COMAG

PEOPLE INSPIRING BUSINESS

ISSUE 2
2018

DYNAMICS DYNAMICS DYNAMICS

Free taxis, no steering wheels: Mobility in 2030

Flash Organisa-tions: The new way to drive growth

Legendary referee Markus Merk on the power of quick decisions

Fabian Kienbaum on guiding a traditional consultancy through change

READ THIS

... if you want to know the secrets to keeping a family business going.

LEGACY

BUSINESS AS HEIRLOOM

Article by MARTIN ROLL

CHARTING THE FUTURE

Family firms account for 70% of the global GDP and 60% of global employment, according to a recent study by INSEAD business school. They are a key driver of global business and growth, so their sustained long-term value creation is important for the global economy as a whole. However, long-term success of family firms is not a given, and it definitely not an easy task. There are many complexities involved when ownership, management and family roles overlap, and there are less clear distinctions between them.

A Chinese proverb states that "wealth shall not pass three generations". The first generation builds wealth, the second manages it, and the third generation destroys it. The challenge often arises when next generation takes over from the original founder, who had made personal investments into the business, whereas the next generation tends to have less of an emotional connection.

However, the founders and generations coming after them also have obligations to fulfil in order to ensure a smooth succession to future generations. Unfortunately, they are not always forthcoming or willing to engage, which leads to friction, conflicts, and lack of commitment from the next generation. A long-term partnership requires both parties to be motivated from the start. That being said, there are cases where family businesses have managed to overcome this challenge. Hoshi Ryokan from Japan is an example of longevity. Operating a traditional Japanese guesthouse-style hotel featuring hot spring spa baths, the company was founded in the year 718 and has spanned an incredible 46 generations. This demonstrates that with regulated processes, proper governance, and risk management, family firms can reign successful for generations.

This article will outline some of the key success criteria that family firms can integrate into their business strategy and operations to ensure their longevity and prosperity.

FAMILY AND BUSINESS ARE COMPLEMENTARY ASSETS

The long-term value for family businesses is driven by Performance (business) and Platform (family). Balancing the two drivers is critical, as is looking at strategies through a long-term outlook. Optimising performance is crucial to survival as it generates income and dividends, while the platform needs to have the right set-up and be fit for the purpose of the family.

Sometimes success will come about from having the two pillars overlap in various ways, and sometimes it is better to keep them separated. It is important to remember that one of the key characteristics of a family-driven firm is that it is business with "heart and brain combined" as opposed to a pure shareholder value-driven company, like an institutionalised company.

THE IMPORTANCE OF OWNERSHIP, MANAGEMENT AND FAMILY ROLES

The family should consider whether their business could benefit from new ownership, such as external investors, like private equity and larger companies. Some key questions are whether sufficient capital is available, whether large future investments are necessary, whether the new owner has more experience, and whether anyone in the family has already shown interest in running the business.

It is not easy for a family to invite external investors on board or to sell the entire business, but a different ownership set-up can be helpful as the family gets access to capital, valuable know-how, global market access, and diverse leadership perspectives.

Families should also be prepared for external attempts to take over and ensure their ownership structure can meet those challenges. The family owners behind French luxury brand Hermès learned a hard lesson when luxury and fashion conglomerate LVMH, led and controlled by Bernard Arnault, launched an attempt to take over Hermès. Despite owning 70% of the shares across more than 70 family members, they could have lost the company entirely if they had not created a holding company that had the first right to buy any family shares. This was the mechanism they created so that minority shareholders could not divest to non-family investors, shielding against LVMH and other potential aggressors in the future.

The management issue is important because the family needs to decide who will run the business, thus determining whether the CEO is a family member or an external talent. Selecting the best candidate needs to be a formal process, but the issue is often loaded with conflicts due to personal expectations, lack of intergenerational communication, and unclear plans for success.

In Asia, communication between generations is typically less direct in comparison to Western cultures. When combined with inherent respect for seniority, open discussions and potential disagreements tend not to surface, so issues can hang in the air for a long time. In the next 5-10 years, many Asian family firms will have to go through succession but their paths are less clear, despite the fact that the younger generations are getting more outspoken and are demanding clearer answers about the future.

Taking your time and drawing up a proper process, with expert help if possible, can help minimise conflicts and steer the family through the decision. The key virtues here are patience, inclusiveness and transparency.

When the Danish family-owned LEGO found itself struggling to transform its business to respond to its environment, the family decided to nominate an external CEO. Jorgen Vig Knudstorp, a former McKinsey consultant, joined the LEGO group strategy team and led the company's stellar turnaround. It regained its pole position while the family took roles at board level.

Successful family businesses are characterised by some distinct traits:

Establish a clear view of what the family – and the business – brings to the world (purpose)

Why it matters to stakeholders (financial impact)

Who will do it (leadership)

How the family will do it (organisation & execution)

When they do it (balance of time)

It is a careful and curated balance of past, present, and future.

LEGO has stated that their "ultimate purpose is to inspire and develop children to think creatively, reason systematically, and release their potential to shape their own future - experiencing the endless human possibility".

Family business strategy requires the creation and definition of a distinct clarity at the core, the definition and agreement on a shared future vision among family members (often across multiple generations with diverse perspectives and motivations), and the relentless leadership and execution of the overall future strategy.

"Leadership in the 21st century will be influenced by constant change."

FAMILY FIRMS SHOULD EMBRACE CONSTANT CHANGE WITH A LONG-TERM VIEW

Leadership in the 21st century will be influenced by constant change. Next-generation family leadership will have to deal effectively with multiple demanding global challenges spanning from geopolitical volatility, technological disruptions, economic and political uncertainty, the rise of new challengers like China, and shifting demographics.

The implications for next-generation family business leaders include learning to view challenges from both a short-term and long-term perspective, build resilience and character, keep both a horizontal (industry) and vertical (company) outlook, balance global perspectives and local insights, and develop strong leadership strategies

Successful family business leaders develop and employ six important strategic skills and personal traits which will help them to lead with clarity through turbulent times:

PURPOSE: Clarity of thought and clear personal vision to lead the company, and pursuing this objective with unwavering focus

RESILIENCE: A strong character and the capacity to recover quickly from difficulties is also essential for managing tumultuous business changes and staying ahead of the curve

NETWORKS: Crucial in family businesses as a strong network of leaders will enable a leader to put across relevant messages and effect change

LONG-TERM OUTLOOK: Family business leaders also need to have a long-term lens in order to look beyond quick returns, allowing them think and plan strategically to unlock sustainable business value. Family businesses in themselves are especially conducive to this

ADAPTATION AND AGILITY: Innovation is becoming a hygiene factor in business today, and family business leaders need to integrate disruption management into their strategies. This is not always easy as people want to maintain the harmony and peace within the family, as is often the case within Asian cultures

PEOPLE AND CULTURE: Last but not least, it is also important for a family business leader to be directed by their culture, ethics, values, and beliefs, as this will create authenticity – something that is highly overlooked in brand building and strategic management

The success of next generation family business leaders will be defined by their ability and willingness to drive a powerful transformation agenda across their organisations: being daring, bold, and different.

MARTIN ROLL

is a global business strategist with more than 25 years´ experience advising Fortune 500 companies, Asian firms and global family-owned businesses. He is an expert on building strong global brands and managing leadership in high-performing, marketing-oriented businesses. The bestselling author of “Asian Brand Strategy” is currently writing two new books on family business strategy and successful global leadership. He holds an INSEAD MBA and is currently INSEAD Entrepreneur in Residence.