

How can family firms be resilient and long living in an ever faster changing world?

Myth: Family Firms do Not Survive Three Generations

- English: “From shirt sleeves to shirt sleeves in three generations?”.
- Italian: “Dalle stalle alle stelle alle stalle”.
- Spanish: “Quien no lo tiene, lo hace; y quien lo tiene, lo deshace”.
- Japanese: 「三代目が家を潰す」
- Chinese: 富不过三代

The World Changes Ever Faster:

- Financial Crisis 2008/9
- COVID 2020-?
- Technology changes leads to industries being disrupted
- Investors are more short sighted (hedge fun, PE etc).
- Ownership may be temporary where family firms need long term relational focused investors.

**Kongo Gumi The World's Oldest (Family) Business
Prince Shotoku 574-622**



Shitennoji Temple started in 578 finished in 593



Kongo Gumi founded in 578

Osaka Castle



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G7 meeting at the Ise Shrine 2023





Isukushima Shrine

Masakazu Kongō, the 40th Kongō



Kongo Gumi Bankrupt 2007

Business

The End of a 1,400-Year-Old Business

What entrepreneurs starting family businesses can learn from the demise of Japanese temple builder Kongo Gumi

James Olan Hutcheson
April 17, 2007, 1:22 AM GMT+2

The world's oldest continuously operating family business ended its impressive run last year. Japanese temple builder Kongo Gumi, in operation under the founder's descendants since 578, succumbed to excess debt and an unfavorable business climate in 2006.

How do you make a family business last for 14 centuries? Kongo Gumi's case suggests that it's a good idea to operate in a stable industry. Few industries could be less flighty than Buddhist temple construction. The belief system has survived for thousands of years and has many millions of adherents.



After 1,428 years here's what brought down the world's oldest business

Simon Black February 8, 2016 Sovereign Valley Farm, Chile

In 578 AD, a Korean immigrant named Shigemitsu Kongo made his way to Japan at the invitation of the royal family.

Buddhism was on the rise in Japan at the time; though it had only been introduced a few decades prior, the Empress consort had been actively encouraging the adoption of Buddhism across Japan.

HANKYOREH
HANI.CO.KR

All National North Korea International Eco-Business Culture Editorial-Opinion The Jeju April 3rd Incident

all > International

World's oldest company, started by Koreans, goes kaput

Kongo Gumi Learning Points

[Bennedsen and Henry: 16.000 years of leadership, HENOKIEN & INSEAD, 2019.]

Longevity is generated by

- Stable business model
- Well defined ownership models
- Well defined succession models
- Family assets: knowledge, legacy and relationships

However, past success is not enough!

Business is tougher, less loyal,
technology is challenging

Every family needs to regenerate
itself through **innovation,**
adaptation and digitalization.



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Longevity requires Long Term Planning

The business side

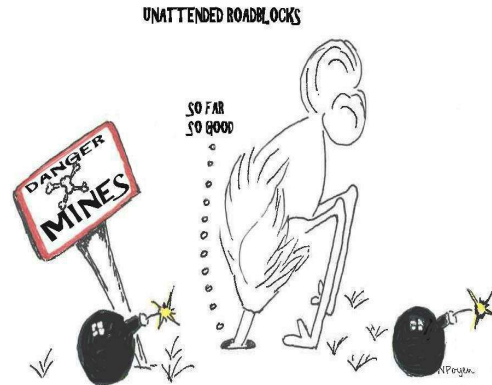
- What is our long term strategy?
- Is the family the best owners of the business?
- Are we the best to manage the business?

The family side

- Why do we continue?
- Who takes what role in the family?
- What to do with incompetent children?
- What role do in-laws have?
- Do we like each other?

The family leader(s)

- What shall I do after retirement?
- Who am I if not the leader of the family business?
- Does anybody love me?

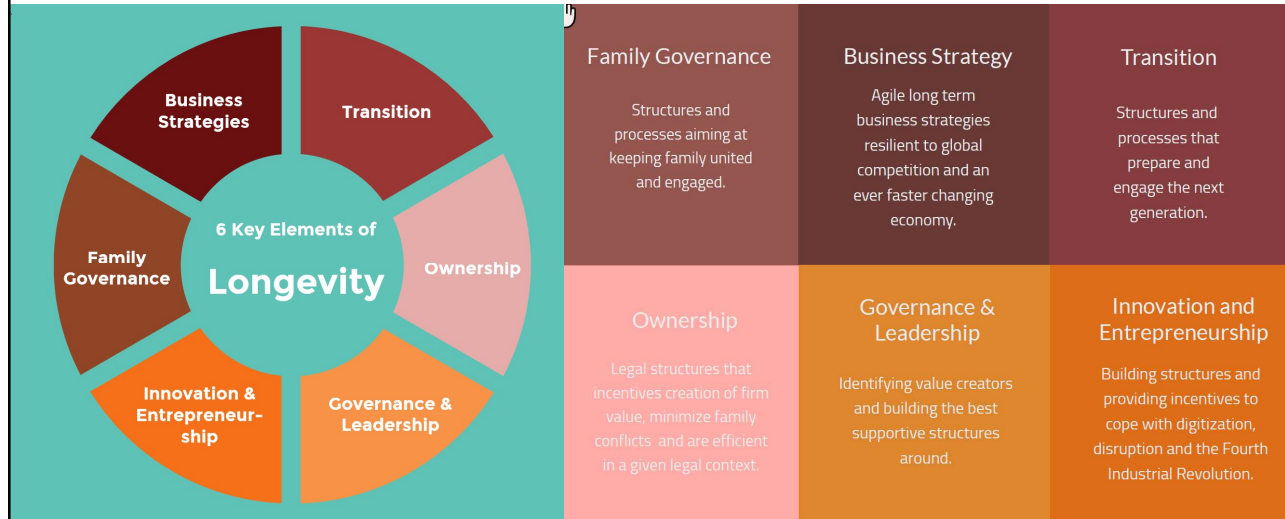


.....hence Long Term Planning
is postponed!

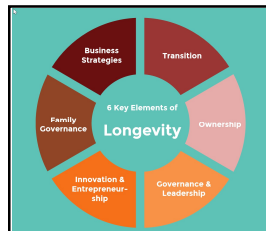
Lack of long term planning have severe consequences

1. Destroy businesses because wrong decisions or lack of real entrepreneurship
2. Increase the economic cost of family succession
3. Reduce firm value by increasing key personal risk
4. Makes the next generation pursue other paths
5. Makes management and other stakeholders more likely to pursue other options
6. Makes it harder / more expensive to find external capital
7. Increase the likelihood of family fights after (or even before transition)

Resilience Requires Planning and Agility





Source: Bennedsen: The Essence of Family Firms and World Economic Forum.






Agile Business Strategies that are resilient to global competition and an ever fasting changing world.




VMC Group 1796

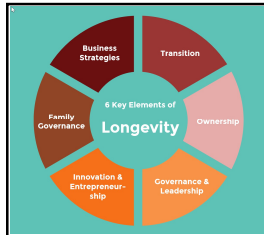
(Viellard Migeon et Compagnie)

- **LISI Group:** Public company, European leader in fasteners for automotive, aerospace and medical industries based in Belfort, France;
- **Rapala VMC:** Public company, first global brand name of fishing lures, based in Helsinki, Finland;
 - VMC Peche (a subsidiary of Rapala VMC): World's number one treble hook manufacturer, based in Morvillars, France;
- **FSH Welding Group:** Specialised in the manufacturing and distribution of welding and brazing consumables, based in Roche Lez Beupre, France;
- **Holding and Real Estate Company:** Diversified real estate assets mainly near the VMC's head office in Morvillars, France.

Emmanuel Viellard Managing Director VMC.

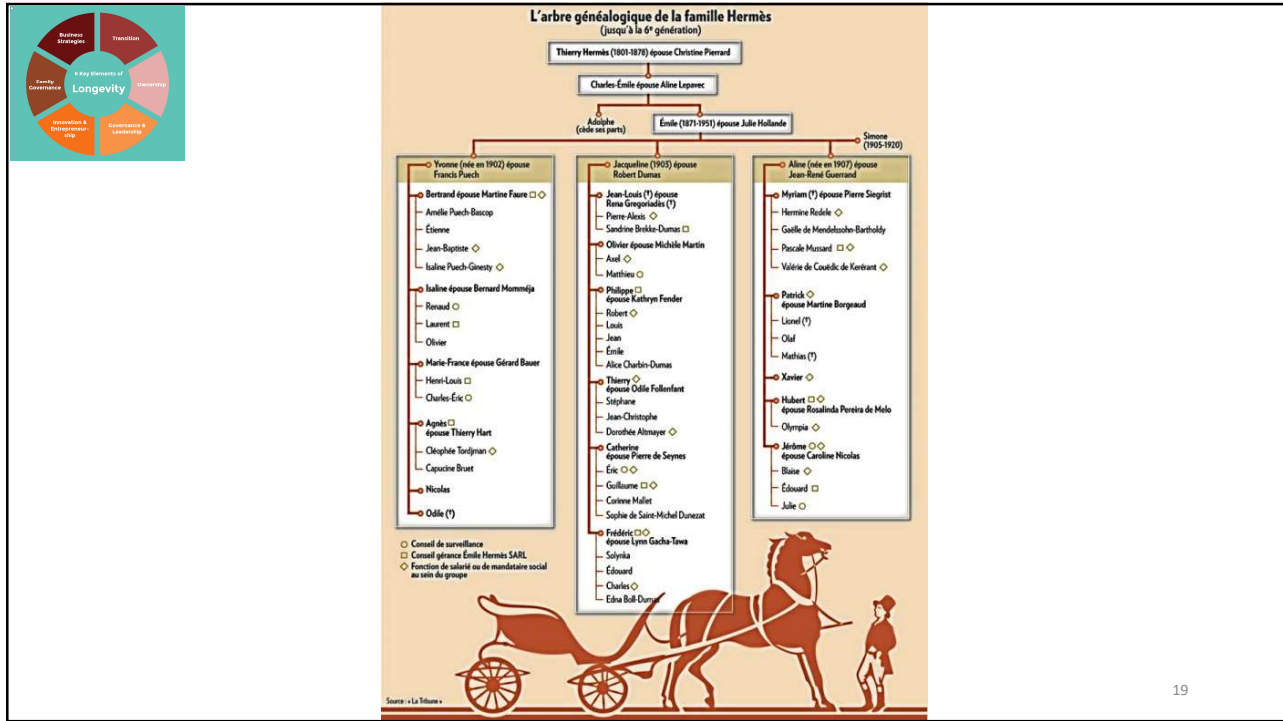




Ownership Structures that incentives value creation and minimize family conflicts

“Legal structures offer incentives to create firm value and minimize family conflicts. If designed correctly, an ownership model will align the firm’s vision and strategy with the incentives and performance of the stakeholders in the firm and the family. Having a sound ownership design will prevent owner-managers from getting entangled in internal disputes between family members, especially over sensitive issues like dividends. In most cultures, parents are keen to divide wealth equally among their offspring.” (The Family Business Map)





HERMÈS
PARIS

LVMH
MOÛT HENNESSY • LOUIS VUITTON



October 2010: LVMH declares..

- LVMH already had a long-standing direct stake in Hermès amounting to 4.92% (below 5% disclosure threshold required by AMF – Autorité Marchés Financiers)
- On October 2010 LVMH closed derivative transactions for 12.85m Hermès shares, that brought his stake in Hermès to 17.1% (10.7% of the voting rights), paying only an average price of 80.50€ per share



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What happened? 2010-23.



2011: The French Government approves the family trust

2011/12 Family Unites:
Bernard Puech: With friends like BA who needs enemies.

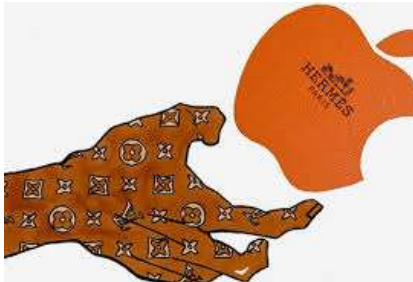
Patrick Thomas: If you want to...

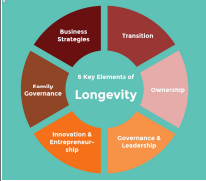
LVMH increase stake to 22.6

2012/13/14

Lawsuits:

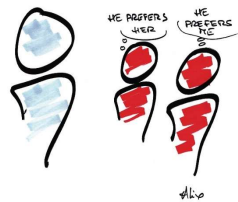
- LVMH insider trading, collusion and manipulating share prices. Cancel swap.
- Hermès for blackmail, slander and unfair competition.
- BA claims ownership was an accident.
- Axel Dumas Hermès new CEO.
- PEACE PACT (winner Hermés!)





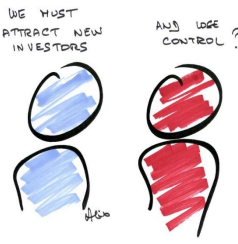
Ownership Design – WHY?


WHAT CAN I DO WITH MY INHERITANCE TO BE FAIR?



Alice

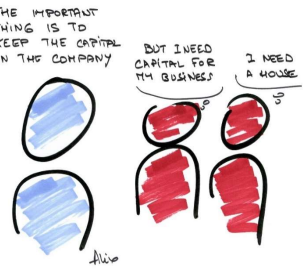
WE MUST ATTRACT NEW INVESTORS AND LOSE CONTROL?





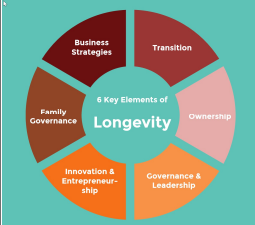
Alice

THE IMPORTANT THING IS TO KEEP THE CAPITAL IN THE COMPANY BUT I NEED CAPITAL FOR MY BUSINESS I NEED A HOUSE



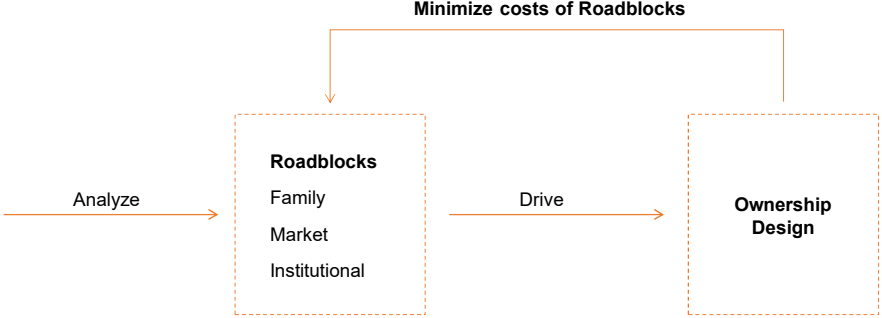
Alice

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The role of Ownership Design

Minimize costs of Roadblocks



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graph LR
    A[Analyze] --> B[Roadblocks  
Family  
Market  
Institutional]
    B -- Drive --> C[Ownership Design]
    D[Minimize costs of Roadblocks] --> B
    D --> C
    
```

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Four Basic Models

Let NATURE decide: harmonious Dilution Flow (Mulliez, Wendel, Thywissen, Solvay)

- Family Role Beyond Management and Ownership
- Family Assets such as Entrepreneurial Spirits, Vision, Name

Pruning The Tree (Henokiens)

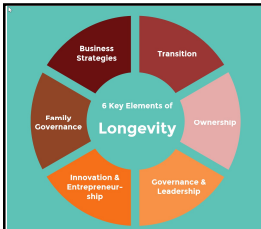
- Consolidating ownership every one or two generations
- Market for family shares
- Unequal Inheritance Models

Committing To The Future (Carlsberg, Tata, Ikea, Maersk, Patagonia)

- Trusts and foundations

Relinquish Family Control

- Going PUBLIC (New York Times, Cadbury, Many Luxury Brands)
- EXIT (Many Luxury Brand Families, Cadbury)

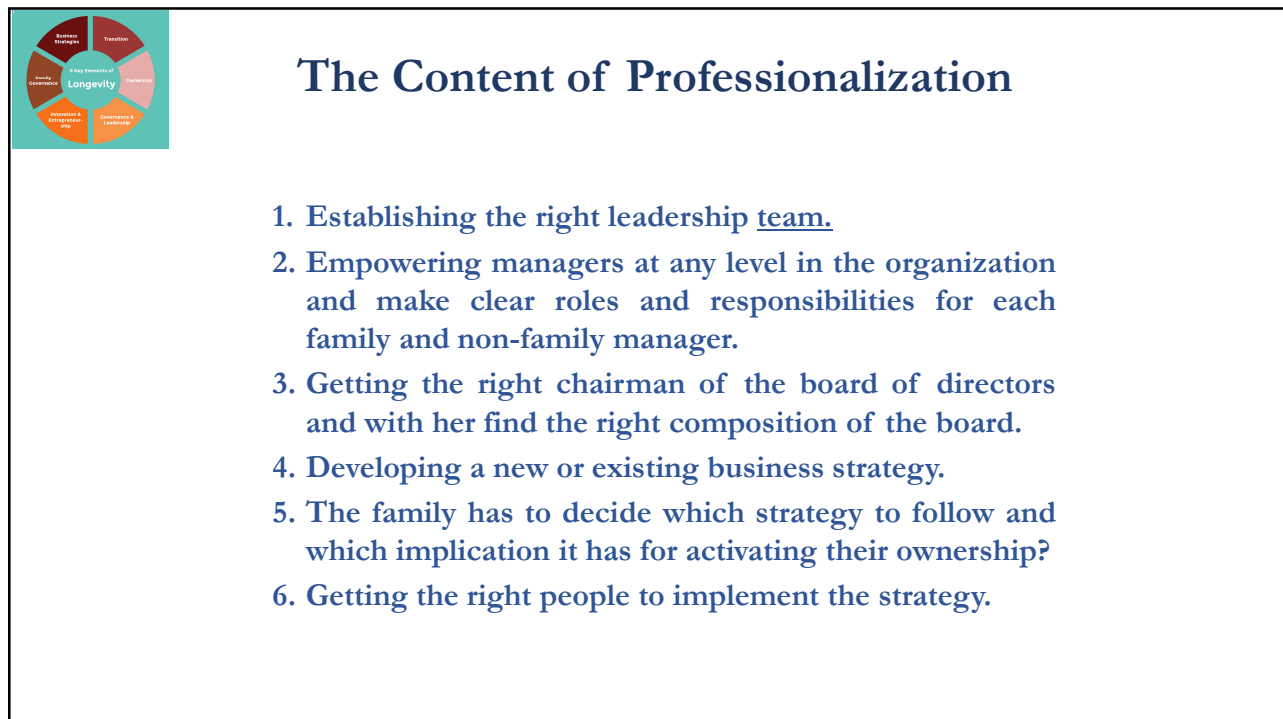


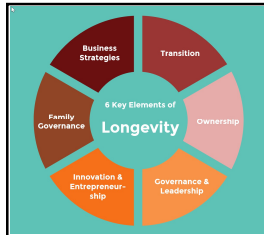
Governance and Leadership

Resilient leadership is to empower and structure management at all levels in the family firm: *It's the process of transferring from a one-man-band to a symphony orchestra!*



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Transition: Structures and incentives that prepare and engage the next generation



Families Adopt Different Models Regarding Family Member's Executive Employment

4 common models	Description
1. Clear separation business and family	<ul style="list-style-type: none"> No family members as executives in the business
2. Selection of future top executives	<ul style="list-style-type: none"> Only highly capable family members who have proven their potential to become leaders outside the family business can join Once they join, they are groomed to become top executives
3. Up or out	<ul style="list-style-type: none"> Entry possible for any family member who meets general company criteria However, the criteria to move up the hierarchy are strictly meritocratic, and those that don't meet the bar are counseled to leave
4. Inclusive	<ul style="list-style-type: none"> Any family member can (or has to !) join the business in an executive position The criteria to be promoted vary and might include "benevolent nepotism" Family members can stay in midlevel positions



CEO succession research Focus: The TRADE OFF

- Human capital may not be sufficiently available within family pools as compared to managerial labor markets.
- Firms that appoint family members may restrain their availability of managerial talent and thus underperform
- The return of a family member to the apex of the company may provide signals of stability to stakeholders and strengthen family assets
- Firms that appoint family member may benefit from better stakeholder support and thus outperform

Key Factor: The presence of strong family assets and managerial talent.

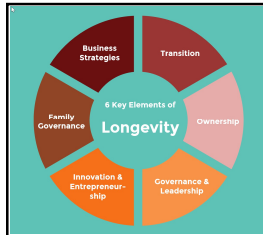


PLACEHOLDER CEOs: HERMÈS

Family assets leverage business strategies
Supported by a change of management in 2010 from
Patrick Thomas to Axel Dumas Hermes

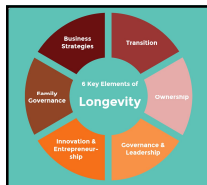


Use of placeholder/interim CEOs are common: Toyota, Tata, Hermès and many other firms



Family Governance: Structures and initiatives aiming at keeping family united, engaged and to minimize family conflicts.

- **Three Generational Asian Generational Gap**
 - Grandparents changed the life of the family
 - Current leaders value creators in deep respect for older generation.
 - Next Generation: International Education, Social Media, Global
- **Hard to communicate between generations.**
- **Next Gen feels split between family and the world outside.**
- **RESULT: Many family conflicts in Asian business families**



The Two Big Next Gen Questions:

Shall I join my family firm and when?

When do my parents leave me the reigns?



WENDEL (300+ OLD) FAMILY INITIATIVES



Responsibility of the board of Wendel Participation and stated in memos.

- a) Questionnaire to all family members
- b) Promoting activities that unit the family
- c) Sponsoring Wendel Center and art museum in Lorraine.
- d) Strong focus on transmitting entrepreneurial values.



The Next Gen Experience: Interviews with 5 next gens from INSEAD MBA program

Source: Forbes India article on LMS and INSEAD KNOWLEDGE Jan23.

Dos and don'ts for your career in a family business

Dos

1. Understand the stakes and smartly play with the tribal codes, traditions and spoken or unspoken rules, while being willing to challenge using the "right" language.
2. Distinguish the value and values that each generation brings or has brought, and play on the strengths of each, while recognising the need to evolve.
3. Communicate to clarify the unspoken and build alignment and trust with all family stakeholders.
4. Understand that there is no absolute correlation between being a family member and being able to make a sound contribution to the business, but look for where you can make one.
5. Recognise that time outside the business will be valuable for experience, perspective and innovation.
6. Consider your tie and contribution to the family both within and outside the "business" aspects.

Don'ts

1. Assume that your belief about "how things happen around here" (i.e. culture) is the only or correct one. Consider the perspectives of other family stakeholders.
2. Make moves that are not inclusive. Expectations will differ, and feeling seen, heard and listened to is crucial for all family stakeholders.
3. Assume that your ideas about the longevity and sustainability of the company are widely held. What motivated your grandmother may not be motivating your father or aunt now.
4. Associate value for the company with blood ties.
5. Leave for a period without establishing the value of so doing and what your eventual return will look like.
6. Leave rifts and misunderstandings undealt with, no matter how painful.



TOOLS:

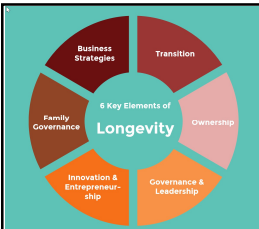
Communication

Fair Process

Family Vision/Charters

Delegate real authority to Next Gen members, test them.

Encourage entrepreneurship within the family



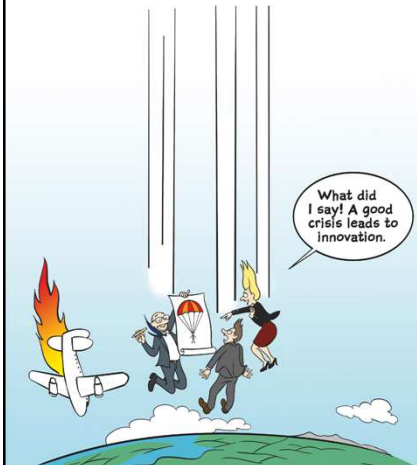
Innovation and Entrepreneurship: Building structures and providing incentives to cope with digitization, disruption and the fourth industrial revolution.

The Paradox:

- The “Public” opinion:
 - Tight control, risk aversion, lengthy CEO tenure, Buddenbrock syndrome ...
 - Does not promote innovation and thinking out of the box!
- The “Facts” :
 - Many family owned and managed companies are impressive innovators!



Survival and regeneration:



- Luis Vuitton: 1977 Henry Racameier New CEO → Vertical integration → Changed the Luxury Industry.



- Li and Fung: Viktor and William came back from Boston in 80s to a family stale mate.



- Wendel from Steel to Investment 1978.



Next Gen and reinvention



- Toyota From Textile to Cars

- Mars and the Mars Bar



