ZOBELE CHEMICAL INDUSTRIES: THE EVOLUTION OF A FAMILY COMPANY FROM FLYPAPER TO GLOBALIZATION (1919-2001)

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Abstract

The Zobele Company, located in Trento, Northern Italy, was founded in 1919 by Enrico Zobele Sr., who became famous when he invented his first "killer product" in 1930… flypaper. After the Second World War, the bombed-out factory was rebuilt by his sons, Luigi and Fulvio. They subsequently introduced new products for home hygiene and home care such as steel wool, mosquito repellent coils, heated mats and vaporizers, which they sold to markets in the Mediterranean, United States and South America.

Under the joint leaderships of Chief Executive Enrico Jr., son of Luigi, and Franco and Giovanni, sons of Fulvio, the company globalized in the last seven years. In 2001, Zobele Chemical Industries reported sales of $75 million with profits of $5.1 million. They had 700 employees, factories in Italy, Spain, Brazil, Paraguay, India, Hong Kong, Mexico, and Malaysia with continuing expansions in Italy and China.

This paper is a case study of the Zobele family and Zobele Chemical Industries, their past history, present status. It centers on the challenges they face in ensuring continued global leadership in their served market niches, while maintaining the continuity of family ownership and control. The paper first summarizes the organizational, technological and market evolution of the company from 1919 to 2001 and analyzes the critical external and internal success factors. After reviewing the present status of the company, and the challenges family and company face during this period of rapid expansion, we discuss the long-term objectives, and possible strategies and organizational alternatives for achieving them. Finally, we present the practical implications for family enterprises in their attempts to meet the challenges of a globalized marketplace.

Introduction

On a beautiful day in May 2001, Enrico Zobele Jr., 50% owner and CEO of Zobele Chemical Industries, an 82 year-old global company, sat in the office of his main factory in Trento, Northern Italy and contemplated the Italian Alps where he had often climbed with his father. He recalled the verse, "I will lift up mine eyes unto the hills, from whence cometh my help" (*KJV*, Psalm 121:1) mused about how the company, founded by his grandfather and namesake, internationalized by his father, and to be passed on to his 16 year-old son Thomaz, had grown.

Enrico Jr., President of the Confederation of Industries, was regarded as the leading industrial executive in Trento. In recognition of his contributions to society, he was named the youngest ever "*Cavaliere del Lavoro*" ("Knight of Industry") by the President of the Italian Republic. He had just been appointed Chairman of the Board after being CEO for five years, which capped a 15-year long transition from his father. Under his leadership, the family company had grown rapidly to sales of $75 million, profits of $5.1million, 700 employees, with factories in Italy, Spain, Brazil, Paraguay, India, Hong Kong, Mexico, Malaysia, and expansions underway in Italy and China. Zobele Chemical Industries was world's leading supplier of mosquito and insect repellants and similar household hygiene products. It was also the preferred world supplier for a $6 billion marketing and distribution American company, Stevenson Home Products.

His musings were soon interrupted by thoughts of more immediate problems and challenges facing the business. On the family side, Enrico Jr. was concerned about governance. His grandfather, Enrico Sr., had divided his company equally to his two sons, Luigi and Fulvio. Luigi had passed on all his shares to Enrico Jr. while Fulvio's two sons, Franco and Giovanni, inherited 25% of the company each. Currently, the Board consisted of four members: Enrico Jr., his father Luigi, aged 80, Uncle Fulvio, aged 78, and Cousin Franco. Giovanni, the younger cousin, was not a member of the board. Luigi and Fulvio had been contemplating retirement, raising the question of who should take their places on the board.

On the business side, Enrico Jr. was concerned that half of his sales were made to the Stevenson Company while those sales represented only 1% of Stevenson's total annual purchases. Five worldwide distributors, all of whom were reluctant to buy from their competitors' suppliers, controlled the market for Zobele's core products; making it difficult to reduce his dependence on Stevenson. Enrico considered acquiring a large Spanish chemical company with complementary products and markets that supplied to AKE of Germany, a major competitor of Stevenson's. Up to now, expansion has been financed largely by retained earnings; there was little bank debt on the books. However, to finance the accelerated growth, bank debt or an Initial Public Offering (IPO) on the Milan Stock Exchange would have to be undertaken. Although the company was in an excellent financial position to exploit both options, the implications of carrying more bank debt and bringing in outside stockholders would be significant for governance and corporate strategy. For example, outside directors may have to be brought into the board and debt covenants would limit future investment opportunities.

Operationally, there were even more pressing problems. The Trento factory was at full capacity with a new production line scheduled to be up and running in six months. To do this, the company needed to expand the factory building by 30 meters, requiring municipal approval for the new construction. Unfortunately, this would breach the six-month deadline, creating greater production backlog and customer ill will. A short-term solution would involve setting up a temporary line in the warehouse, but that would create problems for warehouse operations. In addition, to cope with growth, Enrico had to decide if he should hire more staff or expand the duties of existing staff. Currently, managerial duties were performed by Enrico (general management, planning, marketing, and high-level sales), Cousins Franco (engineering), and Giovanni (production, purchasing and personnel), and Dr. Andrea Caserta, financial officer and only non-family executive. Both elder Zobeles were semi-retired and without specific duties. Enrico was flying more than 500 hours a year around the world, and thus frequently absent from

the office. There was no one to take care of general management while he was away, as those duties were often left unattended till he returned.

The History of Zobele Chemical Industries (1919 - 2001)

Using the critical incident analysis technique (Terpstra and Olson, 1993), we can divide the history of Zobele Chemical Industries into three phases punctuated by critical events (Greiner, 1972; Hanks, Watson, Jansen, and Chandler, 1993).

First Phase: Birth and Artisan Growth (1919 - 1941)

Enrico Zobele Sr. (1870-1950) returned home from World War I to find shortages of basic household goods – soap, floor wax, shoe polish, shoe grease, steel wool, metal polish, etc. – in Trento. So in 1919 he founded the Zobele Company to import household goods manufactured by an Austrian company. As the business grew, Enrico decided to manufacture some of the imported products in the cellar of his home. In 1930, the founder started manufacturing a new line that made his fortune: flypaper. He started with one product, "*spiralette*" or "little spirals", packaged in boxes of 100 pieces, which came in cartons of 12 boxes. Traveling salesmen on commission solicited orders in autumn, which were manufactured between April and July. Then, the workers were furloughed in August until the following spring. Mechanization of the production process provided the key to success at Zobele. Initially, a broken machine was bought from Czechoslovakia, and fixed up by the factory mechanic, who then proceeded to copy eight more. Zobele soon became the undisputed leader in flypaper throughout Italy, Albania and other southern Mediterranean countries that suffered from fly infestations.

First Critical Event (1942 - 1946): World War II and DDT

World War II ended all this. 1942 brought with it a shortage of raw materials. The founder, fearing that the factory would be destroyed in air raids, cleared the factory and hid the machinery in farmhouses. By 1946, when Luigi home from chemical engineering studies at the Polytechnic of Milan, the factory had been partially destroyed. His father, despondent and ill, handed Luigi what remained of the business and retired. Luigi inherited a very difficult situation. Ninety percent of revenues came from flypaper but DDT, which had been developed during the war, proved a more effective insecticide and soon displaced the company's core product. By this time, the company had five employees: two clerks, the mechanic, and two production workers. Casting about for an alternative product to make, Luigi hit upon steel wool, that could be sold and distributed through the same channels as flypaper. He found a machine to manufacture the new product and, together with younger brother Fulvio, a mechanical engineer, began anew. The brothers had complementary skills and characters. Luigi oversaw the planning, marketing and sales while Fulvio designed the production lines, acquired the machines, adapted them, and took charge of the production process.

Second Phase: Rebirth and Growth with New Products (1947 - 1994)

New production lines were set up to make various kinds of steel wool during the 1950s, and the Zobele Company was reborn into a period of rapid growth. In 1960, a new product was introduced, which became the company's core product – mosquito repellent spirals. The Zobele brothers had found out from their salesmen that the Zampironi Company of Venice, the only Italian producer, was about to be shut down. With a small sum of money, they acquired the company, which Fulvio then set about to modernize with two redesigned automated production

lines. In the 1970's, a new foreign product appeared in the stores – mosquito-repellent heated mats with the Japanese trademark, Fumakilla. Luigi bought a few samples, guessed the chemical formula, later confirmed by laboratory analysis, and registered the formula with the Italian Ministry of Health. Shortly after, the company introduced an electrical heater, "Spira", for the mats. The repellent mats, which lasted one night of use, were initially produced by a Japanese company. The Zobele brothers later acquired the machines and production know-how, which they proceeded to improve upon so that a production line today could make more than 500,000 mats per 8-hour shift with only three operators. Their new product immediately boosted sales, which led to the building of the present factory between 1982 and 1987. The adjacent warehouse building was purchased in 1995. From 1975, the third generation began working in the company – Enrico, son of Luigi, with a degree from Bocconi Business School, Franco, son of Fulvio, who studied mechanical engineering, and brother Giovanni, with a political economics degree from the University of Trento.

Second Critical Event: Failure of Brand Identity and Withdrawal from Direct Sales (1995)
Between the late 1980's and early 1990's, the markets for Zobele's product expanded globally due to increasing demand from industrializing and developing countries. Previously closed markets, like China, Brazil, and India gradually, then rapidly, opened up. Local production in key markets became strategically important as Italian labor costs rose and host government incentives made foreign direct investment (FDI) an attractive growth avenue. In parallel, distribution channels globalized and were soon controlled by five companies from the USA and Germany. Enrico Jr. quickly came to the conclusion that Zobele had little bargaining power with the "big-five" in Italy or abroad. So he positioned the company to become a world leader in innovative home hygiene products so it could be the preferred supplier to the "big-five" in the global market.

Third Phase: Expansion of Production and Globalization (1996-2001)
In order to become the world leading supplier in selected niche markets, Enrico Jr. decided he had to be the uncontested leader in Italy, and then leverage this strength through global partners in production. He began by buying the Siapi Company, Zobele's main competitor in mosquito-repellent spirals, in 1993. Then, he acquired the Palma Company of Verona, his main competitor in mosquito-repellent mats. Thus, by 1996 Enrico Jr. had strategically hedged against new industry entrants. At the same time, the acquisitions almost doubled production capacity, and so enabled Zobele to become the preferred worldwide supplier to the Stevenson Company for three branded products: heaters and mats, spirals, and liquid insecticides for evaporation. In parallel, Enrico began expansion into Southern Europe, the Mediterranean countries, and Latin America, where demand for home hygiene products was growing rapidly. This process had already begun in 1988 in a partnership with a Japanese company, Zobele's main supplier of insecticide chemicals, which in turn owned 50% of the IRIS Company of Paraguay. Next, Enrico Jr. founded the Zobele do Brazil Company, 80% owned by Zobele.

The third major step occurred in 1999 in a partnership with the Spanish group DBK, with sales of $30 million and 470 employees, led by Jordi Basaganas, an engineer-entrepreneur. Both Zobele and DBK produce insecticides and deodorants, but Zobele is the world leader in insecticides and DBK in deodorants. Thus, they do not compete in their core products but know enough about each other's business to work effectively together. They are also geographically complementary. Zobele's factories are in Italy, Brazil, and Paraguay, and DBK's in Spain, Brazil, Hong Kong, Mexico and India. The new partnership was established in the Netherlands as the BiZeta (from

the initials of the two principals) Alliance BV, owned 51% by Basaganas and 49% by Zobele through its international holding company, Zobele International BV. In turn, BiZeta Alliance owns 80% of DBK, with a German multinational chemical company controlling the remainder. Thus, Enrico Zobele Jr. had created a corporate group with $75 million in sales, $5.1 million in profits, 700 employees, and 8 factories in 7 countries with 2 factories more to come.

Critical Success Factors

The continuing success of Zobele Chemical Industries may be attributed to the following external (product and manufacturing technology, marketing and sales, financing) and internal (technological entrepreneurship, human resources, strategy, and managed succession) key success factors.

1. Simple product technology, resulting in transparent functionality and low production cost per item. The key success factors are *industrial design* for ease of use, *safety* for all users including infants, and *uniform high quality*.
2. In contrast, the manufacturing technology evolved rapidly from batch to continuous manual processing and then to automated production. Here, the key success factor is *design know-how* for automated production lines, enabling continuous cost reduction and rigorous quality control while meeting the volume demands of a rapidly expanding global market.
3. Marketing and sales evolving from seasonal direct sales in Italy and the Mediterranean countries to year-round sales of complementary products under Zobele's brand names. Here, the key success factor is the creation of a *brand name* umbrella under which new products can be rapidly introduced. By creating a brand name, long-standing relationships in distribution and joint product design can be assured, because partners understand that Zobele is in the market for the long haul.
4. Conservative and controlled expansion financed internally by cash flows leading to a strong balance sheet and credit potential. Here, the key success factor is *family ownership*, which obviates the need for rapid and uncontrolled growth to satisfy outside stockholders and market analysts.
5. The post-World War II rebirth of the company led by second and third generation family entrepreneurs. The key success factors to successful turnaround are the *preservation of family harmony*, the complementarity of strategic, marketing and technical skills between the two branches of the family, quick flexible decision making, and a high degree of sensitivity to changes in the global marketplace.
6. As the company grew, it did not encounter problems with recruiting and retaining *qualified employees* in spite of the changes in business strategy. This is unusual because many companies cite this as the limiting factor to successful growth. Zobele's secrets are its unique location in beautiful Trento, the equal status accorded to all family and non-family affiliated managers, long standing excellent relationships with the unions, a productivity-linked wage structure, and opportunities for career progression in Italy and abroad as the company expanded overseas.
7. The match between the *strategic evolution* of the company from artisan to leader in Italy and then to global leader in selected niche markets, and the *competency evolution* of the family entrepreneurs from technical to marketing, from national to international

orientation, and from functional to general managers, underpinned by a well executed *family succession process*.

Present Status

The status of Zobele Chemical Industries in 2001 may be summarized as follows:

Mission
Zobele Chemical Industries is a leading designer and manufacturer of home hygiene products, marketed worldwide by major distributors.

Products and Markets
The products produced and marketed by Zobele are grouped into five major lines. (Gruppo Zobele Annual Report, 2000)

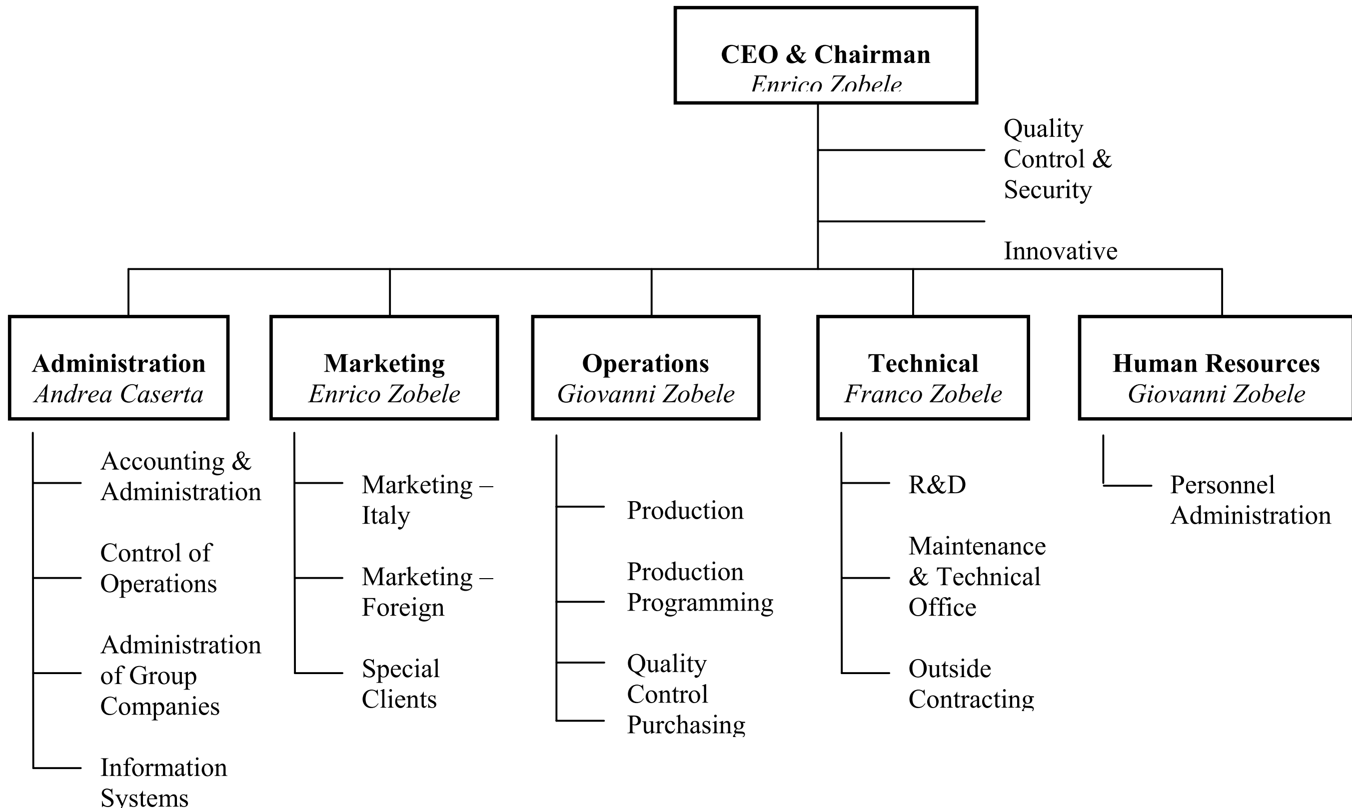
1. Electric devices used in conjunction with mosquito mats, liquid insecticide refills, air freshener refills and pads.
2. Mosquito coils and sticks for outdoor use.
3. Mosquito mats for indoor use.
4. Insecticides and air freshener liquid refills
5. The home line consists of steel wool, cleaning sponges, soap pads, firelighter cubes, spray starch, oven and furniture cleaners, spot removers, and dishwashing detergents.

These five product lines represent 56 items but similar products are also produced for the major distributors under their brand names. In addition, due to different electrical connector requirements and languages, the total number of end user products amounts to more than 2,000. Zobele sells only to distributors – the "big five" multinationals and national distributors in some industrializing countries – so it does not advertise. The Italian market represents 20% of sales while 80% is accounted for by more than 50 other countries.

Financial Status
At year-end 2000, the Zobele Group had revenues of $75 million and net profit of $5.1 millions, corresponding to a return on sales (ROS) of 6.8%. (Gruppo Zobele Annual Report, 2000) Compared to 1999, revenue increased by 47%, net income by 70%, and ROS by 0.9%. Sales were distributed geographically as follows: Europe 46%, South America 8%, NAFTA 19%, other 27%. The Group's total investments in 2000 amounted to $15 million, 11% higher than in 1999, while stockholders equity increased 13% to $117 million. Net financial investment was 16% higher at $8 million. Return on investment (ROI) increased from 22% in 1999 to 34% in 2000 while return on equity (ROE) increased from 22% to 30%. Overall, the financial picture of the Zobele Group in 2001 was healthy.

Production and R&D
Zobele manufactures almost all its products in two factories in Italy, with subsidiaries in Brazil, Paraguay, Malaysia, and China. The main factory in Trento is highly automated with in-house designed advanced production lines that have been ISO 9001 certified. Product R&D is performed in-house, often with the help of leading Italian industrial designers. Production lines employing Italian and foreign custom built machinery are designed in-house, based on intensive process R&D.

Figure 1: Zobele Chemical Industries Organization Chart



Organization and Personnel

At this time, the Board of Directors consists of four family members: Luigi, Fulvio, Enrico Jr., and Franco. Enrico Zobele Jr. has been Chairman and CEO since May 2001. As shown in the simplified organization chart (Figure 1), Enrico Jr. is also Director of Marketing over three departments: Foreign, Italian, and Special Clients. Enrico Jr.'s cousin Franco is Technical Director over three departments: R&D, Maintenance and Technical Office, and Outside Contracting. Cousin Giovanni is director of Operations over four departments: Production, Production Programming, Quality Control, and Purchasing. Giovanni is also Director of Human Resources. Dr. Andrea Caserta is the only top manager who is not a family member. He is in charge of four departments: Accounting and Administration, Control of Operations, Information Systems, and Administration of Companies (Gruppo Zobele Annual Report, 2000).

Zobele is based in Trento, a city of 100,000 people. Because of its 82-year history, reputation of family members, and leadership in community projects, Zobele is considered a leading place to work. It is popular to think that non-family members working in a family business are often treated like second-class citizens, and that some high-level decisions are made to benefit the family rather than all the employees. At Zobele, employees who were interviewed for this case stated that all positions and responsibilities are based on merit and competencies rather than family membership. They also felt that daily direct contact with the major shareholders made

them feel the work they did was meaningful and important. Decisions were made efficiently with little bureaucracy, and since the family culture was one of harmony, employees did not feel short changed.

Finally, relationships with the union, often strained in Italy, are excellent. The employees who were interviewed felt that compensation was generous, yet merit-based. Zobele pays higher than local average base wages. In addition, factory workers receive a monthly production bonus (about 10-15% of wages) based on productivity, which is tracked and reported every morning. Managers and office employees receive a year-end bonus amounting to 25-30% of salary, which is related to individual achievement. The bonus is set by the Board and is generally expected during good economic times. Due to the excellent working conditions, modern technology, opportunities for traveling abroad, and prospects for career advancement due to growth, employee turnover is only 2% a year, compared to the average 5% for similar sized Italian firms.

Decision Making Process

The top management team occupies adjacent offices so it is easy to discuss problems and challenges. The rule of conduct in meetings is to maintain family harmony. Usually, consensus is first reached among the three younger members of the family who then consult with Luigi and Fulvio to obtain their consent as members of the Board. Sometimes when CEO Enrico Jr. is not available, the remaining four family members prepare a proposal to be discussed later with Enrico Jr. who makes the final decision after consultation with Dr. Caserta, the financial director.

Although preserving family harmony is important, groupthink does not appear to be a problem as heated discussions often precede consensus. Indeed, the process of consensual decision making required each family member to vigorously explore all options as the final solution had to be unanimously supported. This process of vigorous debate has generated some tension between the more conservative and risk-adverse second generation, and the more aggressive and growth-oriented third generation.

Challenges

The critical incident analysis showed that the challenges facing the Zobele family and its company are driven by rapid growth (Terpstra and Olson, 1993; Churchill and Lewis, 1983; Hanks, et al., 1993). This has threatened the integrity of family ties as well as forced management to rethink its financial policies and organizational structure. While their problems are typical of fast growth SMEs, they appear more severe at Zobele because the company is well established and has been successful without having to address them in the past. More importantly, these changes require a fundamental shift in managerial mindset that had previously been oriented toward the success formulas of the past.

We made the point earlier that the strong emphasis on preserving family harmony in decision making allowed Zobele to successfully negotiate the three phases of its transformation. However, as a family business grows and daily management becomes increasingly specialized, the operational influence of the founders and the associated family values decrease. After World War II, Zobele was led by Luigi and Fulvio who had very tight fraternal linkages. In the second generation, these linkages have evolved to weaker paternal linkages between fathers and sons and familial linkages between the cousins. In the third generation, these linkages will probably

weaken further to professional linkages between family and non-family members of the management team. Thus, the challenge to maintaining familial ties and cultural cohesion becomes more daunting with future generational transitions.

It is clear that Zobele cannot grow at the pace and scope its markets demand without significant impact on its financial structure (Jensen and Meckling, 1976). Financing through internal cash flows has allowed the firm to control its rate of growth. However, the increased bargaining power of the firm's distributors meant that Zobele had to diversify geographically to serve the needs of its global customers. Pressures to maximize productivity along the industry value chain forces the company to exploit economies of scope and scale wherever it could find them (Porter, 1998). The rapid growth and need for external financing became unavoidable. The firm will have to rethink its long standing position against too much corporate debt, and even consider the possibility of outside shareholders. These in turn will change the family's relationship to the business. For one, the debt covenants and reporting requirements to public shareholders will mean less discretion and control by the family over the firm's assets. For another, the family will have to consider the tradeoffs between long term growth and short term cash flow management. Finally, the family will have to become more sensitive to related party transactions between its holding company, core business, and partnerships. Any financial decision that has the effect of shifting asset values from the public to the private parts of the company will attract regulatory attention and public shareholder ire (Jensen and Meckling, 1976).

Family firms maintain the integrity of their cultural foundations by promoting from within and recruiting from the family network (Brockhaus, 1994). For Zobele, rapid growth means that it may not be able to wait for Thomaz, Enrico Jr.'s son, or other members of the family to learn the business. Managerial talent will have to be recruited from outside to lead those complex partnerships the firm created to strengthen its market positions and product portfolios. Furthermore, the organizational structure of the firm appears inadequate for managing growth (Mintzberg, 1971). The factory expansion problem is a symptom of a deeper issue. If top management was actively engaged in strategic planning, it need not have been forced to scramble for production capacity. The multiplicity of managerial responsibilities undertaken by members of the family is typical of small startup businesses. The informal decision making process is another. Zobele is not a start up and it would have been reasonable to expect an 82-year old company to have more structured planning and decision making systems in place.

Looking ahead

Corporate governance

The issues of generational transition, financial structure, and corporate control are summed up by reference to the future of corporate governance at Zobele. The simplest purpose of corporate governance in a privately held firm is to maximize the value (i.e., assets and equity) of the enterprise (Jensen and Meckling, 1976). In a family business the board does not have a legal duty to public shareholders. Managerial decisions are taken by family members who may also be the owners. The board is then simply the organizing context in which the strategic and financial decisions are taken. Because the control and ownership of the firm's assets rests with the family, conflicts that arise generally belong in the 'family' rather than 'business' category. In the case of Zobele, the situation is further simplified by the presence of Enrico Jr. who is the controlling shareholder, Chairman and CEO. Here, the emphasis of the board should not be on trying to pass

resolutions that will simply be countermanded by the controlling shareholder, but to take precautionary steps to ensure that problems do not occur. Having said this, the board would be remiss if it did not plan ahead for when the firm will have to answer to public shareholders (i.e., at IPO time). By that time, Zobele's present ownership structure can complicate matters because a controlling shareholder can block attempts to build a public shareholder friendly board. What then, is the best way to organize the board so it can respond appropriately to the issue of succession, appropriate financial structure, and corporate control?

First, the most effective boards are those organized in committee structures (Phan, 2000). This is particularly important when non-family and non-owner directors are brought on board to provide expertise advice on matters of expansion or technological change. These committees perform various statutory and non-statutory functions such as audit, compensation, performance evaluation, and strategy. Boards typically meet every quarter to get updated on the business, strategize and build relationships.

As with the case of Zobele, the first members of the board are typically family members. Sometimes, an accountant, lawyer or respected friends may also be asked to serve. Board members should be prepared to render objective opinions on all aspects of the business. They should know the business (unlike large corporate boards), and should ideally have worked in the industry. At Zobele, where industrial design and production mechanization provides the basis for its competitive advantage, it is important that board members are familiar with such matters. As Zobele grows and takes on other shareholders, it should consider populating the board with non-family members (academics, retired executives, etc.) because they do not have a conflict of interest and can render more objective opinions without fear of familial repercussions. Such members are more likely to be seen as objective by the non-family shareholders. This is important to ensure that the firm receives strong and unwavering support from its shareholders for its strategies (Hill and Snell, 1989). Thus, when should Zobele take on additional, outside directors? The simple answer is, as soon as possible. There is no downside to having an independent minded board, since control still rests with the family. However, an independent minded board will go a long way to ensuring that Zobele is capable of meeting the organizational and strategic challenges of further globalization.

Finally, corporate governance and strategy are intimately linked (Hill and Snell, 1989). Thus, the discussion of governance should always be followed by a discussion of strategy.

Growth Strategy

According to Chandler's (1969) dictum that "structure follows strategy," our analysis suggests three possible scenarios for Zobele's future. First, the company can continue the present strategy of self-financed growth, and opportunistic alliances with suppliers, local investors, and other producers; allowing the family to retain full control of the firm. However, as mentioned earlier, the firm may not have a choice to slow down growth if its increasingly globalized customers demand Zobele to have an ever expanding worldwide manufacturing presence. Further, controlled growth would mean that Zobele could not pursue arrangements with the other distributors due to a limit on production capacity, placing it at risk with only one major customer as revenue source.

Second, Zobele could acquire another producer with complementary product lines. The obvious choice would be to purchase 20% of the BiZeta alliance currently owned by the German partner, and become the controlling stockholder with 59.2% of DBK. This arrangement will allow the German company to free up its financial resources to pursue other opportunities while continuing to participate in the industry led by a leading player. For Zobele, the complementarity between products and top management competencies represents an attractive strategic option. Enrico Zobele Jr. is oriented towards marketing and sales while Jordi Basaganas, the partner firm's CEO, is oriented towards technology, new product development and engineering. Given that DBK's clients are worldwide competitors of Zobele's major client, consolidation of the production value chain will shift bargaining power toward Zobele (Porter, 1998). Such a strategy will fuel the company's steep growth trajectory with human resources in production, R&D, and marketing. The presence of a powerful minority stockholder on the board will provide a counterweight to the Zobele's growth vision but not enough to cripple flexibility.

Finally, Zobele can undertake an IPO, which will immediately inject massive amounts of cash, which can drive an acquisition strategy, but more importantly launch the company to the status of its distributors. The presence of non-family directors will also ensure that the firm's strategies receive objective reviews. More importantly, these directors will provide valuable linkages to other companies in other industries, deepening the competitive intelligence of the managers. As mentioned earlier, an IPO will dilute family control, limit the strategic options and probably introduce some short-termism into the decision making. While these do not necessarily add up to a disadvantage for the firm, they will cause the family managers to rethink how they should implement the firm's strategies.

The scenarios do not represent mutually exclusive options. However, the more options Zobele decides to pursue, the more complicated and resource intensive the managerial task. Zobele currently suffers from a 'bar-bell' organizational structure – top and bottom heavy with no middle 'connective tissue' to run the day to day operations. This is problematic because the best use of top management is to create and implement strategies, not fight fires (Mintzberg, 1976). Given that managerial resources are already stretched, we suggest that Zobele first increase the pool of middle management talent and delegate the operational responsibilities to them before pursuing any of the options (Churchill and Lewis, 1983).

Implications for the Management of Family Enterprises

For decades, management scholars have debated the (de) merits of direct family involvement in the business enterprise (Dyer and Handler, 1994). To better understand the family enterprise we need to start with its economics and the social and institutional context in which it exists (Glenn, 1983). For example, family enterprises survive simply because they are an important social institution. The family farm in the United States, Japan, and Europe are good examples of such enterprises surviving (largely due to political support) in the face of large-scale agribusinesses that have both absolute *and* comparative advantages in production scale.

A key source of competitive advantage in the family enterprises rests in management's ability to exploit the family's social capital. It is not unusual for family enterprises to demonstrate high degrees of slack and strategic flexibility, as demonstrated by Zobele, which are normally unattainable by non-family ones in similar circumstances (Neubauer and Lank, 1998: 13). This is

because a family enterprise, unlike that of a non-family enterprise, is organized on the basis of economic efficiency *as well as* family norms and values (e.g., Zobele's preoccupation with maintaining family harmony during meetings). Coleman (1988) suggests that the sanction power of families, derived from family norms and values, constitute idiosyncratic forms of social capital. This capital can be exploited, much like financial capital, to create strategic and organizational flexibility.

In non-family businesses, flexibility is achieved when stakeholders willingly sacrifice short-term benefits in favor of more voting power on the corporate board, and guarantees of longer-term economic returns[1]. Family enterprises may not have to give up short-term performance for long term stability. Family enterprises have inherently low governance costs due to kinship ties and trust. By exploiting these kinship ties the firm can further absorb environmental distress by deferring compensation or increasing effort. To the latter point, children and married women in micro-scale manufacturing plants in the United States (Glenn, 1983), Asia (Skoggard, 1996), and Europe (Boissevain, 1997) have been characterized as "enslaved laborers". Studies on family controlled MNCs show the widespread use of deferred compensation schemes during economic distress (Neubauer and Lank, 1998: 43-47). The advantage of this approach, as opposed to layoffs in non-family enterprises, is that valuable human and technological capital is protected, to be re-employed in better times. Having said this, we recognize that the extent to which family social capital can be exploited depends on how deeply family values are embedded in the firm and whether these values demand self-sacrifice to attain a higher family goal. Therefore, as a family enterprise matures and grows, it becomes extremely important to institutionalize these values in the practices and norms of daily organization life.

Conclusion

Enrico Zobele Jr. gazed at the picture of his 16 year-old son Thomaz, who had expressed a desire to follow the path of his ancestors and succeed his father in the business.[2] Right now, Enrico Jr. had to build up and appropriately structure Zobele Chemical Industries to be the global leader he knows it can be, and to successfully groom the next generation of managers and leaders, so that Thomaz would inherit a strong long-lived family company. This would be a remarkable event, since only about ten percent of family companies survive to the fourth generation.

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[1] The debt-equity swap and employee buyout in distressed firms are common examples of such arrangements.

[2] Interview by P.A. Abetti of Thomaz Zobele, Trento, Italy, 24 May 2001.

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