**CASE CHAPTER 1: INTRODUCTION TO RESEARCH**

**The Laroche Candy Company**

In 1864 Henricus Laroche started making high-quality chocolate in his kitchen in Ooigem, Belgium. Henricus learned his trade at a famous chocolate shop in Paris, and he and his wife began to make chocolate in bars, wafers and other shapes soon after Henricus had returned to Belgium to start his own business. The Belgian people loved Laroche’s chocolate and the immediate success soon caused him to increase his production facilities. Henricus decided to build a chocolate factory in Kortrijk, a nearby city in the Flemish province West Flanders. With mass-production, the company was able to lower the per-unit costs and to make chocolate, once a luxury item, affordable to everybody. The Laroche Candy Company flourished, expanded its product lines and acquired related companies during the following decades. Within a century the company had become Belgium’s leading candy-manufacturer employing over 2,500 people.

Today, The Laroche Candy Company is one of the biggest manufacturers of chocolate and non-chocolate confectionery products in Europe. Under the present leadership of Luc Laroche the company has become truly innovative. What’s more, the company has adopted a very proactive approach to marketing planning and is therefore a fierce competitor in an increasingly global marketplace. The number of products the company produces and markets has increased dramatically; at this moment there are more than 250 Laroche Candy items distributed internationally in bulk, bags, and boxes.

Luc Laroche, born in 1946, is the fifth generation of his family to lead The Laroche Candy Company. He is the great-great-grandson of company founder Henricus Laroche and the current Chairman and CEO of the company. But Luc is nearing retirement. He has planned to stop working in two to three years. Whereas stepping back from power is a very difficult thing to do for a lot of people, it is an easy thing to do for Luc: He is looking forward to spending time with his grand-children and to driving his Harley Davidson across Europe. What’s more, he has never found the time to play golf, and he is planning to spend “three whole summers learning it” if necessary. And yet, even though ‘letting go’ is not a problem for Luc, he still has his worries about his imminent retirement.

As in most family businesses, Luc’s two children spent their share of summers working for the company. Luc’s oldest son Davy has repeatedly worked for the accounting department whereas Davy’s younger brother Robert has infrequently worked in the field. However, they have never shown a serious interest in the business. Davy, who is 35, currently works as an associate professor of management accounting at a reputable university in Belgium. Robert, aged 32, lives in Paris and has been working as a photographer for the last ten years. About twelve years ago, Robert told his dad, "I know you'd like me to come in the business, but I've got my own path to travel." Luc recalls responding that he respects that and that he does not want Robert to feel constrained; “I just want you to be happy” is what he has told Robert on that particular occasion.

Ever since this conversation with Robert, Luc has put his hopes on Davy. A few days ago, Luc has invited Davy to have dinner at the famous restaurant “In de Wulf” in Dranouter, Belgium to discuss the future of the Laroche Candy Company. He wants to talk about his retirement and a succession plan for the company with Davy, who has serious doubts about taking over the company. Davy knows that for his dad the company is his life and like his dad, he wants the company to be successful in the future; but he just does not know whether it is a good idea to take over from his father. In an effort to maintain a balanced perspective on the issue, Davy has done some research on it. Hence, he has become very familiar with statistics about the failure rate of family transitions. These statistics have triggered numerous concerns and fears about taking over the company from his father.

Luc and Davy discuss the future of the company during a memorable dinner in Dranouter. Luc tells Davy that he wants his son to take over the company, but Davy explains that he has qualms. He brings up his doubts and fears and alternatives such as going public, selling to a strategic acquirer or investor, or selling to employees through an employee stock ownership plan. Luc hardly listens to Davy’s concerns and strikes a blow for family business.

“History is full of examples of spectacular ascents of family business,” he said after the waiter has refilled his glass for the fourth time in just over an hour, “the Rothschilds, the Murdochs, the Waltons, and the Vanderbilts, to name only a few. The Rothschilds, for instance, not only accumulated the largest amount of private wealth the Western world has ever seen, they also changed the course of history by financing kings and monarchs. Did you know that they supported Wellington’s armies, which ultimately led to the defeat of Napoleon at Waterloo? I bet you didn’t.”

Davy raised an eyebrow. “I didn’t. But what I do know”, he replied, “is that only fifty years after the death of Cornelius Vanderbilt, who created a fortune in railroads and shipping, several of his direct descendants were flat broke. Apparently the Vanderbilts had both a talent for acquiring and spending money in unmatched numbers.”

Davy leaned in closer toward his father. “Seriously dad, I do believe that strong family values are very important but I also feel that they may place restraints on the development of the company. It is commonly known that familism in Southern Italy is one of the main reasons for the slower economic development of the south relative to the north.”

Luc sighed and looked at his son. “So, what does this all mean?”

“Well, I think that the key question is whether family firms evolve as an efficient response to the institutional and market environment, or whether they are an outcome of cultural norms that might be harmful for corporate decisions and economic outcomes”, Davy replied with a gentle smile. “Don’t you think so?”

“I … um … I guess I do.” Luc smiled back at his son. “I am not sure that I understand what you mean, but it sounds great. Let’s throw some money at it and hire a consultant who knows something about this. I’ll call McKinsey first thing tomorrow morning. Cheers.”

“Cheers dad”, Davy echoed lifting his glass.

Two weeks later, Paul Thomas Anderson, a senior McKinsey consultant, put forward the following problem statement in a meeting with Luc Laroche: What are the implications of family control for the governance, financing, and overall performance of the Laroche Candy Company?

**Questions**

1. What is business research?
2. Why is the project that Paul Thomas Anderson is doing for The Laroche Candy Company a *research* project?
3. Which steps will Paul take now that he has clearly defined the problem that needs attention?
4. Luc Laroche has decided to hire an external consultant to investigate the problem. Do you think that this is a wise decision or would it have been better to ask his son Davy or an internal consultant to do the research project?
5. What can (or should) Luc do to assist Paul to yield valuable research results?
6. How can basic or fundamental research help Paul to solve the specific problem of The Laroche Candy Company?
7. Try to find relevant books, articles, research reports and this issue. Use, among others, electronic resources of your library and/or the internet.