foundation in 1906, in drawing the Falck family's genogram, and in triangulating and supplementing sources for understanding events. This allowed us to resolve discrepancies among informants and to gain additional perspectives on key issues (Jick, 1979; Miles & Huberman, 1994).

As the Falcks have always been considered one of the most prominent European entrepreneurial families, vast media coverage is available not only of their business choices, but also of the complex family saga. We have analyzed and coded several hundred pages of newspaper clippings, financial magazine articles, books, and research reports covering the history of the Falck Group since the inception and until after exit from the steel business in the 1990s. Exhibit 1 reports the main sources of secondary data.

In choosing our informants we followed Lincoln and Guba's (1985) guidelines for "purposeful sampling." This implied initially choosing interviewees who could best inform us on our main research question concerning how family firms overcome the obstacles to de-escalation and exit strategies from long-established businesses. Past research (Sharma & Manikutty, 2005) and our research focus in this study suggested that sampling should begin with both family and nonfamily top managers actively involved in the family firm, because they play an important role in the strategic aspects of business exit. We hence interviewed first the current CEO (nonfamily member) and the current Chairman (family member) of the

Exhibit 1. Main Secondary Data Sources.

- Financial reports, 15 years.
- Newspapers clips, 20 years (selected articles are reported in the reference list), retrieved through "RDS Business & Industry," "FACTIVA," and "Il Sole 24 Ore" online databases.
- James, H. (2006). "Family Capitalism: Wendels, Haniels, Falcks, and the Continental European Model". HBS Press.
- Company website.
- Research report on meetings of Falck's Board of Directors.
- Transcripts of previous interviews to Alberto and Federico Falck; video-taped interviews; transcripts of seminars and workshops.
- Actelios, note to the investors (on the occasion of Actelios' IPO, 2002).

Falck Group, who have both been active in the exit process in the 1990s. We then used a snowball technique, asking key informants for their recommendations as to who could best explicate Falck Group's exit from the steel business. Exhibit 2 reports the list of our informants.

We conducted multiple in-depth interviews with organization members and with external agents. To maintain consistency, all interviews were conducted by the lead author, and were later transcribed verbatim. Interviews lasted for 60 to 120 minutes. We started with semistructured interviews to provide the widest possible scope for the data collection. We adopted a standardized protocol for the first round of interviews, with some customization for family membership, hierarchical level and organizational tenure. These initial interviews focused on the following topics: company history; family history; company experience; involvement in the steel business before exit (i.e., before the first half of the 1990s); the family, business, and environmental context of exit; thoughts and perceptions about the exit process with a specific focus on hampering and facilitating factors.

Subsequent interviews and collection of unobtrusive data became progressively more structured as themes emerged in both primary and secondary data. Thus, much of the content of second interviews and further collection of documentation focused on categories and themes emerging from previous data collection and preliminary analysis. This progressive focusing of data collection allowed us to target our attention on patterns, consistencies and inconsistencies across informants.

The entire data collection procedure involved an iterative process of simultaneously collecting data, analyzing them, and seeking new informants and secondary data on the basis of information deemed important by prior informants, until we reached "theoretical saturation" (Glaser & Strauss,

Exhibit 2. Primary Data: Interviews.

Informant	Number of Interviews	Family vs. Nonfamily	Position in the Firm at the Time of the Interviews
Federico Falck	3	Family	President Falck Group (entered in 1977)
Enrico Falck	1	Family	Financial analyst, Falck Group
Carlo Marchi	2	Family	Vice president, Falck Group; shareholder, Falck Group
Gioia Marchi Falck	2	Family	Nonactive family member; shareholder, Falck Group
Filippo Marchi	1	Family	Project developer, wind farms, Falck Renewables
Achille Colombo	2	Nonfamily	CEO, Falck Group (entered in 1989)
Carlo Magnani	1	Nonfamily	CFO, Falck Group
Umberto Rosa	1	Nonfamily	Independent board member, Falck Group
Filippo Tamborini	1	Nonfamily	President Board of Statutory Auditors, Falck Group
William Heller	1	Nonfamily	Managing Director of Falck Renewables (wind farms)
Roberto Tellarini	1	Nonfamily	Managing director of Actelios (waste-to-energy)

1967). As a result, several key issues gradually emerged, as well as tentative relations among concepts.

Data Analysis

As we collected primary and secondary data, we also started to inductively analyze them, closely following guidelines for qualitative inquiry (Miles & Huberman, 1994; Lincoln & Guba, 1985) and techniques for the constant comparison of data and emerging data structure (Glaser & Strauss, 1967).

To ensure reliability, we meticulously managed our primary and secondary data as they were collected, using a computer-based qualitative data management program (QSR N6 – NUD*IST 6), which helped us both in managing and analyzing our empirical evidence. Second, we used peer debriefing, in particular through seminar and workshop presentations, which means engaging other researchers not involved in the study to discuss emerging patterns in the data and to solicit critical questions about methods and emerging insights. Finally, the third author joined the research midway through the data collection process, hence providing an audit of our empirical processes and preliminary products, and a somewhat external and more objective perspective on how further data collection and data analysis should be carried on.

Careful examination and comparison of key events, documentary data, and ideas discussed by the informants allowed us to identify initial concepts in the data. We grouped them into categories (*open coding*; Locke, 2001; Strauss & Corbin, 1998) using language adopted by the informants or found in available documents (i.e., first-order codes). Next, we searched for relationships between and among these categories (*axial coding*), by assembling first-order codes into higher-order themes. Finally, we further aggregated similar themes into overarching aggregate dimensions, which constitute the building blocks of our emerging framework. This recursive process is illustrated in Exhibit 3, which summarizes the themes on which we built our model of business exit in family firms.

In collecting and analyzing our data we placed particular emphasis on understanding specific family-related issues which may have influenced the exit process. Previous exit research in nonfamily firms (e.g., Burgelman, 1994, 1996; Hayward & Shimizu, 2006) has focused on intra-firm, organizational-level processes. Contrary to this approach, we are convinced that understanding exit in family-controlled businesses requires including targeted attention to specific family issues. To this end, we have carefully reconstructed the Falck family genogram over the focal period (a simplified version is reported in Exhibit 4). Genograms record information about family members and their relationships over generations (e.g., McGoldrick, Gerson, & Shellenberger, 1999). They display family information graphically in a way that provides a quick gestalt of complex family patterns. As such, they are a rich source of hypotheses about how business exit may be connected to the evolution of the business problem itself and the family's context over time.

EXIT FROM THE FOUNDER'S BUSINESS AT FALCK

Our insights result from methodical triangulation of available sources of primary and secondary data, and from several iterations between data and theory. As illustrated in Exhibit 5, there are three main dimensions to the model of family business exit that emerged from Falck Group's experience: (a) Family-related psychological triggers and obstacles to de-escalation, (b) family structural de-escalation context, and (c) family responses to de-escalation needs.

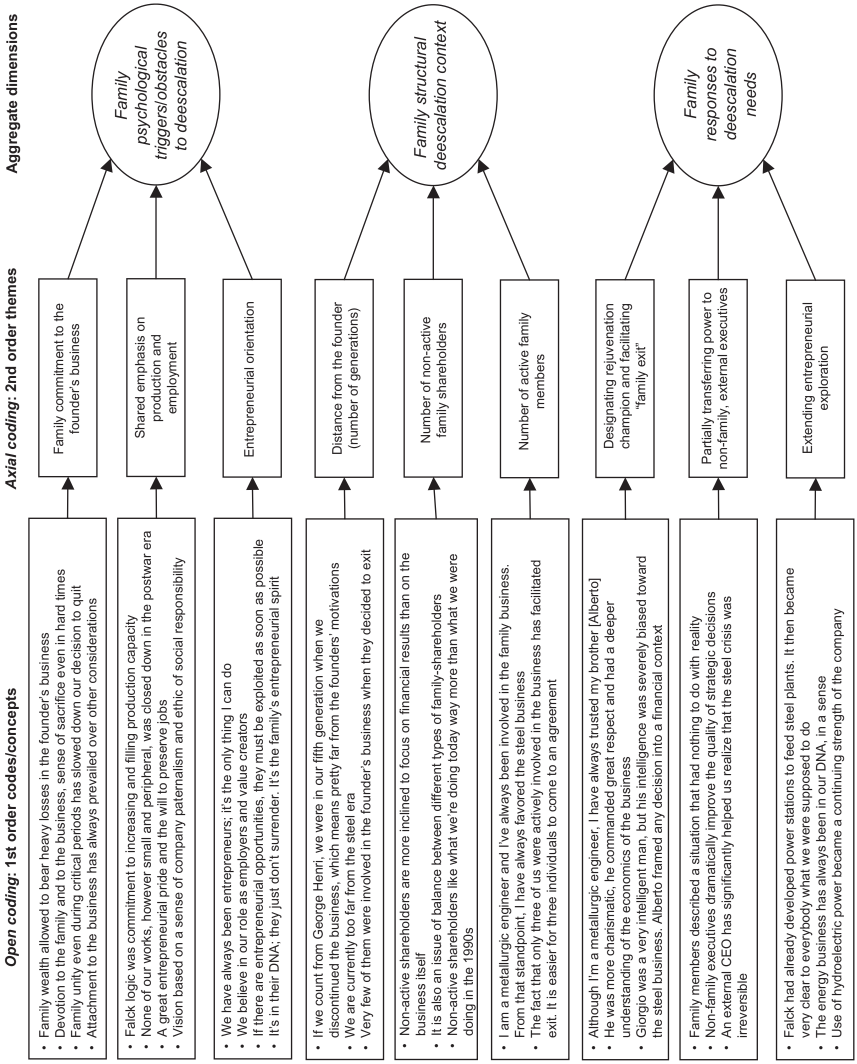

Exhibit 3. Data Structure.

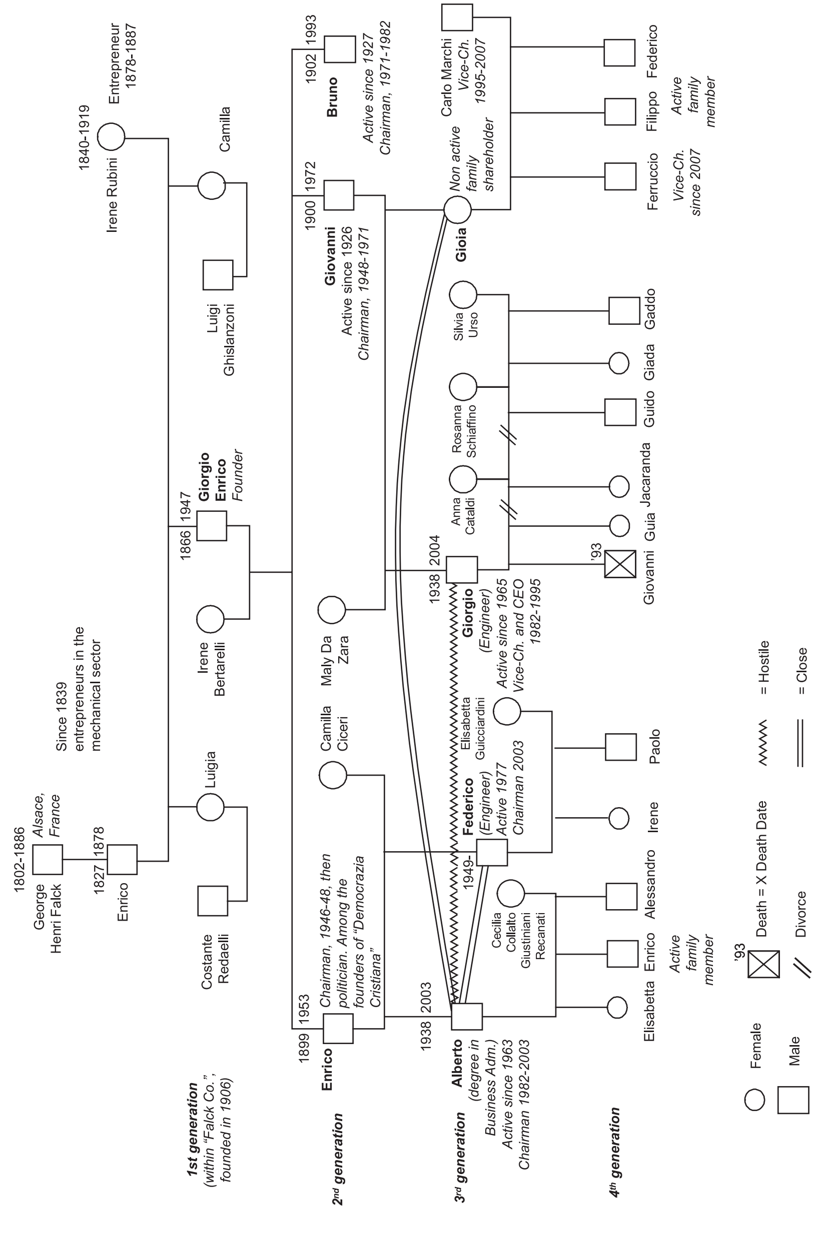

Exhibit 4. Falck Family Genogram (Simplified).

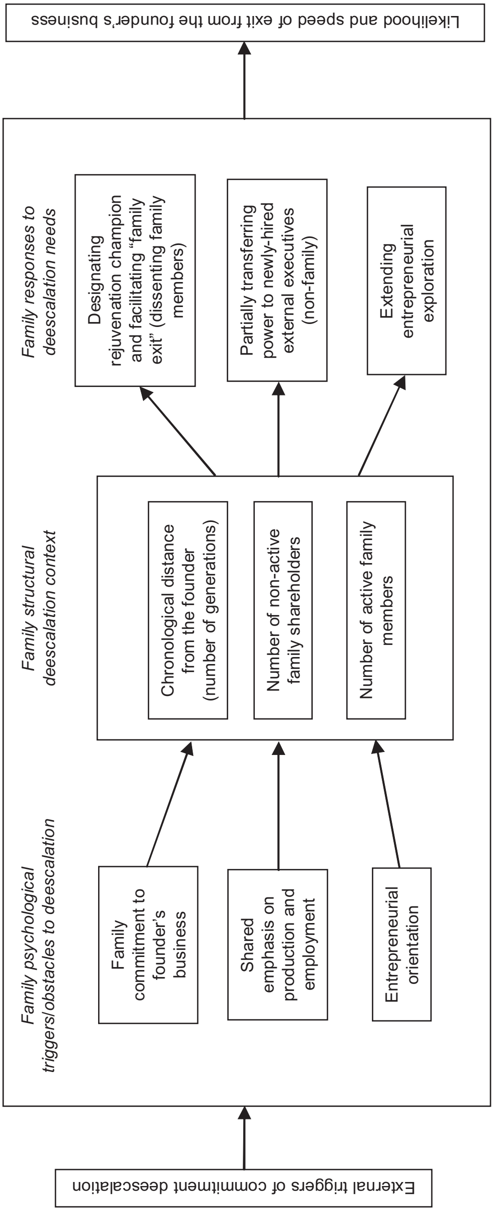

Exhibit 5. A Framework for Understanding Exit from the Founder's Business in Family Firms.

To better understand why each of these aggregate dimensions and their constitutive themes emerged (see Exhibit 3), it is important to gain a sense of the environmental triggers to de-escalation and exit from the steel business that existed in the focal period of our analysis. Business exit does not obviously happen in a vacuum, driven only by internal family or organizational forces. Rather, the rationale behind the choice of exit from a business is most often determined by external factors. Therefore, our focus in this study is not much on *what* factors determined Falck Group's exit choice – as they mostly resided in the external environment and the steel industry – but rather on *how* exit was possible, and on *how* different family-related factors facilitated or hampered exit.

External Triggers of Commitment De-escalation

In 1833, Georges Henri Falck, an Alsace engineer and iron-steel specialist, was invited to manage the iron works of Dongo in northwestern Italy owned by the Rubini family. In 1906 Giorgio Enrico Falck, Georges Henri's grandson, established the "Società Anonima Acciaierie & Ferriere Lombarde – AFL" and shifted the entire business to Sesto San Giovanni, on the outskirts of Milan. It was a strategic position in view of better scrap procurement facilities, abundant water resources, as well as the railway junction bringing coal from Germany. Considering the 1906 startup of AFL as the first steel company founded by a member of the Falck family, Falck is hence currently in its fourth generation of business (James, 2006; see also family genogram in Exhibit 4). Some key dates in the Falck Group history are reported in Exhibit 6.

In the 1906–1935 period, the Falck Group built a close-knit chain of new factories for steel production and was among the first in Italy to build hydroelectricity plants needed for its steel facilities. Using scrap, or "broken iron," instead of iron ore as a raw material in producing steel required more energy, but allowed Falck to avoid being dependent on foreign import of metal ore; a valuable feature, given Italy's relative scarcity of mineral resources and of coal. It also allowed the Falck Group to differentiate itself from the "coastal steel mills," the giant state-owned steel plants located along the Italian coast to facilitate access to imported raw materials. Moreover, the electrical production of steel from scrap generally took place on a smaller scale than that of the "integral cycle" mills working with imported iron ore, hence bearing lower cost burdens (Bonelli, 1982, pp. 67–68).

Exhibit 6. Falck Group: Critical Events (see also Exhibit 6, Family Genogram). AU :1

1833	Georges Henri Falck (1882–1886; originally from Alsace) is invited to Lombardy as a technical adviser to the iron manufacturer Gaetano Rubini. The company is renamed Rubini, Falck, Scalini e Comp. Falck put up some of his own money in the venture, the equivalent of $5,600, mainly as a guarantee that he would not move on and abandon the works: "Ownership was a means to commitment" (James, 2006, p. 101).
1863	Enrico Falck (1827–1878) married Irene Rubini, daughter of the patriarchal ironmaster. After Enrico's death in 1878, Irene Rubini Falck runs the business, until her son, Giorgio Enrico (1866–1947), takes over in 1893.
1906	Giorgio Enrico establishes the Società Anonima Acciaierie e Ferriere Lombarde (AFL), the first steel company started by a Falck family member. The major financing came from the large Italian bank Banca Commerciale Italiana, which initially exercised a substantial influence over the company. Alfredo d'Amico and the Dongo firm of Rubini & Co. also participated in capital in the form of a joint-stock company. G.E. Falck has little to contribute in terms of capital, but the raising technical imperative and increasing emphasis on expansion and market power increase his influence.
1906–1908	start-up difficulties, general Italian industrial crisis (1907) and subsequent drop in demand (1908) instigate the first serious company crisis.
1911	AFL takes over Ferriera Milano, an important Milanese manufacturer of seamless steel tubes. The director of the acquired company, Ludovico Goisis, becomes a close and exceptionally loyal collaborator of the Falcks. G.E. Falck has the exclusive management of AFL, turning Alfredo d'Amico out of the executive council. Despite what Falck terms "permanent conditions of crisis" (Confalonieri, 1982, pp. 454–455), he continuously presses banks for expansion, demanding the construction of the third furnace at Sesto and a new program of investments including a new tubing plant in Milan: "Falck had made a strategic gamble on continued expansion" (James, 2006, p. 168).
1912	two strategies are started, which will characterize Falck's leadership of the Italian steel business for decades: (1) concentration on the use of scrap (or "broken iron") rather than imported iron ore, which would eliminate dependence on availability and prices of foreign raw material; (2) reduction of the involvement of banks in capital, while building up a network of private individuals working with the family firm and supplying capital (like the Rubinis, Feltrinellis, and Luranis), which would allow the company to stay untouched by the crises that overwhelmed Italian banks and the industries they managed.
1916	AFL decides to construct a hydroelectric generating plant financed through a high level of wartime profits due to increasing military demand for metal products. The use of hydroelectric power becomes a continuing strength of the company, initially justified by the high price of imported coal, but later transformed into an opportunity, as in-house electric production allows to avoid large-scale imports of foreign ore.

Exhibit 6. (*Continued*)

1930s	AFL emphasizes its family quality by changing the name to "AFL Falck" and by appointing Giorgio Enrico's sons (Enrico, Giovanni, and Bruno) and son-in-law (Giovanni Devoto) to the board.
1934	creation of a separate division in the company, "Servizi idroelettrici," to handle the continuing expansion into power. Further acquisitions, through the worst phases of the world economic crisis.
1941	Falck launches a large new energy-production program. By the mid-1950s the Falcks were operating 15 power plants. In 1946 AFL-Falck had produced 203 MW of electricity, or 2.9% of Italian national output.
1946	G.E. Falcks resigns from the direction of AFL: the second generation takes over with Enrico (who resigns in 1948 to focus on politics as a state senator), Giovanni (President since 1948), and Bruno (general manager since 1948).
1950s	high level of investments in new furnaces, production lines, and rolling mills.
1960s	radical set of technological innovations, with a shift to oxygen-based steelmaking processes and a major expansion in steel production between 1961 and 1966 (e.g., new electric steel mill Concordia).
1963	Alberto Falck enters the family business, becoming later in 1982 President and leader both of the Group and of the family.
1964	first of the cyclical crises that would hit Falck, with first operating loss since the immediate postwar years. Profits returned to the level of the early 1960s only in 1967, and then fell back again almost immediately.
1970s	steel crisis.
1981–1982	FIAT, the only large-scale private Italian steelmaker besides Falck, sells its steel business, Teksid, to Finsider, the state-owned steel company, after a decade of heavy losses.
1987	last attempt at recovering the steel business within the Group with an external CEO.
1989	the era of the steel business leaves to the renewable energy business.
1989–2003	growth in energy business through entrepreneurial activities (hydroelectric power from own to commercial purposes; biomass and waste-to-energy; wind farms; new geographical markets, both in Italy – Sicily and abroad Spain, UK).
2003	sudden death of Alberto, Chairman since 1983, replaced by his younger brother Federico.
2004	death of Giorgio Enrico, Vice chairman since 1983.

In the aftermath of the Second World War and taking advantage of the Marshall Plan, the Falck Group launched a new growth cycle. In 1963, the company had 16,000 employees, and was listed on the stock exchange. The end of the 1960s and the beginning of the 1970s witnessed a relentless increase in iron-steel demand and production, thanks mainly to demand coming from emerging markets and increasing industrialized economies such as South Korea, Brazil, Mexico, and Argentina. In order to cope with the increased level of demand, the steel industry experienced a sharp capacity increase.

The steel industry crisis started in the early 1970s and was mainly determined by environmental and industrial factors. Throughout the 1970s and 1980s the company and the owner family suffered heavy losses. The deeply rooted entrepreneurial tradition, strong family unity, and deep social values mitigated the realization of the extent and irreversibility of the crisis.

The three main driving forces of the industry crisis were: increased production capacity, both from non-European countries and from extra-European emerging countries; oil shock that hit the world economy in 1973 that caused the demand for iron- and steel-made products to collapse; demand in industrialized countries gradually shifting to industries with little or no steel consumption, such as informatics and microelectronics. As a result, the industry experienced a decline in worldwide demand for iron steel of 8.4% in just 1 year, from 1974 to 1975, a period in which overstated forecasts of industry development caused the steel players to invest in order to heavily increase capacity. The obvious result was a sharp decline in steel prices. Governments began to heavily subsidize, including in some extreme cases bailing out the collapsing company, as in the cases of Usinor and Sacilor nationalized by the French government. The Falck Group managed to overcome the worst periods of the crisis, thanks to its superior products and market diversification, and to the forward-looking policy aimed at lowering production costs and improving quality of products and distribution network, rather than simply increasing total output.

In 1979, another oil shock hit the world economy, with a crisis lasting 4 years (1980–1984), followed by a mild recovery which grew stronger toward the end of the decade. The improved economic conditions caused a strong increase in the demand for steel, with a decreased contribution to total production by developed countries, and an ensuing increase in demand by emerging economies, which accounted for 49.6% of worldwide production in 1989. However, the excess of steel production capacity that increased demand in the early 1980s crisis led to, within the European Union and the US, the need for a drastic reduction in capacity, pursued through different forms of intervention. While in the US market mechanisms decided which plants were to be shut down based on efficiency criteria, in Europe restructuring was directed by the European Commission. The line adopted by the European Community was based on the principle of shared sacrifice, with a series of laws and bills promulgated through the decade which aimed at: splitting production between member states based on pre-established quotas; prohibiting governments to subsidize iron steel companies; establishing direct intervention of the Commission through financing alternative employment of laid-off workers; and investment in all areas hit the most by the crisis.

After the painful and prolonged losses experienced by the Falck Group during the years of the steel sector crisis, starting from the second half of the 1980s, financial results of the company slightly improved over time, turning positive and making it possible to start paying out some dividends to shareholders. Despite these improvements, the situation of the company still attracted a lot of critics who were quite unhappy about it, especially when it was compared with the strong health enjoyed by other steel industry players who benefited also by the forthcoming return of deregulation and freed competition. These complaints were mainly being expressed by the partners belonging to the governance control pact. These external stakeholders raised in the Falck family an awareness of the necessity to find a strong partner in order to better face future industry crises, and to find more efficient, innovative, and productive solutions. The strong partner was found in state-owned company ILVA, which offered 150 million euros plus a mechanism of crossed shareholdings, in order to obtain cooperation in sectors within the scope of activity of the two companies (Lonardi, 1990a, 1990b).

During the same period, corporate restructuring was prompting a major crisis occurred in the worldwide steel industry. This crisis was so deep that Alberto Falck, then chairman of the Italian federation of steel producers, called 1991 the "the worst year the steel industry ever had to face over the last 15 years." Alberto believed a strong capacity reduction was necessary to the survival of the entire sector, alongside with a wave of mergers between the main industry actors. The big drop in revenues, and therefore in profits, was partly due to aggressive policies implemented by emerging countries, especially those that were part of the former Communist block. These events threatened a possible, and partly necessary, layoff of some 10,000 steel workers in Italy, whereas in Europe this figure nearly approached 50,000.

This deep crisis represented in some ways a critical step in the whole history of the Falck dynasty. At the end of 1992, ILVA CEO Giovanni Gambardella informed Alberto Falck about his plan to modify the relationship between their two groups, with the aim of improving productivity through separate restructuring plans. In 1992 and 1993, financial results of the core steel business of the Falck Group were very disappointing, recording huge losses which amounted to more than 100 million euros combined. Notwithstanding this, the holding company managed to turn a small profit thanks to financial and nonrecurring items.

The contrasts within the family, together with the negative financial results, were the base of the dissolution of the governance pact that was scheduled to be renewed in 1994. The first who declared himself out of the agreement was Giorgio Falck, and other participants manifested their willingness not to adhere to it as well. That year was therefore characterized by a great volume of shares of company stock being transacted on the Stock Exchange, as major partners looked to partially dismiss their shareholdings. The change in the governance pact and the improved market outlook for 1995 did not make Alberto change course of action about the divestment process, which deeply changed his relationships with his cousin Giorgio as well as with his former industrial partners.

In October 1995 Alberto asked the former Minister of Industry, Emilio Gnutti, the funds destined by a recent Italian law to those firms that planned to definitely dismiss activity in the iron steel industry. The long era of steel production in Sesto San Giovanni finally came to an end at the beginning of 1996, when all the remaining employees were either relocated or moved to other companies, and the Falck Group managed to get 130 million euros from the government as a subsidy to exit from the steel industry (Castronovo, 1996; Sala, 1996). Company name was changed from A.F.L. Falck S.p.a to Falck S.p.a., to reflect the new interest in diversified activities within the energy, real estate, engineering, and financial businesses.

The dominant theme that emerges from the analysis of Falck Group's exit from the steel business, which extended over approximately two decades, is the struggle experienced by the family between the clear signals that exit was inevitable on the one hand and the strong sentiments about the long-lasting family tradition in the steel business on the other hand. Most importantly, such struggle was solved in favor of exit from the founder's business – and subsequent startup of a promising entrepreneurial endeavor – due to the complex interplay among a set of family-specific factors. These factors either constituted triggering and hampering elements or contextual factors to the exit decision. Exhibit 7 reports data supporting our interpretation of the family-specific factors which played together in either hampering or facilitating de-escalation of commitment and exit from the steel business.

Family-Related Psychological Triggers and Obstacles to De-escalation

Three specific themes relating to family-specific triggers and obstacles to de-escalation of commitment to the steel business characterized our informants' experiences and supporting documentary data: (1) the commitment of

Exhibit 7. Data Supporting Interpretations of Family-Specific Factors Influencing Commitment Escalation and Business Exit.

Theme	Triangulation of Representative Quotations from Primary and Secondary Data	Impact on Exit (*)
Family psychological triggers/obstacles to de-escalation		
Family commitment to founder's business	"The head of my case study in the 1990s, Alberto Falck, told me that it was the wealth of his family that allowed him to continue to bear continuing heavy losses in the 1970s and 1980s" (James, 2006, p. 32). "In the past we went through three succession processes. Each succession carries events which challenge family values. However, in our case attachment to the business has always prevailed over other considerations. This is why we stuck to [the] steel [business] for so long" (Alberto Falck, Chairman 1983–2003). "While I express my gratitude, allow me to say that for me the most satisfying sense of such an event lies in the will to express the unity and unanimity with which our great family has always marched toward ever greater goals. For 25 years I have identified myself with this work of construction, to which I have devoted every fire and every passion" (Giorgio Enrico Falck, 1931, cited in James, 2006, p. 245).	(−)
Shared emphasis on production and employment	"The push to diversification and to new sorts of activity in finance and property management caused a great deal of heart-searching among the Falck family. They felt themselves to be industrialists rather than financiers, and continued to surround themselves with pictures of furnaces and of classic industrial activities" (James, 2006, p. 347). "At the time of the steel business, Falck did not have a result-oriented mentality. Falck's logic was commitment to production, to increasing and filling production capacity. But if you have the wrong mills, the more you fill capacity, the more you lose money! For people active in that period, shifting mentality from production to product was simply not in their DNA" (Achille Colombo, , external CEO since 1989). "Not one of our works, however small and however peripheral, has been closed down in the postwar era" (AFL Annual Report, 1967, p. 11).	(−)
Entrepreneurial orientation	"When we had to decide what to do, during the worst period of the steel crisis, my brother [Alberto] asked me: what do you want to do? I said: we have always	(+)

***Exhibit* 7.** (*Continued*)

Theme	Triangulation of Representative Quotations from Primary and Secondary Data	Impact on Exit (*)
	been entrepreneurs; it's the only thing I can do. I don't understand finance, so cashing out the business and managing family wealth has never been an option for me'' (Federico Falck, Chairman since 2003).	
	''Closing an activity of that size is obviously something which leaves a mark. However, the Falcks are so active, so inclined to the entrepreneurial sense of life … throughout all these years, after the decision to shut down steel activities, nobody has ever mentioned steel, other than in a technical sense, when discussing about the few remaining activities'' (Filippo Tamborini, President of Falck's Advisory Board since 1976).	
	''We believe in a role of our entrepreneurial family as an employer. We believe in our role as value creators. Our business activities must create value and development. This, I believe, has been the main reason why we decided to abandon the steel business and to enter the energy business'' (Enrico Falck, 2006, Financial analyst).	
	''I guess this were Alberto Falck's speculations at that time. I can imagine that he, too, wanted to keep playing an entrepreneurial role, as he'd always had an industrial position in the establishment, and preferred to keep playing that role'' (Achille Colombo, external CEO since 1989).	
Family structural de-escalation context		
Distance from the founder (number of generations)	''Our remaining activities in the steel business are only of interest to me. Younger generation members do not understand them. They were too young when we sold. But even my cousins: if we count from George Henri Falck, we were in our fifth generation when we discontinued the business, which means pretty far from the founders' motivations'' (Federico Falck, Chairman since 2003).	(+)
	''Nobody really cares about the remaining activities in steel. Well, obviously my uncle [Federico] does care, as he was active in the firm in that period; but we are currently too far from the steel era'' (Enrico Falck, Financial analyst).	
	''The others do not even know what the steel business is or has been; very few of them were involved in that business at the times of the older generation'' (Achille Colombo, external CEO since 1989).	

Exhibit 7. (*Continued*)

Theme	Triangulation of Representative Quotations from Primary and Secondary Data	Impact on Exit (*)
Number of nonactive family shareholders	"Luckily, and mainly thanks to the Marchi family, the decision to exit from steel prevailed. The Falck Group has two groups of shareholders: the Falcks and the Marchis. The Falcks have always been closer to the business, while the Marchis are merely shareholders, and are hence more inclined to focus on financial results, than on the business which determines results. It is not just the relationship between shareholders and managers that matters in these radical strategic choices. It is also an issue of balance between different types of family shareholders" (Achille Colombo, external CEO since 1989). "The Marchis like what we're doing today [i.e., renewable energy] way more than what we were doing in the early 1990s [steel]" (Achille Colombo, external CEO since 1989). "Carlo Marchi was obviously supporting his wife's [Gioia Marchi Falck] position as a nonactive shareholder: he was hence favorable to exit from the steel business" (Federico Falck, Chairman since 2003). "Crucially for the eventual outcome of the clash and estrangement between Alberto and Giorgio, Giorgio's sister Gioia Marchi, who had participated regularly in capital increases and had become the largest of the family shareholders, supported Alberto" (James, 2006, p. 347).	(+)
Number of active family members	"I am a metallurgic engineer and I've always been involved in the family business. From that standpoint, I like, and always have, the steel business. But I understand that from a merely rational standpoint we had no chances" (Federico Falck, Chairman since 2003). "I believe that the fact that only three of us – my brother Alberto, myself and our cousin Giorgio – were actively involved in the business has facilitated our decision [to exit from steel]. I believe it has been an advantage, even in probabilistic terms: it is easier for three individuals to come to an agreement" (Federico Falck, Chairman since 2003).	(−)

Exhibit 7. (*Continued*)

Theme	Triangulation of Representative Quotations from Primary and Secondary Data	Impact on Exit (*)
Family responses to de-escalation needs		
Designating a rejuvenation champion and facilitating "family exit" of dissenting family members	"My brother's [Alberto] approach to leadership was totally different from mine. He guided our firm through crisis and renewal: I've been adding something, but we are totally different in terms of skills and education … He was more charismatic, he commanded great respect, and he had a deeper understanding of the economics" (Federico Falck, Chairman since 2003). "[At the time of exit from steel] Federico was working in the company, but he's always had a feeling of absolute respect for his brother [Alberto]. Hence, I believe he didn't even wonder whether what his brother was doing was right or not" (Achille Colombo, external CEO since 1989). "Giorgio Falck would not understand these issues: he was a very intelligent man, but his intelligence was severely biased toward the steel business … On the opposite, Alberto had the advantage of being able to frame any decision into a financial context, which is something the two of us had immediately started to disseminate in the organization. Because that was the only way to accept divestment of assets in the traditional business, by determining the value creation potential of each strategic alternative. We hence started soon with the investments in steel: how much will these alternatives yield?" (Achille Colombo, external CEO since 1989).	(+)
Partially transferring power to newly hired, nonfamily external executives	"Throughout my career, before accepting the CEO position at Falck, I had mainly followed a development logic: not necessarily diversification, but certainly expansion of entrepreneurial activities … Hence, choice of evolution strategy has been very simple for me: Falck already had other activities around the steel core business; the simplest thing has been to see whether these activities could have a market potential. What they could hardly see has been a rather mundane step for me" (Achille Colombo, external CEO since 1989). "When I arrived at Falck there was a rather confusing situation under the operating and strategic profile. Falck had just went through a very tough period with heavy losses … and the steel market was slightly	(+)

Exhibit 7. (*Continued*)

Theme	Triangulation of Representative Quotations from Primary and Secondary Data	Impact on Exit (*)
	recovering. There was hence an euphoria that was not based on objective elements, on actual company strengths, but was rather determined by environmental factors" (Achille Colombo, external CEO since 1989). "They asked me if I was interested in coming, describing a situation that had nothing to do with reality. They told me that the steel business had been fixed and that we could diversify in different activities … but the steel business was far from being fixed" (Achille Colombo, external CEO since 1989). "Having empowered nonfamily executives, and having a well-functioning board of directors, dramatically improves the quality of strategic decisions: it allows to have the objective view of the situation that you, as a deeply involved family member may not capture. An example? Achille Colombo has significantly helped us realize that the steel crisis was irreversible" (Alberto Falck, Chairman 1983–2003). "I remember my brother [Alberto] saying Colombo was the right person for Falck in that period. He said, and I agree, that he was the right person to interact with such a composite family in a difficult period, as he has the right managerial style: polite, but resolute" (Federico Falck, Chairman since 2003). "I took part in all resolutions of Falck's board of directors, which was obviously the place where decisions were taken. These decisions, including the decision to divest the steel business, were proposed by the president and, in particular, by the CEO … They [family members] have always been linked to the Board. Hence, all decisions, of any nature, were always tied up to the CEO's judgment. Somebody has to take the tough decisions at some point in time" (Filippo Tamborini, President of Falck's Advisory Board since 1976).	
Extending entrepreneurial exploration	"The idea of abandoning steel and entering the energy business was very simple. Falck had already developed hydroelectric power stations to feed steel plants … The company running the power stations, Sondel, had been listed on the stock exchange. When we completed our first cogeneration station, Sondel's stock price raised. When we started the second one, the value rose	(+)

Exhibit 7. (*Continued*)

Theme	Triangulation of Representative Quotations from Primary and Secondary Data	Impact on Exit (*)
	again. It then became very clear to everybody what we were supposed to do" (Achille Colombo, external CEO since 1989). "The energy business has always been in our DNA, in a sense. We entered the energy business in 1917, when my grandfather understood he could store hydroelectric energy" (Federico Falck, Chairman since 2003). "They had always produced energy. They had several power plants in Valtellina, to feed the steel plants. They looked forward and thought that energy could be the future … as it actually is today" (Filippo Tamborini, president of Falck's Advisory Board since 1976). "The use of hydroelectric power became a continuing strength of the company in the interwar period" (James, 2006, p. 170).	

(*) (+) The family-related factor INCREASES the likelihood and speed of business exit. (−) The family-related factor DECREASES the likelihood and speed of business exit.

family members to steel, the founders' business; (2) an emphasis on production and employment invariably shared by all Falck family members; (3) an equally intense orientation toward value-creating entrepreneurial activities.

In presenting our findings related to this first building block of our conceptual model (Exhibit 5), and the two subsequent ones, we have tried to coordinate and integrate evidence emerging from several data sources: the findings narrative reported in transcriptions of interviews; documentary evidence from secondary data; Exhibit 3, illustrating the progressive data structure; Exhibit 4, when pertinent, reporting the Falck family genogram; Exhibit 7, providing additional supporting data. The interested reader can hence discern and triangulate the evidence on which our final model (Exhibit 5) is based.

Family Commitment to Founder's Business

The Falck family has always been keen on maintaining company independence and on strengthening the steel business through heavy personal financial involvement. Hence, it is not surprising that, among other subtler and less tangible reasons, Falck family members have developed over time a tough psychological commitment toward steel, the founder's business.

George Henri Falck was the first to be required to invest personal wealth in the steel business, as a way for his employers to guarantee his commitment to the company he was working for. As a metallurgic consultant, his personal financial wealth was rather limited, as in the case of his nephew Giorgio Enrico when he founded AFL in 1906. For this reason, the Falck company started in 1906 as a joint-stock company substantially controlled by banks, and Giorgio Enrico was initially more a manager than an owner, with little of his rather limited capital in the company. Hence, it was relative scarcity of family wealth that forced the founder to share ownership with banks and industrial investors over the first two decades of AFL's life. However, during the 1930s the Falck family repurchased all company shares. Hence, while the major instruments of the Falck family were joint-stock companies for most of the twentieth century, whenever personal wealth allowed it, the Falck family has always tried to increase the company autonomy by increasing the family's financial commitment to the business: "In the midst of great crises of national capitalism, the Falcks pursued a course that made them less like joint-stock corporations and more like family firms, in an apparent reversion to an older historical model" (p. 13).

The relentless commitment of the Falck family to the founder's business is witnessed by the pace of family-financed investments, which was not halted even during hard times. On November 29, 1930, for instance, Giorgio Enrico Falck presented his board with a surprising response to economic depression. In those years the small Falck mills at Vobarno and Dongo were running almost at full capacity, while the major plants in Sesto San Giovanni were operating at only 30% to 40% of capacity. Despite this situation, Giorgio Enrico concluded that the best response to these difficulties would be to undertake further investments, both using the firm's reserves and raising more capital. As the market would not support such increase in capital during those critical years, an extraordinary meeting of family shareholders in December 1930 agreed to raise the capitalization to 78 million liras. This allowed the company to start a new blooming mill in Sesto in 1931 (Bonelli, 1982, p. 192). As a result of the increasing financial commitment, AFL's company policy toward family and other shareholders was explained by Falck as "a modest but continual dividend" (AFL, Relazioni del consiglio di amministrazione, 1930).

Besides the aim of strengthening the industrial side of the business, the company has always sought to avoid bank debt. Giorgio Falck, Vice chairman between 1983 and his death in 2004, commented that: "When one puts oneself in the hands of the banks, it is a certainty that one will end up being devoured" (quoted in Il Sole-24 Ore, November 4, 2003, p. 9). This traditional suspicion of banks has deep roots in Falck's history. Since the 1920s it was the banks that had been pushing AFL into some combination with the heavily indebted state company ILVA, with the aim of rescuing their own investments more than to be of any benefit to AFL's strategies.

A strong and tangible family commitment to the founder's business has characterized the Falck family even in the toughest period of the steel crisis. Annual balance sheets and the financial press report several instances in which the Falck family poured money into the company to cover mounting losses. In 1990, for instance, at the height of the steel crisis, a financial newspaper reported: "The Falck family intends to keep, or actually strengthen, its primary role within the steel group … At the end of the [shareholders] meeting VP Giorgio Falck actually said that the family will try to increase its share up to 29–30 percent" (Bongiovanni, 1995). The increasing, relentless financial and managerial effort devoted by the family to the founder's business had apparently delayed the decision to exit, as family commitment gradually became a perceived family value. As Alberto Falck, the company chairman who drove the family firm out of steel, once illustrated: "My family's main value is the sense of duty … Key values are the sense of duty, devotion to the family and to the business, the sense of sacrifice even in hard times, and the sense of family unity which supports the business even during states of crisis … This has obviously slowed down our decision to quit" (Alberto Falck, Chairman 1983–2003).

Shared Emphasis on Production and Employment

Interviews and secondary data reveal that Falck family members have always perceived as positive values the centrality of industrial production and of maintaining employment. This shared emphasis on production and employment is described by James (2006, p. 171) as deeply rooted and complementary family values: "A vision based on a powerful sense of company paternalism and an ethic of social responsibility looked like a way of binding a reliable workforce." According to the interpretation offered by our key informants, triangulated with documentary evidence, these values – conducive of a relatively good company climate over the golden era of the steel business – partly became liabilities when a rational decision had to be made about whether to continue the founder's business or not.

Starting in the early 1990s, with the decision to gradually exit from steel, the Falck Group was forced to gradually close steel plants. This decision clashed with the agreement signed years before by the Group with unions and Sesto San Giovanni municipality of continuing the activity in the town. To prevent conflicts, Alberto Falck presented to the local municipal government 23 projects of industrial reconversion in order to save almost 70% of the 1,200 workers still employed in the Sesto steel plants. This move had a twofold purpose: a more noble one, tied to the well-earned reputation of the family of never having fired any of its employees, and a more subtle one, which was based on the threat of heavy layoffs in order to get the funds. Workers were in fact complaining that their employer was exploiting the difficult situation with the purpose of reducing the huge outstanding debt of the company (which amounted to almost 220 million euros).

Emphasis on production and on preserving employment are also seen by external observers as factors that deeply affected the likelihood and timing of exit. As reported by Filippo Tamborini, President of Falck Group's Advisory Board since 1976: "In the years before exit [from the steel business] the board of directors, I mean the Falcks, have strenuously fought to defend the firm's traditional activity. In my opinion this was determined by a great entrepreneurial pride and by the will to preserve jobs. Hence, I can say that even if the firm had to bear significant losses in the attempt to restructure steel activities, this has been done in light of this pride and to preserve employment."

Entrepreneurial Orientation

Exit from steel was favored by the widespread, publicly recognized entrepreneurial orientation of Falck family members. The strong and far-reaching entrepreneurial orientation of the Falcks traces back to George Henri I and to his nephew Giorgio Enrico, founder of AFL in 1906 and of innumerable new companies and business activities until his death in 1947. Traces of this focus on entrepreneurial productive activities are also found in secondary data related to second-generation members. In his book on three European steel dynasties, for instance, James (2006, pp. 264–265) reports the following statement by Enrico Falck, father of the current Chairman Federico: "For us there exists not only production, as the liberals claim, or only distribution, as the theorists of socialism wish to affirm, but both; and woe if the productive process is not at the head of the order of preoccupations."

His son Alberto, who later became Chairman of the family firm, which he guided through exit from steel and into renewable energy, seems to have inherited this spirit. In his spiritual testament he addresses his children as follows: "This is what we third-generation members had to do. And what are you going to do? From current developments it is likely that you will continue along this path, developing it further, because energy has a great future. However, you will also have in some way to refound it, and this will be your entrepreneurial legitimization: closing activities and opening new ones, choosing strategies, reacting to a different economic context. You will advance by innovating and developing, since this is what an entrepreneur is required to do, and this is what you must get ready for."

Alberto's younger brother Federico seems to share this view: "We believe that if there are entrepreneurial opportunities, they must be exploited as soon as possible: this has always been our approach" (Federico Falck, Chairman since 2003). The first quote by Federico reported in Exhibit 10 under "entrepreneurial orientation" is telling in this respect, as it offers a vivid illustration of the psychological climate the family was embedded in at the peak of the steel crisis. Family members in that period were actually unclear about what to do: continuing the steel business, at the risk of enduring continuing and increasing losses; selling the business and enjoying the financial rents, hence losing their entrepreneurial identity; reinvesting the liquidity generated by dismantling the steel business and venturing in new arenas. Invariably, Falck family members proudly refused the second option and, as the first one became unviable, decided to face new entrepreneurial challenges. Even Giorgio, who was advocating the continuation of the steel business, when asked about the opportunity to turn to the more lucrative real estate activities was quoted responding: "I'm an entrepreneur: I don't know anything about that activity" (Dragoni, 1993).

Fourth-generation family members seem to participate in this spirit, and they credit it with having guided the family out of the steel business and into renewable energy: "I believe it was easier for my father [Alberto] to decide to exit the steel business and invest in the energy business: he had the intellectual fascination of running a well functioning mechanism; he liked the idea of starting this new mechanism [the energy business] in the right way. I also believe he was frightened by the idea of just selling the business and enjoying the financial rent … we are all somewhat 'Calvinist' from this standpoint …" (Enrico Falck, fourth generation, financial analyst).

Finally, external observers close to the Falck family reinforce this interpretation, by suggesting that the Falcks' entrepreneurial spirit has unquestionably eased their exit from steel by making available several entrepreneurial alternatives: "I believe the Falck family has always had an entrepreneurial vision which went beyond steel, the specific business in which they had been active since the beginning … It's in their blood, in their DNA; it's the bloodline which prevails: they just don't surrender. You can feel the activism, the resolution to persist, always struggling to improve … It's the family's entrepreneurial spirit" (Filippo Tamborini, President of Falck's Advisory Board since 1976).

Family Structural De-escalation Context

In making the decision to exit from the founders' business, family context mattered at Falck. Several features of family involvement into the business seem to have played a significant role in how issues were addressed and in how and why the final decision was taken. Hence, as suggested by Exhibit 5, triggering and hampering factors described in the previous section impact subsequent family responses through the filter of various contextual dimensions. These factors cannot usually be actively managed, but only to a limited extent. Hence, they cannot be acted upon in order to alter the chances of business exit. However, it is essential to be aware of their existence and of their impact on exit when these processes are investigated or managed.

Throughout our investigation we actively searched for family-specific contextual factors, as most of the extant literature focuses on organizational path dependencies such as a previous history of success (e.g., Keil, 1995; Steinbruner, 1974), sunk costs (e.g., Garland, 1990; Staw & Hoang, 1995), organizational inertia (e.g., Staw, 1994), or internal communication AU :8 problems (e.g., Payne et al., 1988). Three main factors emerged: the temporal distance from the founder, which was found to be positively related to the likelihood and speed of exit; the number of nonactive family shareholders, which was also found to have a positive impact on exit; and the number of family members active in the family business, which may in general slow down, if not impede, exit. In the Falck case, however, it did not have a negative role on exit, as only Alberto, Giorgio, and Federico were at that time actively involved in the business as Chairman, Vice chairman, and Procurements manager, respectively.

Distance from the Founder

Distance from the founder has a direct impact on exit: the more family members perceive themselves distanced from the founding roots of their firm, the less they will be likely to hinder or to delay exit. Even family members, who were active in the business at the time of the steel crisis, having devoted all of their lives to developing the steel business, recognize that such distance does matter. As Federico Falck – a steel engineer, who entered the family firm in 1977, and was procurements manager at the time the exit choice was made in the early 1990s – explains: "Our remaining activities in the steel business are only of interest to me. Younger generation members do not understand them. They were too young when we sold. But even my cousins: if we count from George Henri Falck, we were in our fifth generation when we discontinued the business, which means pretty far from the founders' motivations" (Federico Falck, Chairman since 2003).

In his public spiritual testament, Alberto Falck reveals the rather unfettered approach his generation had toward the founder's business, when it came to deciding about the future. Addressing his children, Alberto indicates: "You should bear in mind that, at least in a company like the one that bears our name, you will not be simple 'inheritors,' asked to honorably manage the assets left by the founder, but rather refounders. Each generation rebuilds the company, surely on the base of what has been transferred, but renewing it to adapt it to its times, or even changing it entirely. Without going too far in time, the company was started by its mythical founder with steel (your grand grandfather). Later, in the postwar period, it was rebuilt by the second generation and developed until it became one of Italy's large enterprises. Yet my generation had to realize the stagnation first, and later the irreversible crisis of the steel business. A refoundation ensued, which determined radical and traumatic restructuring, and an equally radical and traumatic family break up. Today our core business is energy."

Interviews with external independent board members reveal that family members adjusted rather quickly to the demise of steel activities, which have been seldom mentioned in board meetings of the post-steel era. Currently, fourth-generation members are entirely focused on the energy business and on the other diversified activities which resulted from the demise of the steel business: "Nobody really cares about the remaining activities in steel. Well, obviously my uncle [Federico] does care, as he was active in the firm in that period; but we are currently too far from the steel era" (Enrico Falck, financial analyst). This is confirmed by CEO Achille Colombo, who managed the company and attended board meetings both in the steel and in the energy era: "The others do not even know what the steel business is or has been; very few of them were involved in that business at the times of the older generation" (Achille Colombo, external CEO since 1989).

Number of Nonactive Family Shareholders

Our data reveal that the presence of family shareholders not active in the business significantly facilitated the exit choice. The prolonged period of losses the Falck Group had to experience in the late 1960s and 1970s raised different opinions among family shareholders. Giorgio, in particular, was in favor of continuing the by now very costly family tradition, but was opposed by the two sons of Enrico, Alberto and Federico.

At this time a major family quarrel erupted. Analysis of the family genogram (Exhibit 4) reveals the hostility between Alberto and his cousin Giorgio. On the contrary, Federico has always been close to his brother Alberto, 11 years older than him and regarded by Federico as "more charismatic" and "commanding great respect." The solution to the family quarrel hence depended on the position of the Marchi family – Giorgio's sister Gioia Falck had married Carlo Marchi, currently vice chairman of the Falck Group. Despite the closer family link to his brother Giorgio, Gioia's position as nonactive shareholder made her turn in favor of his cousin Alberto's position. Over time, Gioia had sytematically participated in the capital increases suggested by the board to face the increasing losses imposed by the steel crisis (Dongiovanni, 1990). In the early 1990s she was hence the major family shareholder, while his brother Giorgio only had a 6% share in the company.

Gioia's initial position was in favor of a separation of Falck's activities in steel – that could be continued by her brother Giorgio – and diversified activities, advocated by all other family shareholders. The option of splitting the business had always been opposed by Alberto. However, as most of her family's wealth was invested in the business, and as she had never had an active role in steel production, Gioia soon resolved for the strategy advocated by Alberto and CEO Achille Colombo, and after a shareholders meeting in June 1993 she declared: "all in all, it would be better to abandon steel" (Dragoni, 1993).

Other shareholders participating in the controlling agreement only had an impact on strategic choices related to the steel business (Lonardi, 1987; Malagutti, 1996a, 1996b, 1996c). For instance, they pushed the Falck Group to reach an agreement with ILVA, rather than with a foreign steel multinational, as they had mainly Italian interests. When the Falck family formulated a plan to exit from steel and diversify into energy, services, and real estate, they gradually abandoned the agreement and sold their shares (Malagutti, 1996a, 1996b).

Number of Active Family Members

The limited number of family members active in the business over the critical period seems to have eased the exit choice. In addition, having few members involved significantly reduced family tensions and conflicts due to the exit choice. Toward the end of the 1980s the Falck Group was facing a crossroad: preserving traditional steel production, or turning to steel trading and new diversified activities. CEO Achille Colombo, hired by Alberto in 1989 to face the increasing pressures from banks and nonfamily shareholders, advocated a cut in production capacity, and hence proposed the shutting down of the T5 furnace in the Concordia manufacturing plant. This way the Falck Group would have been entitled to the subsidies allocated by the European Community to companies reducing their production. Falck's executive committee discussed the restructuring plan proposed by the CEO in a tense executive meeting on December 4, 1992 (Dragoni, 1993). The proposal raised the strong reaction of Giorgio Falck, who made his dissent explicit in the minutes of the meeting, and was quoted talking about "industrial sabotage." Giorgio was well aware that "shutting down Concordia equals to a divestment of the entire steel business."

The only other family member active within the firm at that time was Alberto's younger brother Federico, a steel engineer, who had been active within the family company since 1977 first as an assistant to the operations manager, and later as head of the vital procurements function. Although his preferences were obviously oriented toward his cousin's Giorgio passion for steel, Federico soon realized that the position of the external CEO, supported by his brother Alberto, was a painful but logical way of avoiding collapse: "Although I am a metallurgic engineer, I ended up voting in favor [of exit from the steel business]. I have always trusted my brother [Alberto]. I obviously understood my cousin's [Giorgio] motivations: he was an engineer too, like myself. But they were sometimes irrational motivations, based on his history, his ego" (Federico Falck, Chairman since 2003).

The internal dispute aroused a great interest among industry players and in the financial press, with observers equally split between those who hypothesized the existence of a secret agreement between the Falck cousins to split the business and continue steel production, and those who judged exit as the best option, since the company suffered from plant obsolescence and possessed a far from state-of-the-art proprietary technology. The restructuring plan proposed by Achille Colombo disclosed the deep diversity between the two descendants of George Henry I: the more pragmatic Alberto Falck, and the passionate, tradition-loving, Giorgio Falck.

The new symptoms of an industry crisis and a more profit-oriented thinking can explain the positive attitude shown by Alberto toward the proposals advocated by CEO Achille Colombo, in light of the huge potential profits that could be made by reconverting the former plant areas (about 1.6 million square meters). Rather, Giorgio still regarded the steel business as a profitable one, and was strongly convinced to continue the business that turned the Falcks into one of the most prominent entrepreneurial families in Europe. Therefore, he decided not to support the course of action – which eventually won the support by the majority of the shareholders – and worked on an alternative way of action: splitting the activities of the holding into two separate companies, headed by himself and his cousin Alberto, who operated in the two businesses of steel production and real estate, respectively.

But Giorgio and his plan to maintain his family's historical business did not enjoy much support, aside from that of plant workers and Sesto San Giovanni municipality. At the top management level, the Chairman Alberto supported the CEO, and Federico soon joined his brother's position. It was hence relatively easy to come to an agreement. On January 28, 1993, Falck's board of directors approved the restructuring plan proposed by CEO Achille Colombo. This decision initiated the reorganization, and progressive dismissal, of Falck's core business, and a major focus on electricity generation and real estate activities.

Family Responses to De-escalation Needs

Falck family members began seriously addressing exit from steel relatively late compared to the early signs of an irreversible crisis foreshadowed by negative results since the mid-1960s. However, toward the end of the 1980s and in the early 1990s purposeful attempts at radically changing direction emerged that provided insights into the family responses to de-escalation needs. As shown in Exhibits 3 and 5, three main themes surfaced: (a) Alberto Falck's perspective on the business' future and his leadership position attracted increasing consensus by the majority of family shareholders, while Giorgio's approach was gradually marginalized, to the extent that a solution to his formal exit from the family business was devised; (b) for the first time in Falck's history, in 1989 an external CEO, new to both the family and the business, was hired, with the unconfessed hope that he would guide the family business out of the irreparably compromised steel business; (c) meanwhile, increasing attention was devoted by the family to increase the autonomy of the promising energy business, which had been, since early efforts between 1934 and 1941 (see Exhibit 6), ancillary to steel production. Altogether, these purposeful family-driven processes reshaped family and business context in a way that was more conducive of de-escalation from steel, and that leveraged the family psychological triggers to de-escalation, while overcoming related obstacles.

Designating a Rejuvenation Champion and Facilitating "Family Exit" of Dissenting Family Members

In April 1970 Bruno Falck became chairman of the Falck Group. Moreover, in 1973 Alberto and Giorgio Enrico Falck, sons of Enrico and Giovanni, respectively, were first admitted to the company Board of Directors. Conflicting relationships between the two cousins characterized the important strategic decisions taken in the years ahead, and had a deep impact over the fates of the group and the future decision to exit from the steel industry.

In 1983 Bruno Falck stepped down as Chairman of the group, replaced by Alberto as chairman, and by his cousin Giorgio Enrico as vice chairman. Both were born in 1938, and both became active in the firm in 1973. Despite these similarities, profound differences characterized the two cousins. These differences provide subtle explanations of why the Falck family eventually decided to appoint Alberto as leader of the rejuvenation process, and to follow his strategic path out of the steel business and into a set of diversified activities.

Giorgio Falck always had a rather passionate approach to the steel business. His training as a steel engineer offers the most plausible explanation for his stubbornness in defending the steel business even during the years of the deepest crisis. As Achille Colombo, Managing Director since 1990, describes him: "he was a very intelligent man, but his intelligence was severely biased toward the steel business." In the early 1990s the only viable approach to attempt a turnaround of Falck's steel business was an agreement with a larger steel manufacturer. There were only two alternatives: the Italian state company ILVA, which was almost collapsing under productive inefficiencies and a huge debt burden, and the family-owned French giant Usinor, a more efficient and value-oriented competitor. While a McKinsey report advised the Falck Group to pursue the French alternative, Giorgio strongly advocated the ILVA agreement, as ILVA was offering more money to close the deal. As his cousin Federico recalls: "Giorgio was mainly interested in getting the money to invest in new facilities. He was also convinced that Usinor would more easily shut some mills, while ILVA had an interest in not letting the French in, and was hence more available to keep the production units. I mean, the French had a strategic plan that in his opinion would have implied more plant shutdowns."

Family members, nonactive family shareholders in particular, were worried about Giorgio's approach, distant from the discipline imposed by the bottom line. Asked about the reasons for his support of the steel business after over two decades of almost uninterrupted losses he declared: "nowadays all steel mills worldwide loose 150 lire per kilogram" (Dragoni, 1993). Giorgio's personal life seems to have also played a role in the choice of Alberto as rejuvenation champion. Careful analysis of the Falck family genogram (Exhibit 4) offers several insights in this direction. While Giorgio's father, Giovanni, had less of a public life than his brother Enrico, Giorgio's overindulgent life attracted interest from the media and made his family skeptical about the viability of his proposed strategic vision for the family company. A passionate sailor, he spent all his free time in boat races or in his beautiful villa in Portofino, and led a glamorous jet-set existence. He remarried twice, both times with charming actresses. While the first one, Rosanna Schiaffino, was exactly his age, the second one, Silvia Urso, was 25 years younger. Although all names of the six children he had from his three partners begin with a "G," he rejected the family practice of naming the first male child "Giorgio" or "Enrico" after the progenitor George Henri. His first son Giovanni died in a diving accident in 1993, and he split from his second partner in 1995. Both distressing events happened over the crucial period of exit from steel, adding to his inherent difficulties in giving a fair evaluation of the company situation.

By contrast, Alberto had always been an example of balance and integrity. His degree in business administration gave him "the advantage of being able to frame any decision into a financial context," as CEO Achille Colombo recalls. A "pious and ascetic catholic" (James, 2006, p. 347), he named his first son after his father Enrico, as family tradition required. Alberto inherited his deep moral and religious beliefs from his father. In 1948 Enrico had resigned from the management of the company – which he had directed for only 2 years – to spend his time in politics. During the war Enrico had been involved in the Catholic resistance to Fascism in Milan. As James (2006, pp. 263–264) reports: "A group of Catholic intellectuals met in his house, at One via Tamburini, to develop an alternative to liberalism and the planned economy … In September 1942 the leaders of the former Partito Popolare … with which Enrico Falck was associated, in Falck's house established a new political party, the Democrazia Cristiana. Such activities became quite widely known in Milan. Enrico Falck was arrested by the German authorities in January 1945 and held in prison until the liberation … Enrico Falck also participated in the founding of an association of Christian Entrepreneurs and Managers, the Unione Cristiana

Imprenditori Dirigenti.'' The example offered by Enrico set the stage for the widespread interests in charity and social projects that characterized his son and the subsequent generation.

Besides the purely economic reasons, it was relatively natural that over the crisis period most family members favored Alberto's position, rather than Giorgio, whose share participation was limited to a slight 6%. All this caused a strong family clash and a subsequent split in two separate parties in the early 1990s: those who supported the more impulsive Giorgio Enrico Falck were against the proposal made by CEO Achille Colombo of divesting the core steel business. Those supporting Alberto Falck, the chairman of the company, along with the CEO Colombo, acknowledged that it was time to change courses of action and to focus the activity of the company on more profitable and more innovative sectors.

Transferring Power to Newly Hired, Nonfamily Executives

Achille Colombo became Managing Director of the Falck Group at the beginning of 1990. He was known to Alberto and Bruno Falck as the CEO of SAE, a joint venture owned by the Falck Group, Brown Boveri and Marelli active in the development of systems for the energy business. Achille Colombo was not the first executive externally hired by Falck. In 1985 Mr. Capraro, an engineer with vast experience in the steel sector, was hired as Managing Director with the aim of restructuring the steel business. After his sudden death in 1987, however, the Falck family restored the position of ''good old Ingegner Portanova, who had grown internally'' (Federico Falck, Chairman since 2003). A radical change of direction had not been started yet.

But by 1990 the appointment of Achille Colombo really represented a turnaround point in Falck's history. Officially, the new managing director was given the task to restructure the steel business by focusing on those activities where Falck could sustain a competitive advantage. As Colombo himself confirmed, ''In 1990, when I arrived at Falck, they were not talking about energy, yet'' (Achille Colombo, external CEO since 1989).

Achille Colombo immediately had the chance to realize the different perspectives on the business embodied by the two cousins, as he ''started working with Alberto and his cousin Giorgio, because their uncle Bruno was already ill.'' As the current Chairman Federico Falck recalls, Alberto appreciated several qualities of Achille Colombo: he had successfully undergone restructuring activities; he was an ''external,'' hence somebody who could ''break the old schemes and build a more effective structure without carrying old problems on his shoulders''; and he had a polite but resolute style that would have been helpful in dealing with family conflicts. This results-oriented attitude, free of involvement in political or family conflicts, clearly emerges from his previous work experience: "I had worked only abroad, with foreign firms thus far. I didn't have the faintest idea of what [working with a] family would mean … Frankly, my objectives have always been development and results. I must say that in trying to accomplish them I never thought of what would be the impact on the family. Then I realized that in fact the presence of a family implies some constraints, the fact that certain solutions cannot be pursued, or it is better not to pursue them" (Achille Colombo, external CEO since 1989).

Although he was formally hired to focus on the steel business, Alberto saw in Achille Colombo the manager who could help him transform Falck from steel to an energy business, overcoming the resistance of his cousin Giorgio. While this aim was not explicitly formulated, it is apparent in the accounts of those who were closer to Alberto in that period. As his brother Federico explains: "Clearly, when I say [Achille Colombo] came from outside and could bring fresh air to the company, and he was not from the steel business, I mean that the belief was that steel would not have been our future. However, this is a motivation I never heard from my brother [Alberto]; but that this was his belief is a totally different issue."

Extending Entrepreneurial Exploration

In 1983 the company completed another project concerning the electricity production business. It basically expanded its hydroelectric plants, and it created the new company "Società Nordelettrica S.p.a – Sondel," which owned all the electric plants of the Group.

The company decided to adopt an approach which in hindsight may be deemed both innovative and sustainable. Through Sondel, its hydroelectric subsidiary, the Group moved the axis of its core business from steel to electricity and then to energy from renewable and clean sources. Throughout the 1990s, Sondel moved to the forefront of energy production in Italy by building a series of cogeneration plants in what has gradually become a strategic energy market. Later, activities in renewable energy were added, from waste-to-energy to recent initiatives in wind farms.

Initially, energy activities had been an obstacle to exit from steel: "When the Italian law changed in the early 1990s – before that a company could only produce energy for self-consumption – it became possible to stipulate contracts for delivering energy to the state energy company ENEL. We did it. I have to admit that at that time – it was the beginning of 1990 and I had just arrived at Falck – it was not clear to me that the steel business could not continue. We simply did it as a diversification from steel, which counted for 90% of Falck's activities. Besides, developing Sondel required huge investments, and Giorgio Falck was still in the company. The idea of selling something decently running in the steel business to invest in energy was quite unviable. At that time steel meant 90% of Falck activities. Hence, whatever was done in the direction of energy was negatively perceived by this 90%'' (Achille Colombo, external CEO since 1989).

The need to start a new entrepreneurial activity had been apparently clear to the external CEO since the beginning: ''You should keep in mind that Falck's operating margins were around 10–12 percent in steel, when the others were around 17%. With cogeneration we immediately reached 30 and 40 percent. A pretty relevant leap! … Early in the 1990s [banks] would not lend us a dime, as we were losing 100 billion lires a year. In the same period, for the development of energy we had a line of credit of around 300 billion, exclusively devoted to developing Sondel. Hence the choice was: do you want to pursue something with a potential, or keep losing money in steel? It was crystal clear to me. If it was just me, I would have closed steel even before, as we kept losing money on totally meaningless things'' (Achille Colombo, external CEO since 1989).

That the extension of the energy business in the late 1980s and early 1990s was purposefully aimed at exploring a way out of steel is shown by the intentional activities that supported the process. In 1990 the company developed with McKinsey a report aimed at understanding the potential of cogeneration in Italy, and the main drivers of value creation in that business. An agreement for the design and procurement of gas turbines was stipulated with General Electric, together with the acquisition of Caffaro Energia and of a shareholding in the Serena project with FIAT. As CEO Achille Colombo reports, all these were ''a series of actions explicitly aimed at setting up an increase in our production capacity, even before the explicit decision to focus on energy was taken.''

Falck management introduced a new program, called PIP (operating performance improvement program), devised by consulting firm McKinsey and already used by industry peers, which aimed at improving the quality of the products. The underlying rationale of this model was to make workers feel part of the new mission of quality improvement, alongside with management, by ''eliminating nonquality, a hidden cost, promoting even in the smallest department the same efficiency and level of quality that are required by our customers.'' The aim was to transform the head of each one of the business units into a self-employed entrepreneur aimed at creating a ''culture of individual responsibility,'' from which to devise new ideas and proposals in order to improve products and processes. In a few months time, as stated by CEO Achille Colombo, 1,200 new ideas were presented by Falck employees and successfully implemented, leading the company to save more than 40 billion euros per year. PIP was also used in restructuring the Falck Group as holding company, with the aim of taking work off the central functions leaving more freedom of action to operating companies. The new structure allowed ILVA to become a shareholder and promoted an activity of swapping products between the two companies on the basis of an agreement which defined the roles and competences of the two companies themselves.

The Falck Group focused its own efforts in the business of special steel, through Falck Nastri, in commercial and special steel sheets, through Falck Lamiere, and in electricity, real estate and, above all, energy from renewable sources, a sector which will strongly increase its predominance inside Falck Group. On May 30, 1995, Alberto Falck declared: "The Falck Group intends to develop the energy sector, strengthen its activities in cold pressing of steel, rejuvenate commercialization and service centers related to the steel market, foster the development of waste-to-energy and capitalize on its real estate" (Vinciguerra, 1995).

DISCUSSION AND CONCLUSIONS

Our aim in this study was to investigate the role played by different family-specific factors in facilitating or constraining exit from failing businesses in family firms. Strategic management research offers several insights into the role played by de-escalation from failing courses of actions in allowing long-term firm survival and prosperity. However, little research has been devoted to understanding the specific role exit can play in the long-term entrepreneurial behavior of family firms. Rather, we noticed in the family business literature an implicit bias toward continuity and persistence in the founder's business, explained by heavy emotional involvement and development of path-dependent core competences over generations. Through our study of Falck Group's exit from the steel industry in the 1990s we have offered a more balanced view of the role of exit in family firms, whereby decommitment and de-escalation may be beneficial to transgenerational entrepreneurship.

Our study reveals that shedding resource combinations that no longer provide growth and value creation opportunities is a critical dynamic capability in Schumpeterian markets, and an important component of the entrepreneurial process (Eisenhardt & Martin, 2000; Mason & Harrison, 2006; Shane & Venkataraman, 2000). An emerging stream of entrepreneurship literature has started to address processes through which founders of privately held firms, or next generation members, divest businesses they helped to create – one of the central issues in entrepreneurship, but one of the least understood (DeTienne, 2007; DeTienne, Shepherd, & De Castro, 2008). In contrast with prevailing family business literature, which even sees continuity as a defining feature of family firms, the Falck case shows that continuance is often contingent on some level of exit. As available data clearly illustrate, the Falck Group may not have continued to be active as an entrepreneurial entity had it not exited from the steel industry and invested in renewable energy.[1]

The conceptual framework illustrated in Exhibit 5 emerged from our triangulation of different data sources. It describes three types of family-specific facilitators and inhibitors of business exit: family-related psychological triggers and obstacles to de-escalation, family structural de-escalation context, and family responses to de-escalation needs. The emerging framework offers a more nuanced interpretation of decommitment activities in family firms, pointing to the differential role family-specific factors may play as facilitators or inhibitors of business exit.

Our conclusions do not imply that exit from the founder's business is always the best option to family firms experimenting troubled business. This study is about family-specific triggers and obstacles to business exit, whether exit is a suitable strategic option or not. In other words, we are not assuming that exit always has a positive effect. To the Falck Group, exit may not even have been an option, but a necessity at that specific time (i.e., first half of the 1990s). A few years later staying in the business became a more attractive option, as demonstrated by the case of Riva and Arvedi, Italian family firms which decided to maintain their commitment in the family steel business.

In addition, Falck history demonstrates how industry difficulties did not result in a viable chance of exit until the early 1990s. All previous hard times were faced by Falck family through commitment escalation – investing in the company either by expansion, vertical integration, or developing new processes. The response to decline is not always exit – sometimes it is change. At Falck, all factors illustrated in our framework (Exhibit 5) came together in the early 1990s, hence allowing exit to be seen as a viable option. Future research may assess which factors are more critical in triggering exit, rather than fueling further commitment to a failing course of action. Out interpretation of the Falck case suggests the presence of a "family champion of change" as essential in actually starting an exit process – a well-respected family member, whose role is to mediate among opposing interests and positions, steering the family firm toward novel entrepreneurial endeavors.

Transferability of Findings

It is reasonable to ask whether case study findings can be transferred to other domains, as it is always potentially problematic to argue for extensions of case studies. However, this study has a number of features suggesting that exit processes we found operating at Falck are likely to share commonalities with other family business domains.

Clearly, the specific reasons for business exit at Falck may have had an effect on the specific de-escalation and exit processes we observed. However, there is nothing unusual in the external triggers that started the process in our focal organization. In fact, several family firms are active in industries that are hit by cyclical crises, and where players of a different ownership and governance nature – i.e., state- and privately owned – are active. This lends confidence to the view that exit processes similar to those observed at Falck are likely to be triggered in other family business settings.

More broadly, it seems fair to say that in the presence of strong environmental pressures toward exit, family firms are likely to face triggers and obstacles to de-escalation that are specific to the family business context. These factors will in turn act upon a family-specific context made of company history and generations involved, managerial and ownership involvement. In turn, all this will trigger family responses to de-escalation needs, whereby family and nonfamily agents will gain and loose centrality, and different entrepreneurial responses will be attempted. Overall, it is apparent that Falck's experiences have commonalities with other family business domains, so the model seems plausibly transferable.

Managerial Implications

Our results may have practical implications for family business management. Setting the stage for de-escalation from a failing course of action, by managing the different determinants of exit choices that emerged from our study, may be seen as a dynamic capability all family firms should learn and practice. This may suggest that de-escalation strategies specific to FCBs can be devised. Effective resource management, including shedding resources, is essential to sustain competitive advantage across generations in family firms

(Mosakowski, 2002; Sirmon & Hitt, 2003). Family members have to be aware of the possibility of business exit (Davis & Harveston, 1999) when the organization is not profitable anymore (Chang, 1996) and look at the divestment process as a way to enable the renewal of the business, i.e., a way to free up resources for the entrepreneurial regeneration of the firm and the identification and exploitation of new opportunities in which to reallocate them (Schumpeter, 1934; Sirmon & Hitt, 2003; Sharma & Manikutty, 2005).

In fact, although business exit may be interpreted as a failure (e.g., Meyer & Zucker, 1989; Dunne, Roberts, & Samuelson, 1989; Yuen & Hamilton, 1993), a growing body of the strategic management literature views it as an intended strategic choice (Duhaime & Grant, 1984), i.e., a real investment decision (Baden-Fuller, 1989) to improve performance (Chang, 1996) or, at least, to remain profitable (Ghemawat & Nalebuff, 1985). In this respect, AU :9 Harrigan (1980, p. 602) suggests that "early exit may become imperative if the firm hopes to recover much of its assets' values…and release it to other uses yielding better returns."

A final implication relates to the use of genograms in interpreting and facilitating exit processes in family firms. A simple analysis of the Falck family genogram allowed us to make sense of complex interactions among family members, and to relate them to the intricacies of the exit choice. Genograms may help the observer – e.g., family CEO, consultant, or external manager – to trace the flow of anxiety down through the generations and across the current family context. They allow for making assertions about the likelihood of given strategic decisions such as business exit, about difficulties these decisions will encounter, and about how such difficulties can be solved. These assertions are offered as tentative hypotheses, as is true for genogram interpretation in general. The aim of genograms as an analytical device is to offer suggestions for further exploration. Observations and predictions based on genograms are not facts. The principles for interpreting genograms should be seen as drawing a roadmap that, by highlighting certain characteristics of the family context, can provide guidance through the complex territory of family life, and its involvement in strategic decisions.

NOTE

1. We are indebted to an anonymous reviewer for this explicit formulation of the role played by exit in entrepreneurial processes.

ACKNOWLEDGEMENT

We are indebted to the editors and two anonymous reviewers for many insightful and constructive comments on earlier versions of this chapter. This chapter draws on data collected within the context of the STEP Project for Family Enterprising (http://www3.babson.edu/eship/step/). We are grateful to STEP participants for several useful comments and related conversations. We are also indebted to seminar participants for helpful comments at EIASM 3rd Workshop on Family Firms Management Research, and to Leif Melin and Mattias Nordqvist, who hosted the Workshop. We also thank the participants for constructive feedback at the 30th Annual Meeting of the Italian Academy of Management—AIDEA 2007, and at the Family Enterprise Research Conference – FERC 2008.

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