FAMILY BUSINESSES

HOW TO WEATHER THE SLINGS AND ARROWS OF FORTUNE

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Continuity and long-term strategic thinking contribute to making family businesses the lifeblood of society and the bedrock of sustainable economies.

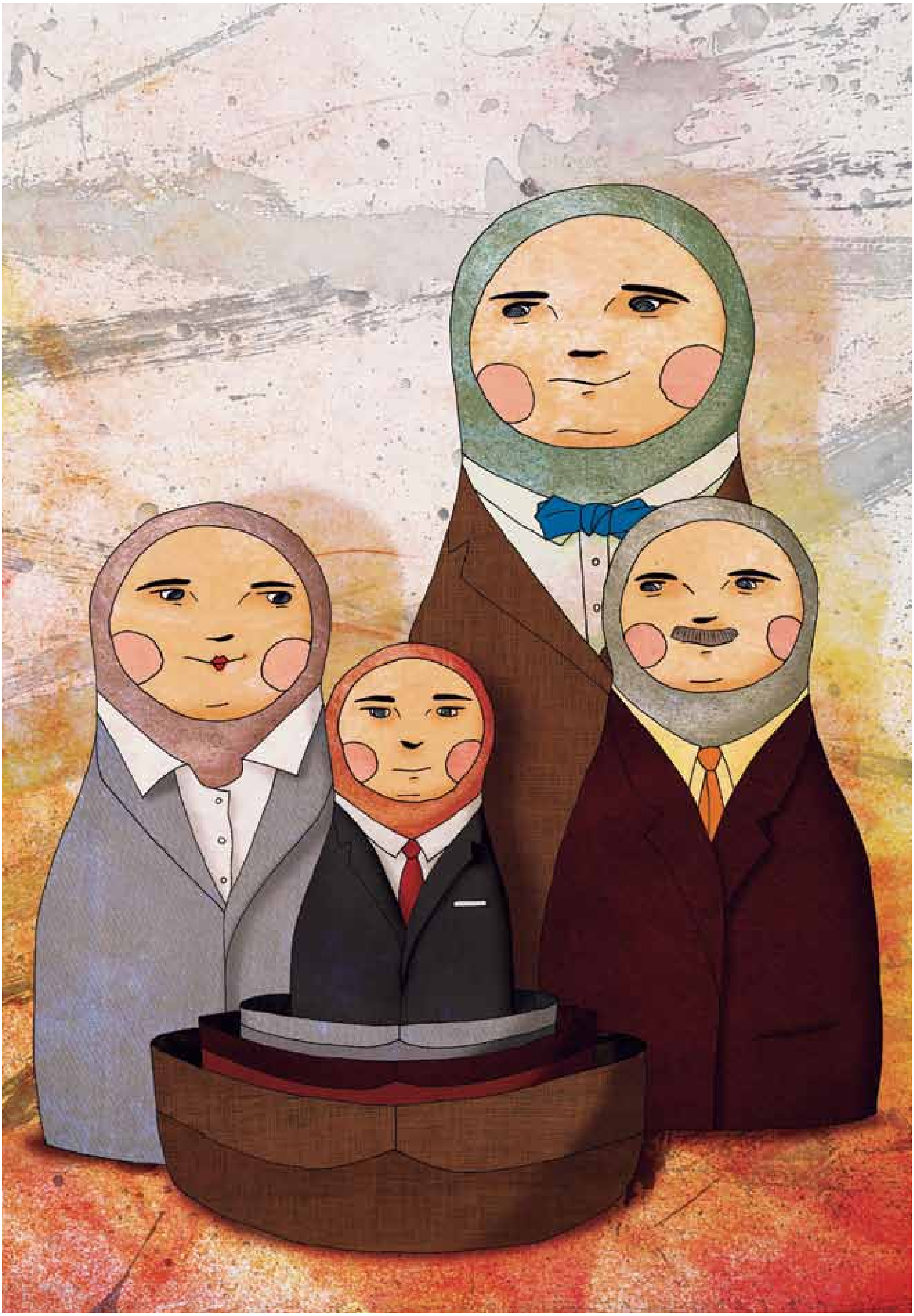
FAMILY BUSINESS • OWNERSHIP • LEGACY & SUCCESSION • FOUNDATIONS •DECISION ANALYSIS • STRATEGY

Family businesses play a central role in the economic development and recovery of any country and family-owned businesses make up the majority of companies everywhere in the world. Their business models are always based on long-term thinking that allows them to face the vicissitudes of economic life more calmly than other businesses. As this long-term thinking has concrete results, in this article we look at some key aspects of what makes up a family business.

OWNERSHIP STRUCTURES

For a business to be defined as a family enterprise, the European Group of Owner Managed and Family Enterprises (better known by its French acronym GEEF) insists that the family must have a sufficiently large holding for them to influence important decisions about the company. This majority holding may take a variety of forms. Ownership revolves around the twin axes of the needs of the company within the legal framework of the country where it operates and what the family wants.

There is a diverse international picture. For example, some companies such as IKEA and Bertelsmann are ultimately owned by a foundation. Swedish company IKEA, founded by **Ingvar Kamprad**, opened its first shop in 1958. In 1982, the founder decided that it should be owned by a foundation, the Stichting INGKA Foundation, as a way of guaranteeing the company's independence and long-term approach. Likewise, 80.9 percent of the German company Bertelsmann, the third biggest publisher in the world, is owned by a series of foundations (Bertelsmann Stiftung, Reinhard Mohn Stiftung, BVG Stiftung). The remaining 19.1 percent of Bertelsmann AG is in the hands of the **Mohn** family. However, 100 percent of the voting rights are held by another society, Bertelsmann Ver-



> "IN MY VIEW, THE LONGEVITY OF OUR COMPANY IS DUE TO US TREATING THE FAMILY BUSINESS AS SOMETHING PRECIOUS AND VALUABLE. WE CARE FOR IT FOR YEARS AND THEN WE PASS IT ON TO OUR SUCCESSORS, HAVING IMPROVED IT AS MUCH AS POSSIBLE."
> **Bertrand Passot**, president of Revol Porcelaine, founded in 1789.
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> "TRADITION AND INDUSTRIAL HISTORY IS IN THE DNA OF OUR BUSINESS. THIS IS WHAT HELPS US TO RECOGNIZE WHAT NEW IDEAS OR CONCEPTS CAN PROMOTE LASTING DEVELOPMENT AND CREATE ADDED VALUE."
> **Federico Falck,** president of Gruppo Falck, an Italian company established 1906.
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> Source: www.henokiens.com

waltungsgesellschaft (BVG) which aims to maintain the fundamental management style and corporate culture.[1] BVG has six shareholders: three **Mohn** family members and three external.

Once the ownership structure has been defined, family businesses need to ensure that they have a management structure that facilitates the governance of the company and the family.

MANAGEMENT STRUCTURE

Governance structures are central to running any business. A single administrator or a management committee has to oversee the good management of the business. In family businesses we also have to take into account the management and organization of the family itself. This task is usually carried out by a Family Assembly or Council.

The Family Assembly is the body that represents the entire family, whether or not all the members are directly involved in the business. The Family Council comprises family members chosen by the family itself with the aim of maintaining the unity and commitment of the owning family, unifying positions within the family so that it speaks with a single voice. Sometimes, in addition to these governing bodies, the family may decide to create a company, known generically as a family office, to manage *ex profeso* the family's assets, both material and human, and at the same time help to pass the legacy on from generation to generation.

THE SUCCESSION

The succession is the keystone and *sine qua non* of the survival of a family business. When dealing with the issue of succession it's vital to bear in mind:

- The succession is anticipated and therefore can be planned for.
- The succession in terms of ownership and management need not occur simultaneously.
- Leadership succession is more complex than the above.

Planning the succession is a necessary – though not the only – condition for achieving an orderly transition from one generation to another. A badly planned or badly managed generational transition will lead to problems and could have catastrophic consequences for both the company and the family.

The family must decide what type of family business they feel most comfortable with. The family can be involved at various levels of management but what they can't renounce is ownership. Everything else can be sub-contracted, though that's not ideal. If the family wants to manage the business they need to design a framework for incorporating family members and establish what conditions - such as age, education and experience - family members must fulfill in order to occupy positions within the company. Family members should never be forced to join the company and the next generation's freedom must be respected.

Policies followed by family businesses include demanding the necessary levels of education to occupy posts, acquiring experience working in non-family businesses and designing a career path within the company so that the successors know the company well. For example, **François-Henri Pinault**, son of the founder of the company François Pinault and currently president and CEO of the multinational PPR[2] – which owns brands such as Alexander McQueen, Boucheron, Stella McCartney, Yves Saint Laurent, Fnac and Puma – began his career in the company in 1987 as a salesman in the import department and in retail sales for the Evreux brand within Pinault Distribution. From then on he rose through the group, holding the posts of president of Pinault Distribution, president and CEO of FNAC, co-director of Financière Pinault until 2005, when he was appointed president and CEO of PPR.[2]

BRINGING IN OUTSIDE TALENT

Attracting and holding on to outside talent is useful and enriching and usually benefits family businesses. Some family business people forget that, while ownership is hereditary, a gift for management is not. Ignoring this has predictable consequences.

Once a company reaches a certain size it clearly needs to bring in outside professionals. There are moments in family businesses when the part played by outside professionals can be crucial. During the succession process, for example, a trusted professional can help to secure an orderly transition by acting as a bridge between generations.

Having professionals on the management committee or the board can enrich decision-making and make it more dynamic. Big multinational family businesses employ top-level advisors. Walmart, which began life as a single store when it was founded in Arkansas by **Sam Walton** in 1962, was by 2010 the biggest company in the world, according to *Fortune* magazine. Walmart is still a family business, now in its second generation, although only two family members, **Tim** and **Robson Walton**, sit on the board.[3] In the case of LVMH, a leader in the luxury sector, the president and CEO is its founder **Bernard Arnault** but two of his children, **Antoine Arnault** and **Delphine Arnault**, have seats on the board, along with well-known personalities such as **Bernadette Chirac**, leading business figures from the luxury sector such as **Diego Della Valle**, as well as members of family businesses acquired by the conglomerate, such as **Gilles Hennessy**.[4]

THE LEGACY

Long-term thinking is part of the essence of family businesses. The aim is to pass on the legacy of the business from generation to generation and this gives the owners a long-term outlook that helps them to avoid being blinded by the lure of short-term gains. Projects based on a long-term approach bring wealth and value to society as well as the family.

According to a recent study carried out by Credit Suisse based on 280 family enterprises in 33 countries, this long-term approach is the most important factor in the companies' success.[5] The pursuit of financial and social sustainability is the *leitmotiv* of family firms. As they are imbued with this mentality, family firms pay special attention to issues of social responsibility and philanthropy, whether on the part of the firm or the family.

It's not just a question of inheritance, but of receiving and accepting the legacy. As well as being a source of wealth, this legacy also embodies values, beliefs, principles and ways of doing things that are passed on through generations. Family members see themselves as custodians of this legacy, with a responsibility to pass it on to the next generation. The guiding idea is to maintain the tradition and the identity of the business and the family, without losing its capacity for renewal.

1. www.bertelsmann.com/Bertelsmann/Shareholder-Structure.html

2. www.ppr.com/en/press/biographies/board-directors/francois-henri-pinault

3. Walmart's board is made of 16 members. Source: http://investors.walmartstores.com/phoenix.zhtml?c=112761&p=irol-govboard

4. www.lvmh.com/investor-relations/governance/board-of-directors

5. "Family businesses: Sustaining performance", Research Institute, Credit Suisse, Setember 2012.

PASSING ON THE LEGACY OF THE BUSINESS TO THE NEXT GENERATION GIVES THE OWNERS A LONG-TERM OUTLOOK

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