

What is a family firm?

A family firm is a firm dominantly controlled by a family with a vision to potentially sustain family control across generations.

A family business refers to a company where the voting majority is in the hands of the controlling family; including the founder(s) who intend to pass the business on to their descendants.

A family business is an organization that:

- has an open system producing goods or offering services;
- is influenced by a group of persons who are related by blood
- is owned by the family to the extent that members can exert relevant influence on the development of the business
- is controlled by the family members
- has at least one active family member on the management board

16. Model

Anglo Saxon Model is oriented by free market and characterized by individuals and firms pursuing their maximized short-term profit.

Rhine Model is focusing on people, and characterized by the sharing information and building consensus among stakeholders, pursuing long term sustainable development.

1.CEO

The CEO of FB in Anglo-Saxon Model is a professional manager selected from the market, may be an outsider or a family member.

In the case of **FIAT**, the CEO, Michael Manley is not a family member of Agnelli. Previously, Mr. Manley has served as Head of Jeep brand, Head of Ram brand and Chief Operating Officer for the APAC region.

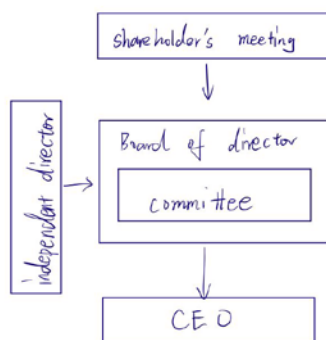
The CEO of FB in Rhine Model is an outsider that needs certain years of working in FB, and then will be turned into an insider, or a family member but cultivated from beginning.

In the case of LEGO, the CEO Niels B. Christiansen is a family member of Christiansen family, who control the KIRKBI holding LEGO.

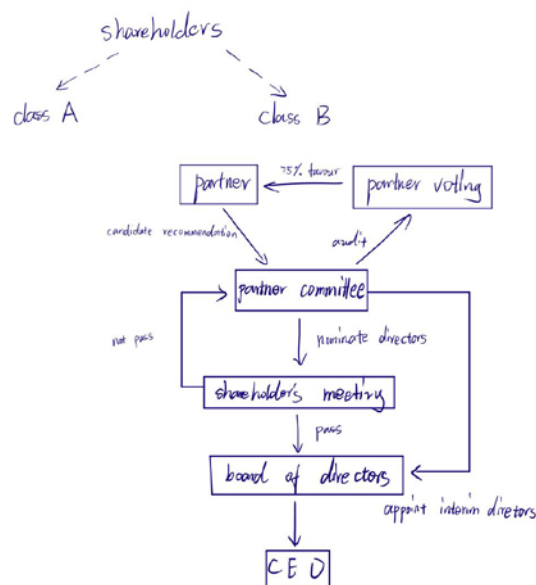
2.Decision

In Anglo-Saxon Model, the corporation board structure is one-tier, and shareholders control the corporation through the right to elect directors, and then directors hire managers to carry out their directives to manage the business.

One-tier (AS & not listed)



DCSS - partner-tenure (AS & listed)



For a listed firm (e.g., **FIAT**), the decision model is dual-class share structure (DCSS)-partner-tenure model. DCSS model divides the stock into class A and B, which means same share with different voting rights. Generally, there are one vote per share of Class A common stock issued by outside investors, and N (typically 10) votes per share of Class B priority stock held by the management. Agnelli family have only 28.55% of share capital in **FIAT** but 44.42% of voting rights.

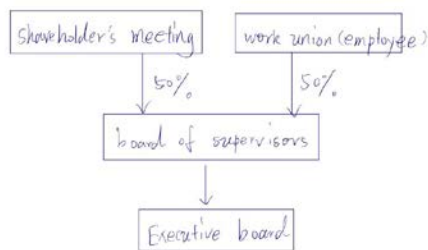
Partner system gives the partner the right to control the scope of candidates for the board of directors, they choose members to form the partner committee, and the committee can directly appoint interim directors (more than half of the board of directors). in other word, they control the board, not the shareholders meeting. Tenure voting scheme lets a shareholder accrue more voting right the longer h holds a given stock.

In Rhine Model, the corporation board structure is two-tier, the main shareholder representatives and employee representatives make up the supervisory board, both of which control over 50%. and the supervisory board chooses the executive board of directors. In the case of **LEGO**,

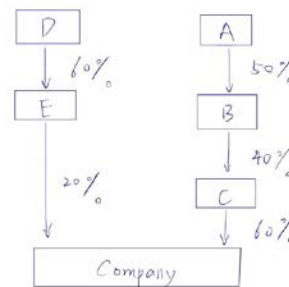
For a listed firm, a family control the company by the control chain and cash flow, but the share is significantly large than the family share of cash flow right. With a limited ownership stake, the family is able to exercise

disproportional control over the firm. Here is an example: (解释图, 和各部分的作用)

two-tier (R, not listed)



control-chain (R, listed)



A and D is the controlling family member

A cash flow = $50\% \times 40\% \times 60\% = 12\%$

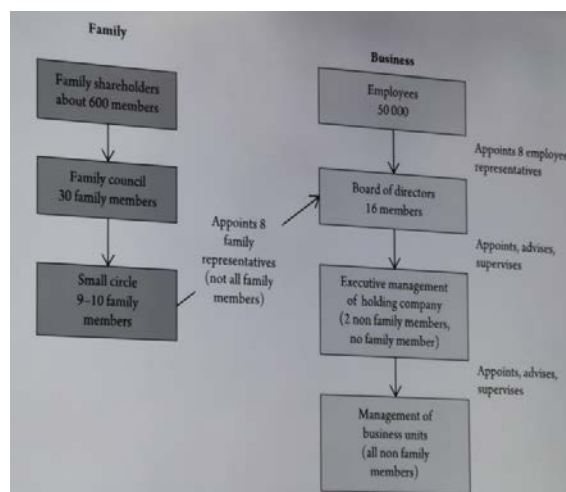
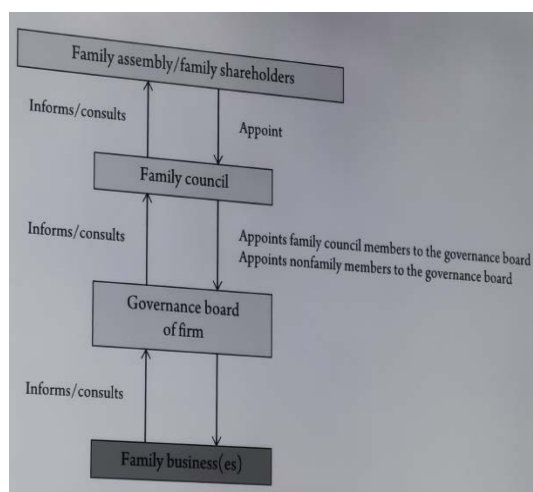
control $\min(50\%, 40\%, 60\%) = 40\%$

D cash flow = $60\% \times 20\% = 12\%$

control $\min(60\%, 20\%) = 20\%$

3.Ethics

In Anglo-Saxon Model, the family council has no direct influence on the voting right of the board and does not vote, acting only as a body to balance the profits of the family and the business, they can capture the family's voice and communicate their needs and concerns to the board. Generally, the family council is an idea forum for business updates, social events and family business education.



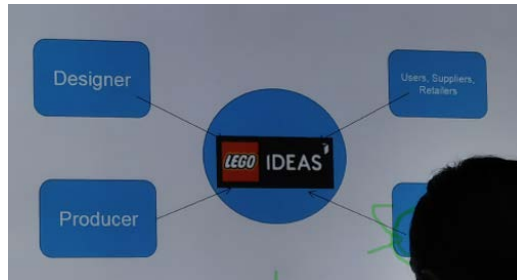
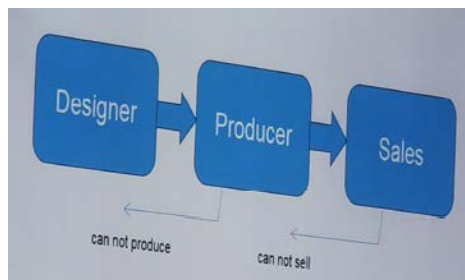
In Rhine Model, the family council chooses some members to constitute a small circle, and then appoint some of them as family representatives to become half of board directors. Thus, the family achieve control of the company under the protection of the law

5.Innovation (duplicated in China)

The Centro Ricerche **FIAT** (CRF) adjusts the organizational structure, and programming, controlling, and performing management system, uses a matrix structure to ensure in-depth expertise in key technology; Turn customers into long-term strategic partners and actively participate in government-funded research projects.

LEGO transforms its management system from a pipeline framework to a ideas sharing platform: reduce the

basic frame, designer has to consider the cost of the patterns; One year 35 new products, it need to be done in 18 months for each; Three department (users, suppliers, retailers) decide which all elements of product and market; And they can vote the special design to decide if it goes to the producer or sales; the can get incentive if the released product has good market performance; Not listed.



7. Long-term View

FIAT has been listed with a short-term view to maximize shareholders' profits, but

LEGO developed a unlisted guild framework with a long-term view, because if listed, all three departments (designer, producer, sales) will get incentives of the stocks, may loss passion, may leave the position, may start their own business.

NOT listed: (1) transparency of information new innovation -more investment -less revenue -short term market speculation; (2) after IPO, young engineers will get the dividend of shares and loss passion, some of them will leave the company; (3) to keep the family management independent with high moral standers; If listed, family council has no right to directly communicate with the board of directors, and all the family information should be disclosed, including private issues; (4) certain percentage revenue returns for new investment, but not for the family members.

8. Succession

Keeping and passing the core value to the next generation. Core value is s belief that a set of practices or behaviors will lead to the highest reward. **FIAT** adheres to value creation, customer satisfaction and human value, and respecting people. **LEGO** aims to provide children with unlimited imagination products.

Setting up Family trust, protect the interest of family members from any circumstantial changes.

Setting up DCSS, keep the control, and need public equity market to provide financing (sometimes tenure voting)

Setting up Crossholding system, maintain the network and control the industry, stabilize each of the companies (against hostile takeover)

Setting up variable interest entity (VIE), move the profit to the shell company, leave the debt and loss in the subsidiaries, and avoid tax.