ILLUSTRATIONS: SHOUT

Family business PORTRAIT

Family identity can steer both family and business success, say business professor and author **JOACHIM SCHWASS** and Brunswick's **CHARLIE POTTER** and **RICHARD MEREDITH**

FAMILY BUSINESSES THAT REMAIN UNDER the control of the founding family face predictably high failure rates. Research shows that fewer than 15 percent of family businesses survive into the third generation. It also shows that the reasons for failure can be largely attributed to the actions of the owning family: changing values (from earning to spending), poor succession planning, too much tradition and not enough innovation.

But research is similarly clear that when family businesses get it right, it is the structure and approach of the owning family that is largely responsible for the sustainable success. Some of our most iconic businesses in Europe, the US and Asia are family owned. According to McKinsey, about a fifth of the Fortune Global 500 companies are founder or family controlled, for 40 percent of total revenues in Western Europe, 52 percent in India and 59 percent in Latin America. The particular nature of family-owned or family-controlled businesses prompted *The Economist* to proclaim that "they are much more than just half-formed public companies. They are a category of companies in their own right … [and] they deserve a lot more attention."

There are, of course, certain common advantages to dynastic control: long-term perspective, more employee loyalty, the ability to tell authentic stories about the history of the business and the sense of a superior corporate culture that comes from feeling

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part of an extended family. But succession planning and family feuds are common areas of weakness.

So what is the secret to managing a sustainable transition across the generations? And are there values and approaches we can learn from this, that are transferable to other ownership models?

Picture a fifth generation, publicly traded and family-controlled business in Germany where between 2009 and 2016 the share price has tripled, sales increased from €14.1 billion to €18.1 billion ($13.8 billion to $17 billion) and profits from €1.5 billion to €2.6 billion. This is the Henkel Group – a consumer and industrial manufacturer now encompassing over 150 family owners. They recently extended their shareholder agreement from 2016 until 2033 and increased their ownership in the publicly traded business from 53 to 58 percent. A successful business and a happy family – how did they beat the odds?

When Dr. Simone Bagel-Trah, fifth generation member of the Henkel family, was appointed Chairperson of the industrial Henkel Group in 2009 at the age of 40, she led the owning family to reconsider these basic questions:

- **Why continue as a family controlled business?**
- **What is the value added by the family to the business?**
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This was the beginning of a major corporate process of the company redefining itself. The family members agreed to renew their commitment to the business based on the family's values, which they debated and defined. The family mission expressed support to the business, a truly long-term commitment to ownership stability, responsible ownership and the drive for entrepreneurial innovation linked to a strong tradition.

They crucially involved the wider company in this process. A series of 5,000 workshops was held around the world in Henkel Group businesses, transmitting the values to all 47,000 employees and exploring how those values could be applied.

Henkel is one of the many successful examples of companies that have used the owning family's identity and values to bring coherence, focus and sustainability to their businesses. The conventional wisdom on marketing is that firms with strong images and brands attract more clients with higher loyalty. Family businesses have a unique opportunity to credibly transmit an authentic, values-based identity through the generational continuity of the owning family.

Another outstanding example is the Stern family, which has maintained ownership of the Swiss watchmaker Patek Philippe for four generations. The company has developed fully integrated corporate communications and advertising campaigns that make a virtue of its multi-generational leadership and family heritage. Deeply rooted family values and an unbroken history are part of a personal dialogue that the company maintains with stakeholders.

Two generations are visibly presented in Patek Philippe brand advertisements – Philippe Stern, Honorary President of the Board, and his son Thierry Stern, President. The message reinforces the company's commitment to longevity, continuity and sustained entrepreneurship.

Research also suggests that, in addition to being perceived as attractive employers, family businesses that have successfully translated strong identities into strong brands create a clarity of purpose and identity that helps keep the owning family together. Identity matters to all of us. A family business offers a chance to define this identify in terms of the founder's style and the family's values – with a distinctiveness that public companies find more difficult to simulate.

Analysis shows that the way a business family thinks about its identity and the role that the family members play in a business undergo real change through the generations.

The founder and dominant owner stage typically shows the strongest and most authentic family identity. *The sibling stage* requires an evolution into a shared ownership structure on which to create a new vision and identity. Finally, *the cousin stage,* in a company owned by multiple generations of the same family, typically leads to an identity loss. Refreshing this identity to compensate for a larger and more diverse number of family members is often a significant challenge.

Times change – businesses and industries change, values change, families change. If identity plays an important role for the performance and sustainability of the business, then it makes sense for each new generation of owners to put their own recognizable footprint on the business. There are a number of examples of how successful families have managed these transitional stages:

- **The founder and dominant owner stage**

In 2012, LEGO of Denmark released a short animated video sharing the Kristiansen family's history over three generations of entrepreneurship, hardship and resilience. It was an innovative way

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for the usually discreet owners to make the LEGO brand heritage tangible in a fresh and modern way.

• **The sibling stage** When the brothers of the family behind the seventh-generation Philippines-based conglomerate Ayala Group entered the business, they innovated through an impact investment into the fundamental renovation of a large part of Manila's highly deficient water supply. They successfully completed their first public-private partnership, giving them and the family high visibility. As its leaders explain: "We found our name means quality and trust. It gives us a premium, attracts capital and brings many new opportunities to our door."

• **The cousin stage** The Dutch family business Bavaria is one of the oldest independent breweries. When the seventh generation took control, they followed the family mantra that invites each new generation to challenge the strategy of the previous generation. For the first time in the long family history, a premium beer was launched under the name of the owning Swinkels family. This led to an increased visibility of the family, and was seen as proof of the continuous long-term commitment to the business and capacity to innovate within a highly traditional business and industry.

Family identity can be a powerful communications asset, not just to the business but also to the owning family itself. A first-generation entrepreneur creates an identity by living it. His or her children have to work harder to shape this identity to their personalities and style, while ensuring continuity with the values and personality of the founder. Their children need to refresh it again, to reflect the more diverse ownership structure, but again retaining the core of what makes the family and its business unique – the qualities that justify their employees and customers investing in its strengths and capabilities.

This rarely happens by accident. Successful families make a special effort to codify their identify – to create a common narrative or story that shapes how they think about themselves, and how they communicate this to their most important audiences, including business associates, commercial partners, friends, investors, financiers, advisers, and political and regulatory connections.

This narrative needs to define the essence of the founder's style and approach, and be expressed in real rather than "corporate" language. For the second and subsequent generations, the narrative needs to be clear about how their ongoing ownership adds something particular to the company's success – through their cohesion, their business style, their long-term commitment. They then need to strategically communicate that narrative across all the channels that matter, including digital and traditional media, investor relations, company reports, speeches, internal communications and stakeholder engagement.

Most business families regard communications activity as media exposure, a matter of "PR" and talking to the media, which runs counter to their desire for privacy and discretion. But being proactive is not the same thing as being high-profile. A measured, proactive and strategic approach to communications can reinforce a family's sense of identity, and give them something compelling and unique to say about themselves.

More importantly, it enables the business to better deal with issues that can have lasting effects on its wider reputation. Leadership transitions, generational succession, corporate transactions including mergers and takeovers, family litigation, share disposals and tax affairs are all natural and foreseeable incidents of family business life that require communications planning. Handled in the right way, they are all opportunities that can help define an enduring positive reputation while preserving personal privacy.

This article is adapted from the book Wise Family Business *by Joachim Schwass and Anne-Catrin Glemser of IMD, with a guest chapter by Charlie Potter and Richard Meredith (Palgrave Macmillan, 2016).*

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