

Discerning the inertial effects of current decisions on long-term performance in family firms: *the rise and fall of Casa Florio*

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Abstract

Investigating the rise and fall of a business is commonly viewed as a matter of searching single causes to be linked with corresponding effects. Such an atomistic and static picture of the driving forces of business success and decline often produces a superficial understanding of observed phenomena.

This might be the case of Casa Florio, a family company successfully started in the beginning of the 800s. Within the space of two generations, it became a giant embracing different unrelated industries.

The business success gradually gave rise to a strong image of Casa Florio in the Mediterranean area, which exponentially boosted entrepreneurial and political contacts and Florios' quality of life. However, by the end of the 800s, in spite of the Florios' rising financial and social performance both the firm and the family collapsed.

To understand the structural causes of the business rise and fall, this paper adopts a feedback approach focused on the analysis of dynamic relationships between Casa Florio's values and its local and extended environment's culture.

1. Introduction

In the beginning of the 800s, Paolo Florio – a humble merchant from Bagnara Calabria – moved to Palermo to start a trade venture. He decided to leave Calabria mainly in order to overcome financial difficulties caused by an earthquake in his region and to exploit personal contacts with other people from Bagnara, who had been settling in Sicily to establish new businesses.

Paolo would have never thought that a small spice trade firm could have provided the basis to build an “empire”, ranging from *naval shipping* to *Marsala wine*, from *foundries* to *tuna-fishing nets*, from *chemicals* to *spinning mills*, etc, *banking* included.

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A century later, in 1908, Ignazio Florio jr. was forced by Banca Commerciale Italiana to give up all his shares of the navigation company (N.G.I., the main business of ‘Casa Florio’¹), in order to settle the huge amount of debts generated by business deficits and unsustainable family expenses. Some years later, around 1915, he had also to cede all *Casa Florio*’s wonderful villas and jewellery.

In 1957 and two years later, Ignazio jr. and his brother Vincenzo died in poor conditions. Such an event marks the end of the Florio family.

What have been the primary causes of Florios’ failure? What could an entrepreneur of today’s life learn from this case-history?

From a simplistic and superficial attempt to revisit the rise and fall of ‘Casa Florio’, the significant volume of family expenses as the primary cause of the collapse could emerge. However, although family expenses certainly played a relevant role in the process, the deep causes ought to be searched in other issues, some of them being quite remote in time since when failure was recognised.

The research hypothesis upon which this paper is based is that the hidden structure of cause-and-effect relationships underlying observed phenomena in socio-economic and political systems is often misperceived by key decision-makers. In particular, those non-monetary soft variables, such as culture, image, knowledge and personal contacts, are often neglected by entrepreneurs and managers, mainly because of the difficulty to measure them and the gradualness at which they change over time. On the contrary, decision-makers are often prone to respond to contingent problems or perceived opportunities and to implicitly map a bounded system, regardless of the wider net of relationships in the light of which it is possible to understand the deep causes of observed phenomena.

In the light of a feedback analysis of the Florio case, today’s entrepreneurs can better perceive the inertial effects generated by growth on both the business and the family sub-systems. Detecting the emerging complexity associated with recurring phenomena in growing family firms (such as, globalisation, diversification and succession) is likely to empower entrepreneurs to better manage business growth.

As will be shown in the next sections of the paper, three kinds of neglected relationships are particularly remarkable in the Florio case, i.e.:

- ‘Casa Florio’ vs. Florio family;
- ‘Casa Florio’ vs. local anthropological and business environment;

¹ ‘Casa Florio’ literally means ‘Florio house’, but in this case this term refers to the wider system embodying the management of both business and family assets.

- ‘Casa Florio’ vs. extended anthropological and business environment.

Concerning the above links, from which the nature of the firm as an *open system* emerges, business actors are frequently inclined to neglect feedback loops, delays, non-linearities and gradual and inertial effects generated by their past decisions.

2. Understanding the multidimensional profile of culture as a prerequisite to pursue business continuity and growth

2.1. Business culture as a product of a dynamic exchange of ideas between the family business and its local and extended environment

It is our belief that business culture ² is a fundamental prerequisite for the survival and growth of a firm; in the light of it, decision makers’ mental models, policies, and success or crisis can be explained. Such a principle can be applied to the Florio case.

Understanding the deep causes of Casa Florio’s failure implies that one investigates on the entrepreneurial attitudes in perceiving the evolving pattern of relationships between the dominant culture of the firm and different environments with whom it interacts. As previously remarked, such interactions can be referred to the Florio family, the Sicilian environment, as well as the extended environment related to other Italian regions ³ and foreign countries.

Culture associated with the above subsets (Florio business/family, local and extended environments) can be analysed at two different levels of inference, i.e.: *anthropological* and *business*. The latter is, obviously, a specification of the former. Both contribute to explain the external conditions (in terms of values, consumer needs, social requirements, etc.) under which business activities are carried out.

As depicted in figure 1, if we analyse ‘Casa Florio’ as an open system of values and beliefs, we may identify a body of relationships between the firm and its *relevant environment*, in terms of those *cultural messages* that are currently received and decoded by the business and, in turn, conveyed to the external counterparts.

In particular, figure 1 shows that Florio’s entrepreneurial culture overlaps with family culture. In fact, a peculiar factor of complexity (Landsberg, 1983; Bianchi and Bivona, 2000) in a family business is related to the close ties between the evolution of both the family (e.g., marriages, births/deaths, children education, expectations towards the company, personal contacts) and the

² Culture is a system of values, rules, beliefs which are implicitly shared in a given social system. Such a body of values gradually builds or changes culture, depending upon several events characterise the life of the social system. Provided that such values prove to be *winning*, they are commonly accepted and practised by the majority of actors in the system (Catturi and Riccaboni, 1996; Davis, 1982; Schein, 1983; White, 1984).

³ Before and after the promulgation of the Unity of Italy, which took place in the year 1861.

firm (i.e. of the dominant ideas which are often brought by those key-actors belonging to the equity-owning family).

To what extent was the entrepreneurial succession process planned in due time? How were the new generations educated over time? Was the firm conceived as a means to generate wealth and to improve local anthropological and business culture? Or, instead, was it perceived as a means to spread out Casa Florio's name in the local and extended environments and to improve the family's quality of life?

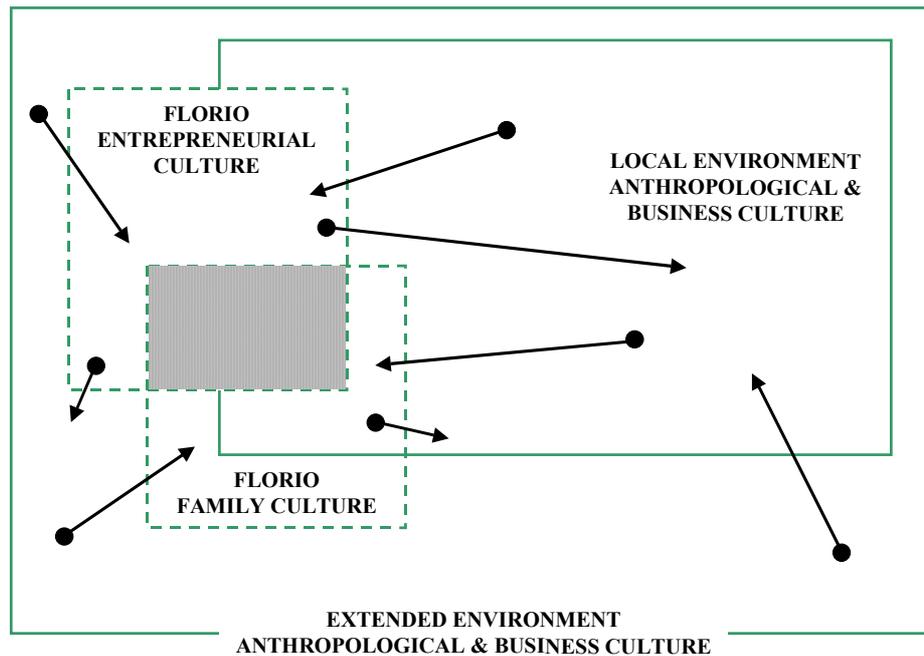


Figure 1 – The open exchange of cultural messages between Florio business and other relevant external counterparts.

Figure 1 also shows how the extended environment's anthropological and business culture influenced both the local environment and, in turn, the Florio business and family culture profile. In fact, some significant historical events – such as, for instance, the declaration of unity of Italy, the slow and increasing resort to railway transportation, the growing emigration flows to the U.S.A. and the progressive industrialisation in Northern Italy – gradually (though strongly) affected the Sicilian context.

To what extent was Ignazio Florio Sr. able to perceive the growing isolation of Sicily from the main land, associated with a stagnating landowner culture and lack of entrepreneurial efforts (banking included)? To what extent was he able to rationalise the changing pattern in customers' tastes and needs? How were technological changes perceived? How were the geographic boundaries of competition shaped? How did Ignazio Sr. conceptualise the effects on the Florio family culture that the wider range of relationships involved by his political contacts and stronger links with the noble

class would have gradually generated? To what extent did he perceive the possibility to replicate in his company an “entrepreneurial model” close to those which had been adopted in some industrial districts of Northern Italy (e.g., Vicenza)? Why was the idea to start a large national navigation company in partnership with his major competitor (Rubattino in Genoa) dreamed since the ‘60s by Vincenzo and later carried out by Ignazio Sr.?

Finally, figure 1 illustrates the relationships between the local and Casa Florio’s culture. In particular, the local culture affects both Florio family and business culture. For instance, the increasing relationships with the noble class, since the second half of the 800s, could be explained as a result of a widespread and consolidated thinking in the area, especially for those middle-class families that had become wealthy from profitable trade and industry deals. Furthermore, the development of new production technologies and commercial contacts, particularly with England, in the Marsala wine (Lentini, 1990) field put the basis for the entrance of Florios in such a business.

On the other side, Florios’ culture affected the local environment’s cultural profile. In fact, for example, philanthropic initiatives by different members of the Florio family (e.g., in 1896 Franca Florio opened a refectory for about 500 poor people, in 1898 Ignazio Jr. made a huge investment to equip a hospital for tuberculosis care) not only contributed to improve the quality of life, but also to instil into social mental models some important values related to the respect for the human being’s dignity.

How did Ignazio Sr. map the effects on the local context generated by the introduction of new business cultural values taken from the industrialised Northern Italy? What cultural values inspired Vincenzo Florio since 1828 to undertake new innovative ventures in different businesses? Why did he search and develop strong contacts with other entrepreneurs? Why did Ignazio Jr. decide in 1925, after the liquidation of ‘Casa Florio’ businesses, to restart a navigation venture based on his father’s (Ignazio Sr.) business idea? What ideas pushed Ignazio Jr. to launch in 1905 a regional car race (Targa Florio), while his brother Vincenzo Jr. was involved in enjoying life in different European noble drawing-rooms?

2.2. On the dynamic relationships between company key-values and anthropological/business environmental culture in the Florio case: Paolo & Ignazio Florio’s era (1800-1828)

The research questions suggested by the above issues provide a framework according to which it is possible to try to find some possible explanations concerning the deep causes of the rise and fall of ‘Casa Florio’.

As depicted in figure 2, an important condition for business survival and growth is provided by a coherence between the company values and those related to anthropological/business environmental culture. Such values do not pertain only to the competitive system *per se*, but also refer to the local and extended social variables which may gradually reshape the macro-environment where the firm operates.

Based on such an approach, it is possible to distinguish three main stages in Casa Florio's growth, before the final collapse.

A first step (*stage A*) can be envisaged in the Paolo & Ignazio Florio's era "1800-1828" (Lentini, 1986). The core cultural values upon which the company was started and developed focused on *business continuity for family growth* and *innovation*. In fact, the firm was conceived as a stimulating environment where new generations could daily practise human virtues, supporting winning entrepreneurial values, such as self-help (Iachello, 1990; Butera, 1985), the continuous search for new ways to satisfy customers, the attitude to build consensus on shared business and social activities, an openness to the exchange of ideas with other people from different countries/cultures. There was a consonance between Florio's values and the underlying local and extended environments. In fact, they well matched with the opportunities of new contacts coming from the presence of English merchants in Sicily (Lentini, 1988; Brancato, 1990). A widespread feudal culture and the lack of local entrepreneurs in the spices and agriculture produce trade (Lentini, 1985), offered a suitable environment for the development of Casa Florio's activities (Lentini, 1996).

2.3 On the dynamic relationships (continued): Vincenzo Florio's era (1828-1868)

The above values provided a proper basis for other cultural key-ideas that were being laying on the previous ones (*stage B*), as a result of the Vincenzo Florio's capability to decode those external "cultural messages" (e.g. in terms of unsatisfied consumer needs) according to which new business opportunities could have been pursued. Consequently, learning and knowledge transfer made the business cultural profile stronger; this allowed the firm to pursue a "cultural thickness" (Bianchi, 1989) around which further growth could be effectively sustained. Such an evolution of Florio's culture fostered a progressive undertaking of different industrial activities (e.g., Marsala wine, Oretea foundry, tuna fishing-nets, shipping, sulphur, ship building, chemical, spinning) which were both supported by personal entrepreneurial contacts and cash flows generated by the consolidated trade ventures (Lentini, 1978, 1981, 1992; Spampinato, 1990).

2.4 On the dynamic relationships (continued): Ignazio Florio Sr.'s era (1868-1891)

As remarked in the lower section of figure 2, the environmental culture and business profile gradually started to change since before the end of stage B. In fact, a major source of discontinuity and fundamental change was caused by significant political events, such as the unity of Italy. The new emerging scenario (*stage C*) was characterised by a growing industrialisation of Northern Italy, leading to an increasing flow of people from the countryside to large towns. This was a major cause of a rapid and radical transformation in consumer needs and habits. At the same time, new entrepreneurial ventures coming from other European countries were proliferating in the Mediterranean area.

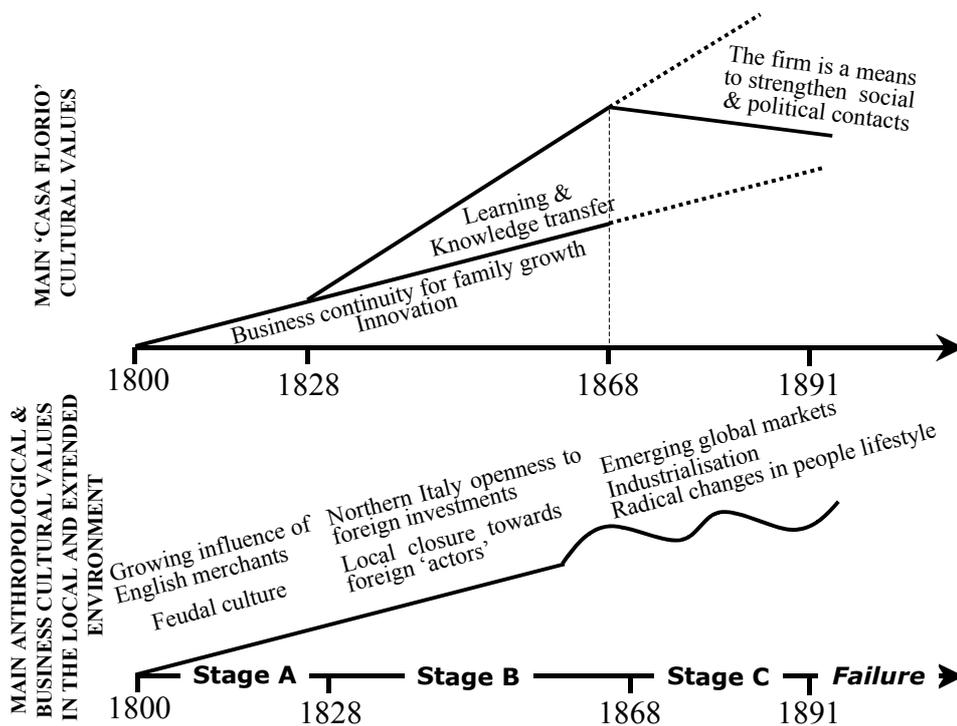


Figure 2 – The evolution of ‘Casa Florio’ cultural profile

If we refer to the specific context of navigation (which were more and more becoming the biggest business of ‘Casa Florio’), four main issues were gradually threatening the stability of past ‘rules of the game’. In fact, a *growing number of competitors* – especially from France and England – had been undertaking the same routes carried out by Florio and other Italian competitors. Such a menace proved to be serious because of the higher competitive advantage of foreign companies. In fact, they were able to provide a better service (due to new and faster ships) and to benefit from growing subsidies by their governments.

A second major threat tackling the stability of the competitive system’s rules of the game was associated with the Italian government’s orientation to renew concessions for shipping services for a shorter period of time and its *lower propensity to grant large subsidies*.

A third significant cause of instability was originated by the slow *development of railways* that were gradually supplanting some of the routes covered by boat.

Last, but not the least, a *higher percentage of people* compared with goods transportation in the total shipping traffic increased the importance of service, both in terms of comfort and speed.

Concerning Casa Florio's environment, after Ignazio Sr. assumed the reins of the company since 1868, three main issues characterised the business family life.

In order to increase the visibility of the company in the national context and to consolidate dominance, Ignazio Sr. produced an increasing effort in *developing his political contacts*⁴. At the same time, both the difficulty to establish profitable relationships with the very small and rural entrepreneurs and the significant wealth reached by 'Casa Florio' in the last fifty years, naturally pushed the family to develop strong ties, especially with the *local noble class* (Candela, 1986). The development of the above extra-entrepreneurial efforts gradually gave rise to a considerable bundle of 'drawing-room' relationships. Although such links might have contributed to fuel the business growth, they might have been also generating a growing pattern in Florios' involvement and worries.

On the basis of the above remarks, it is possible to formulate the hypothesis that the increasing development of social and political relationships may have swallowed up the proper time devoted to the management of the firm. In such a picture, it might have been even more difficult for Ignazio Sr. to daily experiment a practical rationality to improve learning, i.e., a better understanding of the gradual changes in the relevant system⁵.

A third issue, which acted as an internal complexity factor, can be envisaged in the search by Ignazio Sr. for a partnership with Mr. Rubattino, in order to start a national shipping company, and the subsequent *launch of the Navigazione Generale Italiana* (N.G.I.). This was a primary cause of internal complexity, as – after N.G.I. start-up – main strategic and tactical decisions were to be debated and agreed with other counterparts.

Due to the significant external and internal complexity, a major cause of *organisational entropy* was the lack of time to discern dynamic relationships between current and past phenomena, and to figure out possible implications for business growth to envisage alternative scenarios.

As a consequence of this, since the beginning of the '70s, the basic assumptions on which decisions were made tended to be unchanged, regardless of the subtle – but radical – modification in both the

⁴ S. Candela, 1986, I Florio, Sellerio, Palermo, chapter 6.

⁵ The relevant system embodies those variables in the light of which the observed key-variables behaviour can be explained.

internal and external environment. For instance, in spite of the increasing customer's complaints for lack of quality service in the Florio navigation business, the firm was carrying on a fleet maintenance policy, rather than a progressive renewal of ships. In the light of the financial and competitive performance of the firm until the end of the '90s, such a policy proved to be sound. In fact, not only cash flows continued to increase, but also main Italian competitors gradually were forced to leave the business due to accumulated losses. Such events were perceived by Ignazio Sr. as an opportunity – rather than a threat – provided that Rubattino and himself bought the fleet of liquidated companies. In the meanwhile N.G.I. share quotations had been oscillating until 1894, when they suffered a strong and permanent reduction (see figure 3).

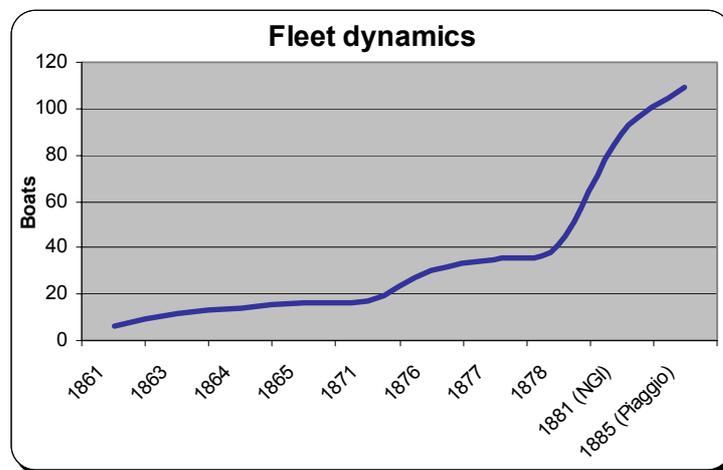


Figure 3a – Florio and N.G.I. fleet dynamics

(source: Candela, 1986)

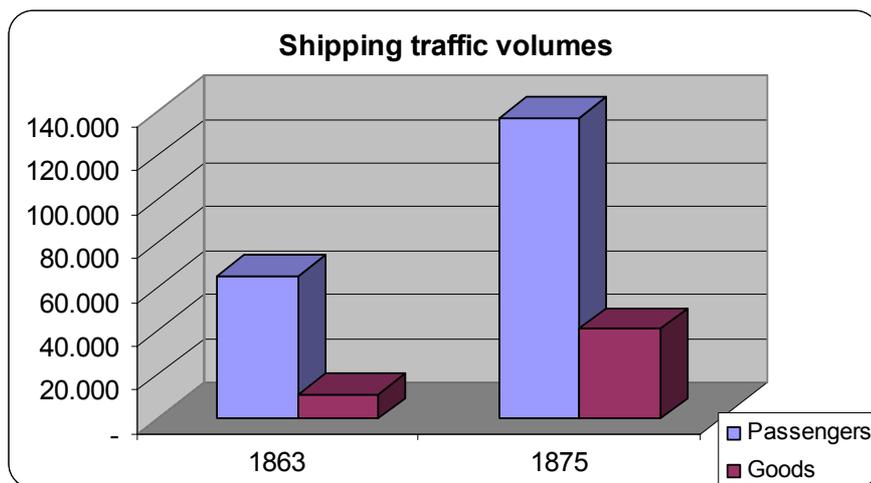


Figure 3b – Florio and N.G.I. traffic volumes

(source: Candela, 1986)

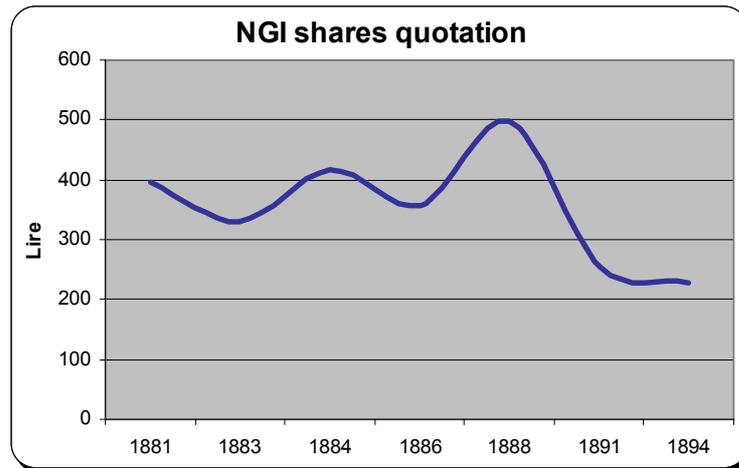


Figure 3c – N.G.I. shares quotations dynamics

(source: Candela, 1986)

The above remarks show how Casa Florio gradually lost its cultural roots, thereby undertaking a divergent cultural profile according to which the firm was implicitly conceived as a means to strengthen social and political contacts and to improve the family’s prestige and quality of life (see figure 2 again). An evidence of this is provided by the fact that, whereas Vincenzo Sr. was trained on-the-job (as an apprentice in the family shop) and spent his youth working in England and Genoa, Ignazio Sr. after an about ten years-long training period in the firm, was inclined to spend a considerable share of his time in managing official “drawing-room” relationships. On the other hand, Ignazio Jr. spent his youth between cruises and parties, and only suddenly was forced to take the reins of the company because of his father’s death (1891).

2.5 On the dynamic relationships (continued): Ignazio Florio Jr.’s era (1891-1915)

On 17th May 1891, Ignazio Sr. died. In his will he ordered that half of the inheritance would have to be invested in buildings and lands, to assure the family a stable annuity. Did he decide this as he was not confident on the entrepreneurial attitudes of his son? Did he perceive that the structure of the competitive and political system had radically changed, and force the new generations to undertake fundamental and heavy changes in the “business formula”?⁶

Ignazio Sr.’s last will was not, indeed, put in practice by the heirs (Candela, 1986). The undetected internal and external complexity factors that since thirty years before had been emerging, at last gave rise to an unmanageable system for the novice entrepreneur Ignazio Jr.. However, even if he would have been an expert entrepreneur, the Florio business system would also have probably

⁶ These changes could have been related to the dismissal of the radical innovation of some historical business units, such as navigation or Marsala wine.

collapsed, provided that its entropy state clearly showed the signs of an incumbent dissolution (Candela, 1986; Lentini, 1986).

How can one explain that the significant liquidity accumulated in Banco Florio, the consolidated market dominance in several businesses, as well as the enormous family assets had suddenly fallen down, as if Ignazio Sr.'s death had been the cause of the collapse?

A proper answer to these questions can be found if we shift our thinking from a linear to a *system dynamics* perspective.

3. System Dynamics as a methodology to analyse business growth and decline processes in a feedback loop perspective: 'Casa Florio' case

3.1. The business of a strategic assets stock-and-flow system

If we analyse the business as a complex system of strategic assets (Amit and Schoemaker, 1993; Dierickx and Cool, 1989; Grant, 1991; Kogut and Zander, 1992; Mahoney and Pandian, 1992; Morecroft, 1997), i.e. as a set of interconnected production factors providing the basis for competitive advantage, we can describe growth and decline processes in the light of the cause-and-effect relationships affecting the dynamics of such resources.

Each strategic asset can be represented as a *stock*, which changes over time as an effect of *flows*, resulting from business and environmental strategies and policies, which in turn depend on key-actors' mental models and culture. Business decisions acting on flows, also depend on the current endowment of other strategic assets (stocks). For instance, the stock of customers in the Marsala wine industry depends on the number of contacts (stock variable) that the firm previously developed in the trade industry.

The *system dynamics* perspective (Forrester, 1961) allows one to make cause-and-effect relationships explicit concerning the growth and decline processes associated with such resources. The analysis of such causal relationships provides the basis to build a dialectic learning process implying that decision makers' mental models are made explicit and questioned in order to pursue a common shared view of reality emerging from the relevant system (Winch, 1993).

System dynamics modelling is likely to foster a learning process that centres the human being and his perceptions, emotions, experiences and other *soft* variables impacting on mental models, in the light of which the continuous flow of decisions takes place. Improving mental models means to support the entrepreneur to better perceive the ever changing objective reality.

The business feedback view allows one to take into account not only financial, but also non-financial variables (i.e., entrepreneurial knowledge, the entrepreneur's personal contacts, image) which often embody strategic assets that significantly affect long term performance.

Learning in, and about, complex dynamic systems is the prerequisite to promptly detect sound policies, to pursue a sustainable and lifelong business growth (Sterman, 2000).

In the next section of this paper we will try to provide a new framework depicting in a feedback perspective the deep and gradual causes of the rise and fall of 'Casa Florio', on the basis of the analysis conducted in the previous paragraph.

3.2. 'Casa Florio' strategic assets building and draining processes during stages A and B

As described in the second paragraph, three major stages in Casa Florio's growth and decline, before the final collapse, have been distinguished.

In this paragraph we will dwell upon the *stages A* and *B*, with the aim to depict the dynamics associated with the building process of the company's strategic assets and to capture in a comprehensive framework the gradual changes that have been influencing the *relevant system's* structure and behaviour.

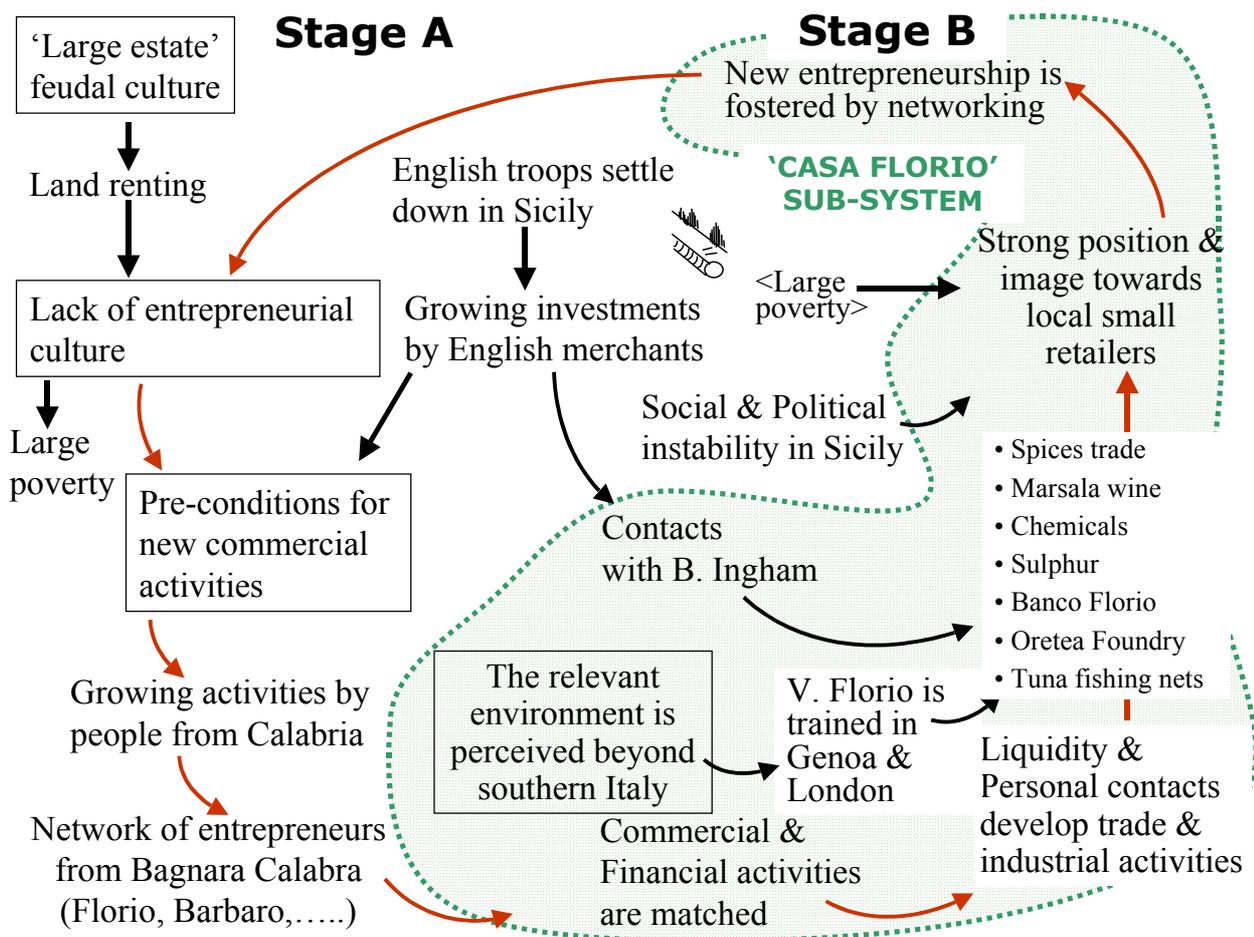


Figure 4 – Casa Florio growth stages

Figure 4 emphasises main critical issues providing the basis for the business start-up and the shift to *stage B*. In particular, it visualizes how Paolo Florio was able to develop a new successful trade venture by acting as a leverage point on what might have appeared as a discouraging factor from launching an enterprise: *lack of entrepreneurial culture* in the local area. On the contrary, Paolo perceived such a negative aspect as an opportunity. In fact, he was able to network with few other entrepreneurs coming from his own region (Calabria) and, later on, to establish strong ties with bright English entrepreneurs who had also settled down in Sicily, as a consequence of the British colonisation process.

The commercial activities developed during *stage A* provided the basis for what would have later become an “empire”. In fact, initial investments allowed the firm to build a critical mass of trade volumes that progressively fuelled the increase in personal contacts with other entrepreneurs (strategic asset), which in turn fostered a growth in trade volumes. Such an increase in trade

activities gave rise to a higher income rate and equity, leading to stronger liquidity position (reinforcing loops, figure 5).

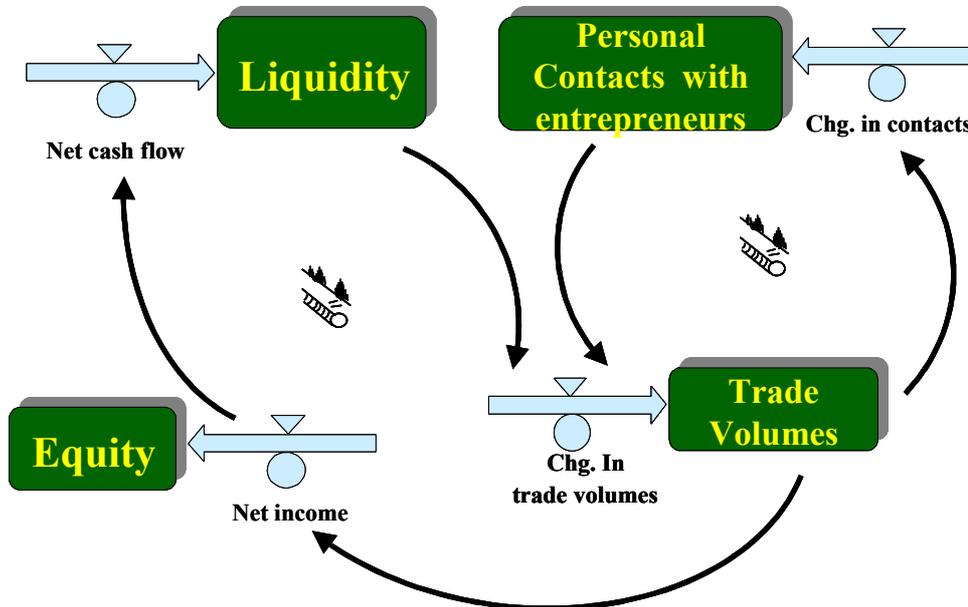


Figure 5 – Critical loops underlying stock-and-flow accumulation process during *stage A*

Figure 4 also shows how the transition from the *A* to the *B* stage was successfully pursued by acting on four main leverage points:

- commercial and financial activities were matched, as Florios were used to allow their clients (i.e. small retailers) extended terms of payment;
- liquidity and personal contacts with other entrepreneurs fostered the development of new trade and, especially, industrial activities;
- the geographic boundaries of the *relevant environment* were perceived by far beyond the local area, provided that Vincenzo Florio was trained in Genoa and London;
- contacts with Benjamin Ingham (one of the most successful English entrepreneurs in the Mediterranean area) strongly supported both innovation in the Marsala wine industry and joint partnership in several industries (e.g., chemicals).

The successful broadening of Florio activities was in turn a leverage point for new growth. In fact, the strong position and emerging image of the family allowed the firm to build new network relationships with small business entrepreneurs operating around Casa Florio businesses (see figure 4).

Figure 6 shows how the progressive start of new industrial activities implied investments which, in the short term, drained liquidity (balancing feedback loop), although – in a longer time horizon – many of them substantially contributed to foster business profitability and liquidity (reinforcing loop “Industrial investments → Net income → Net cash flow → Liquidity → New investments → Industrial investments”).

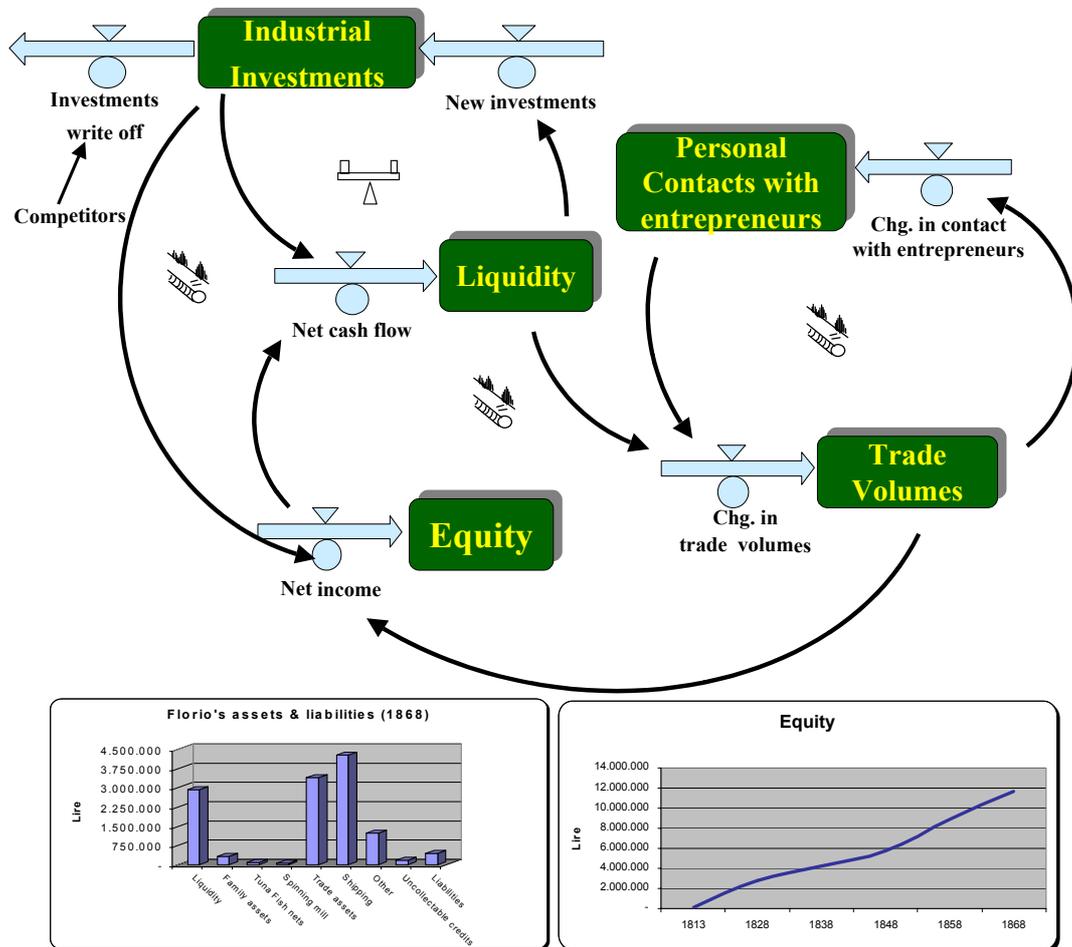


Figure 6 – Balancing and reinforcing loops associated with industrial investments

Figure 7 depicts the reinforcing loops acting on entrepreneurial knowledge and the related effects of further growth, both in trade and industrial activities. In fact, the exercise of a practical rationality through reflective observation of concrete processes associated to the increase in personal contacts, as well as in industrial investments and trade volumes developed an entrepreneurial learning process accumulating into a knowledge stock. Such a higher knowledge in turn contributed to improve the quality of both industrial and trade activities.

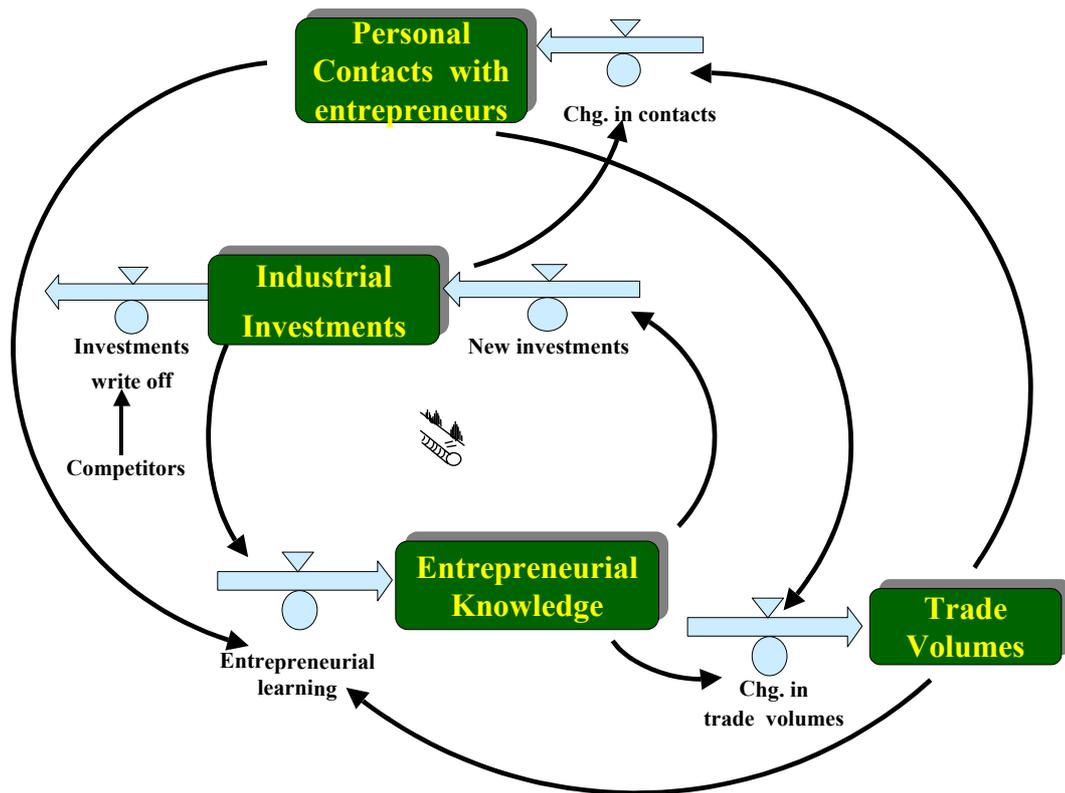


Figure 7 – Reinforcing loops associated with entrepreneurial knowledge building processes

Figure 8 shows main reinforcing loops affecting growth associated with ‘Casa Florio’ image building processes. Image increases as the firm successfully pursues the development of business and social/political contacts. A higher image, in turn, generates a change in contacts both in the business and social/political fields.

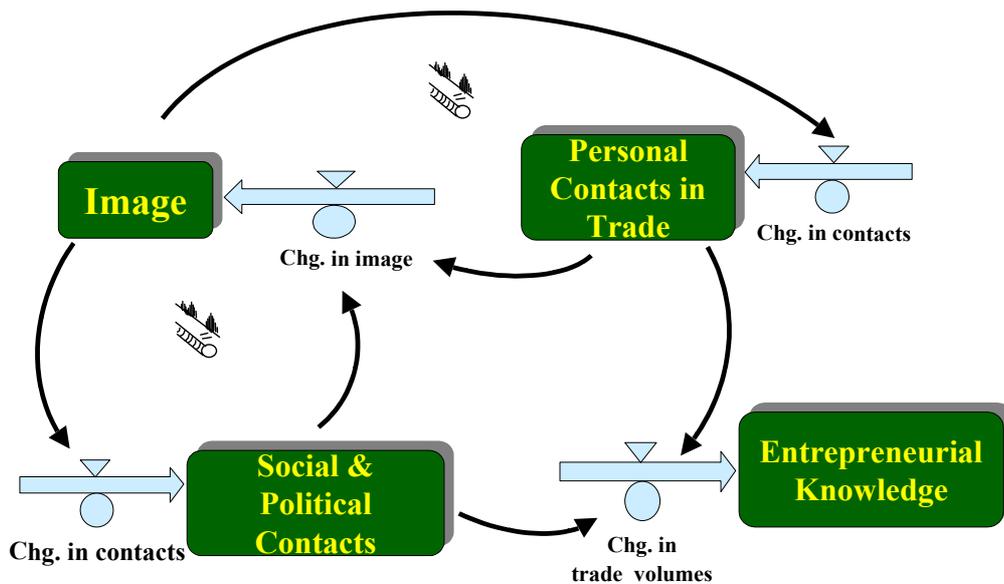


Figure 8 – Reinforcing loops associated with Casa Florio's image building processes

3.3. 'Casa Florio' strategic assets building and draining processes during stage C and failure

In the previous paragraph we have been dwelling upon the feedback process underlying Florio's business growth during the first two stages of its life-cycle. In this paragraph we will analyse main cause-and-effect relationships associated to *stage C*, embodying the deep causes of the final collapse.

As depicted in figure 9, in order to further enhance both business and family growth, Ignazio Sr. produced higher efforts aiming to develop new contacts with national political 'actors' and the noble class, thereby increasing the business visibility. He also struggled to accomplish his father's dream: the start of a national shipping company (N.G.I.) through the merge of his firm with the company of Mr. Rubattino in Genoa. Such a goal would have fostered new growth (reinforcing loops).

The decision to start N.G.I. could be interpreted at least according to two different perspectives. On one hand, one could observe that Ignazio Sr. might have wished to find a strong partner that could have been helpful in finding new funders, as well as new customers. This could be interpreted as a sign of Ignazio's awareness of some Casa Florio's weaknesses. On the other hand, the same policy might suggest that he was not able to properly perceive: 1) the financial difficulties of his major competitor (Mr. Rubattino), 2) the higher internal complexity that the need to debate major decisions with other counterparts would have generated, and 3) the incumbent crisis of the navigation industry.

Figure 9 also highlights *limits to growth* associated with the new entrepreneurial style of Ignazio Sr.. In fact, as previously remarked in par. 2.4., the *extra-entrepreneurial efforts* he produced and the resulting 'drawing-room' relationships reduced Florio's attitude to manage complexity⁷, thereby generating a growing *business myopia*, which in turn gave rise to organisational *entropy*. In

⁷ Concerning the difficulty to immediately perceive gradual changes in the structure of the system, with particular regard to the business ownership issues in family firms, it has been remarked that "one metaphor that captures the nature of the forces that propel transitions is the glacier. A glacier, like a family enterprise, is a growing, working system that constantly interacts with its environment, balancing movement with stability. The forces at work in a glacier as it moves across the landscape are powerful and complex, but they are largely invisible. Over time, as the pressure builds in the river of ice, it is preparing for change. Then, suddenly, when it has reached a state of "readiness", it may require only a momentary trigger to initiate the calving of huge sections from the age of the glacier into the sea, giving the glacier itself a new shape. In the same way, the developmental pressures that accompany families and their business are constantly at work, creating the need and readiness for change ... *Like the glacier, family enterprises normally resist change for as long as possible, protecting their habits and routines.* ... Once the transition has been triggered, all the accumulated pressure is activated, and the system has an opportunity to make the fundamental changes that bring it more in alignment with its resources, environment, and goals. For a moment, immediately after the transition, the new shape of the glacier is in homeostasis. ... then, the developmental pressures begin again, starting the process over that will ultimately lead to the next transition – perhaps far in the future" (italics added) (Gersick, Landsberg, Desjardins, Dunn, 1999).

particular, such a phenomenon was determined by a lack of understanding of internal and external complexity (balancing feedback loops).

We have previously referred to the ownership enlargement as a primary cause of internal complexity. Concerning the external side of this phenomenon, among the main forces in the game were: lack of resources in Sicily, an undetected evolving consumer demand, a passive imitation by Ignazio Sr. of many Northern Italy's industrial models ⁸, a lack of understanding of new wider boundaries of competition.

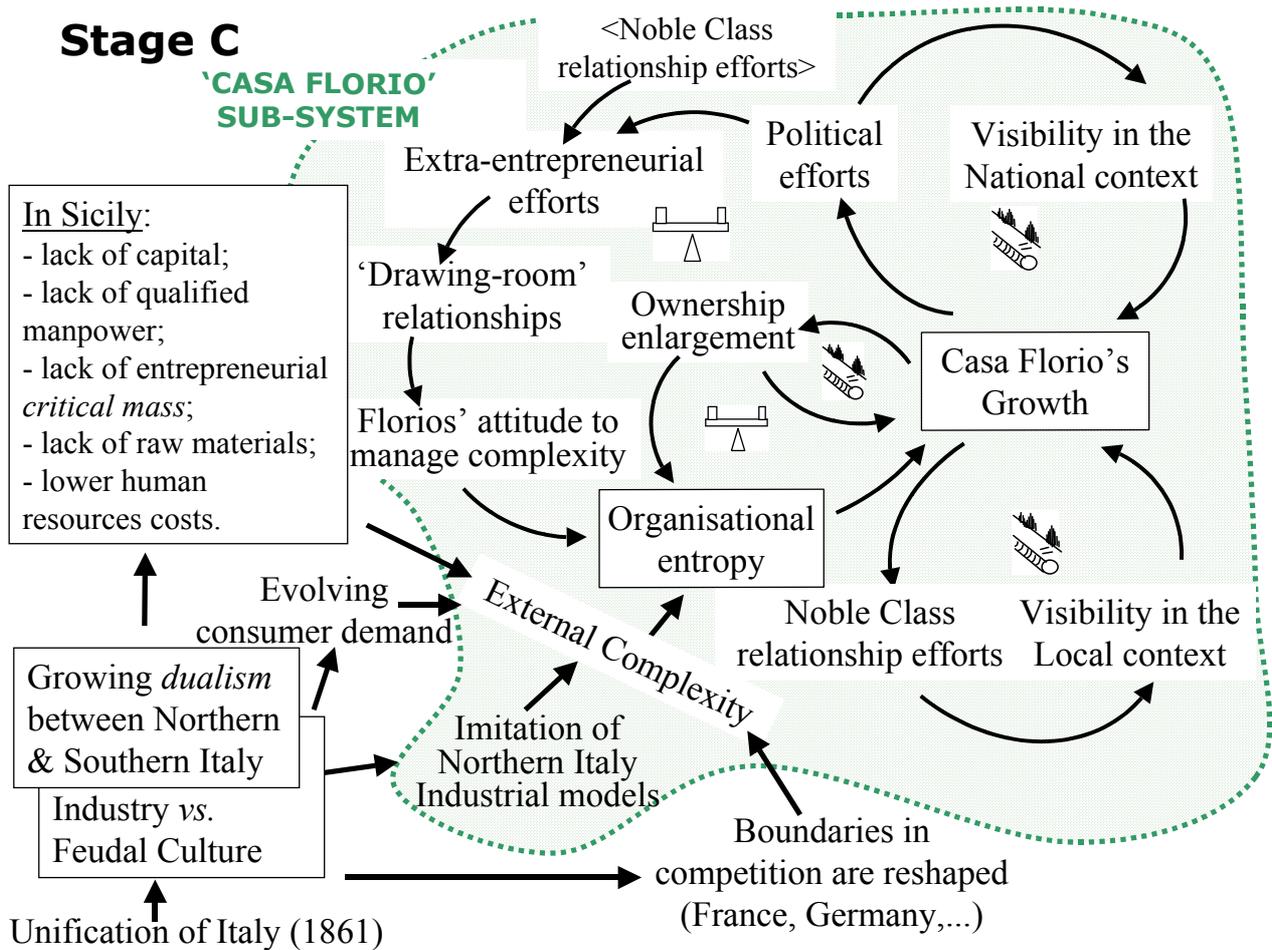


Figure 9 – Reinforcing and balancing feedback loops associated with Casa Florio's growth and drifting decline processes in stage C

The above remarks are analysed in more detail in figures 10 and 11.

In particular, figure 10 shows limits to growth originated by social and political contacts. In fact, if on a side such strategic assets generate an accumulating effect on business image, that feed backs on social and political contacts again, on the other hand they tend to absorb time available for

⁸ For instance, he tried to introduce into his spinning mill (the "Tessoria del Pegno") some innovative initiatives, implying a workers' canteen, a nursery for women workers' children, and a bakery (Candela, 1986).

Three other external factors may, directly or indirectly, impact on company shipments, i.e.: a) the changing pattern of potential demand (goods vs. passengers); b) the emerging role of railways a substitute of naval transportation; c) competitors’ policies aimed to act (or re-act) to “Casa-Florio” decisions.

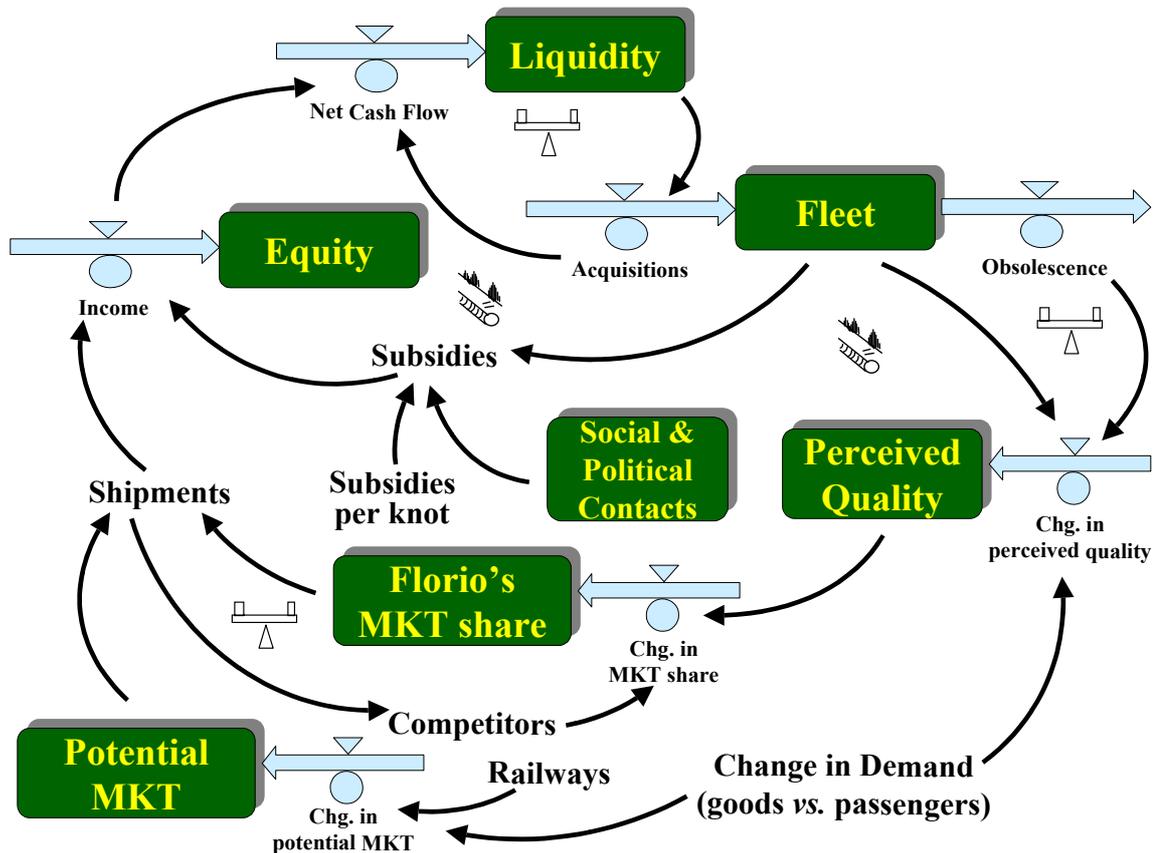


Figure 11 – Balancing and reinforcing loops associated with fleet and shipping transportation market dynamics

Figure 12 summarises main processes leading to the final collapse of ‘Casa Florio’.

Once again, organisational entropy is portrayed as a key variable generating crisis. In this perspective, the gradual increase in ‘drawing-room’ relationships reduced the time devoted to new generations’ training. This, in turn, might have strongly hampered the attitude of Ignazio Jr. to properly understand the company’s cultural roots, leading to a lack of continuity and low propensity to innovation (reinforcing loop).

When the effects of the crisis became evident, new generations tried to start other activities that were not founded on solid bases (e.g. Anglo-Sicilian Sulphur company, cereal import from Russia) or only resulted from a nostalgic memory and passive replication of the *antique grandeur* of ‘Casa

Florio' in the first half of the 800s (e.g. another navigation company was unsuccessfully launched in 1925, after Ignazio and Vincenzo Jr. were hyper-indebted).

A last important remark concerning the difficulty of Florio in understanding structural changes in the relevant system can be related to the lack of perception of limits to the growth in 'drawing-room' relationships, depending on diminishing cash flows associated to organisational entropy. Even though accounting information (i.e. the so called *raziocinii*) reported a growing pattern of liquidity and equity, both the cash flows and income rates (although positive in the beginning) were decreasing. Such a drifting behaviour was not so evident to the entrepreneur's mind, not only because of bounded available information, but also due to his full emotional involvement in current activities, that were particularly focused on political and social contacts.

Lack of promptly detecting the perils associated with a progressive reduction in Casa Florio's assets and a loss of image resulting from failure, were a primary cause of the unconditioned and irrational pursuing of the "death spirals" depicted by the reinforcing loops in figures 10 and 12.

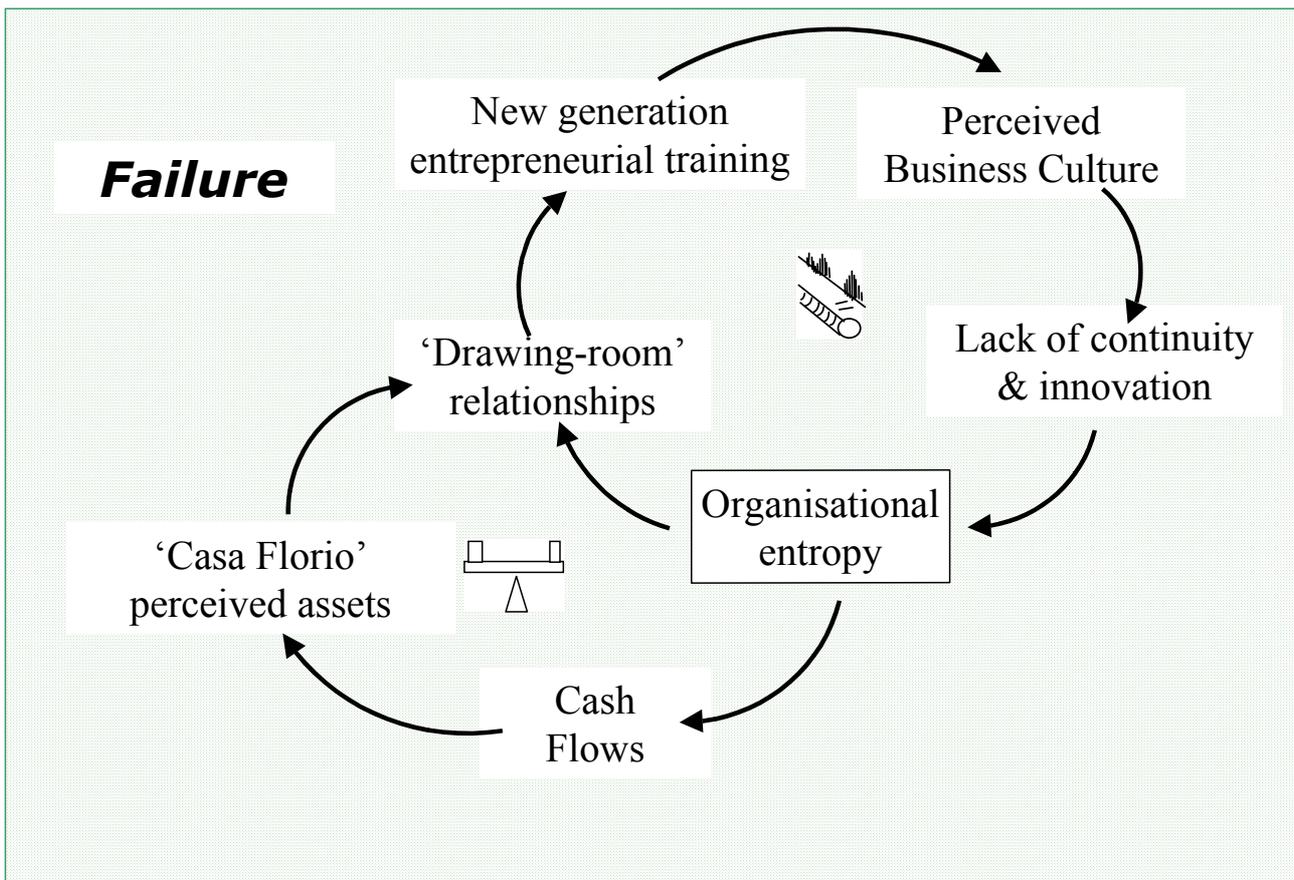


Figure 12 – Balancing and reinforcing loops associated with effects of 'drawing-room' relationships on new generations' training, business culture, organisational entropy and liquidity

Figure 13 depicts in higher detail the vicious side-effects produced by the gradual and progressive shift of business culture towards an unbalanced perception of the social and political role of the firm as a benefit for the Florio family. In fact, such a reasoning produced an increase in the company liquidity withdrawals, to feed higher current family expenses and other non-current costs associated with the acquisition of assets (such as villas), which in turn increased the average flow of family current expenses (reinforcing loop).

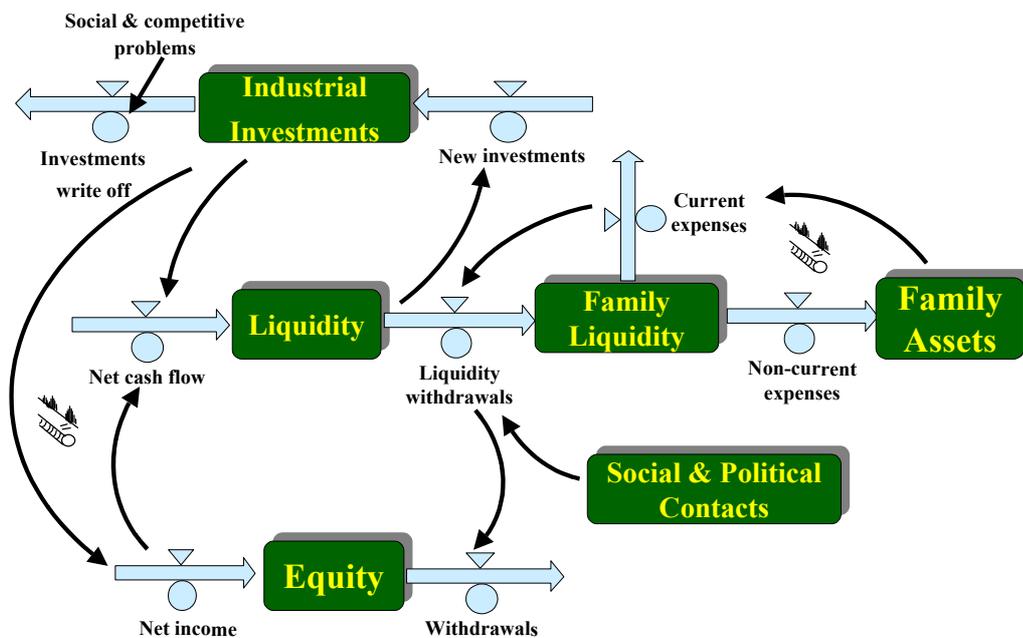


Figure 13 – Reinforcing loop associated with the impact of social and political contacts on family liquidity and expenses

4. Conclusions

What can today’s entrepreneurs learn from the Florio case commented above?

A feedback loop approach can be very helpful to better understand the structure of the relevant system and to envisage what changes are to be made to the system’s structure, through decision policies, to affect key-variables of system behaviour.

Discerning the inertial effects of current decisions on long term business performance can be significantly fostered by the system dynamics perspective. Particularly family business entrepreneurs can be supported in better framing the peculiar complexity of their own firms, which does not embrace only the company *per se*, but also the family, as well as the wider socio-political environment.

The Florio case teaches that, if entrepreneurs fail to timely detect gradual changes in the relevant system associated with family succession, globalisation and diversification strategies, the company

may experience unintended results. As an effect of the difficulty to cope with the above phenomena, crisis is likely to gradually emerge, although financial results are improving.

When business crisis becomes evident, the lost equilibrium will be difficult to recover. Even though the main causes of failure are related to the business-owning family's behaviour, they can in turn significantly prejudice the family's image, equilibrium and continuity.

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