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The Secrets of Family Business Longevity

Clear and well defined family values, trust, networks and innovation are often the bedrock for success in family firms, but designing governance structures to face ownership and succession roadblocks are also essential for longevity.

Family firms are prevalent across the globe; they include many household names like Ford, Mars and Wal-Mart in their number; they span all continents and contribute enormously to the global economy. In the U.S. alone, family owned businesses contribute 57 percent of GDP. And yet, how many are able to say they are over 200 years old and still have a descendent of the founder as the owner or majority shareholder? Even if the answer is yes, are they also in good financial shape and is one or more family members actively involved in the firm's management or governance? If the answer is still yes to all these criteria, then you may be looking at a member of the Henokien Association. Of the 5,500 bicentenary family companies in the world today, 44 are Henokiens.

Three of these families were recently invited to the Family Enterprise Day on INSEAD's Fontainebleau campus and I was able to speak with them to understand what unique family assets they have built their business strategies upon, and what governance initiatives they have installed to reduce the cost of family and business roadblocks. Each has a very different story to tell but long-term planning, strong values, flexibility and innovation are key themes in their stories.

Viellard Migeon & Cie (VMC) is a company which has been located in Eastern France since 1796 and whose specialisation is the transformation of steel. It's a company which, from its earliest days, has felt strongly about keeping production local while having a global vision for the markets it has wanted to serve. Of its 45 factories, half of them are in France and its ethos has always been to invest in its workforce and benefit from the local knowledge of the area. In the past, it has even moved families from U.K. manufacturing areas to France so that specialist knowledge was always available in their French locality. Mr Emmanuel Viellard, Managing Director of VMC, explains, "The closeness of the family to the people, the business, the factories has ensured the firm's longevity and success. It has made us cleverer and faster in the decision-making processes [by being distanced from financial/city influences]."

Its three main manufacturing activities have all focused on added value products derived from steel wire and each business has been built on the closeness to its customers as well its strategy to innovate their product lines. When it comes to growth, however, an interesting approach was taken with the fishing tackle business whereby VMC understood that for it to become global leader of specialised fishing hooks they would have to consider a merger with a Finnish company. In 2000, the merger with Rapala, the world leader in lures, went ahead. At the time VMC were only minority shareholders at 13 percent but their strategy from the outset was clear: to gradually buy back the shares of the [mainly] private equity investors as the term of each PE ownership ended. The result is that VMC-Rapala is now majority owned by the family (45 percent) and the family is able to control the long-term vision of the firm and change the strategy. This flexibility in ownership structure has allowed the firm to become a global player present in 45 countries which would not have been possible otherwise.

The revolution effect

Flexibility in the ownership design of the holding company has also had a key role to play in the longevity of the firm. Mr Viellard describes the necessity to have a "revolution effect" among the 140 family shareholders (out of a potential 1,500 family members) which means that some shareholders have a stronger share base than others, and yet, each family member is expected to take an interest in the long-term strategy of the firm. Outside board members who form the nomination committee for new shareholders also bring commitment from the family and this structure has contributed to overcoming roadblocks in ownership issues.

Dutch courage

The De Kuyper family have been distillers of liqueurs and spirits since 1695. Their approach for mitigating the cost of roadblocks in their 320-year-old history has been to design good governance structures in succession issues. Recent examples include drawing up a family charter and allowing a non-executive supervisory board made up of mainly non-family members to choose the next successor. This outsourced leadership decision-making process has happened with the move away from the classic "father to son" succession model. A set of clear rules have been put in place in order to determine the best candidate to take over the running of the company which may, or may not, be a family member. Rules include requiring the chosen CEO to have worked outside the family firm for five years, to have obtained a certain level of education, and to have exhibited a true interest in the family firm. Bob de Kuyper former CEO, explains that, "The objectivity of the process takes the complicated task away from the parents [who inevitably find it extremely difficult to choose between their children] and helps to keep the family united."

This succession process is currently playing itself out as Bob de Kuyper's son, Marc, is proving himself worthy of succeeding current CEO, the externally appointed CEO Ben van Doesburgh. For five years, Marc is heading up the American subsidiary office of De Kuyper and will still have to go through a tough selection process before he might one day be able to take over the business back in Holland. A lot of uncertainty still hangs over the next succession but one thing is certain: such precision planning has always been a part of the business.

The De Kuyper family has always known that they want to be trading in the niche markets of the alcoholic drinks sector and have kept their focus on liqueurs and cocktails.   As this sector has become globalised, the only change the family firm has made has been to move from local products such as Geneva Gin to international products which appeal to the younger crowd of cocktail drinkers. They have changed their product lines along with the times, just as the Van Eeghen family has demonstrated for the last 350 years in the commodities and food sectors.

Four centuries of strategic change

The Van Eeghen Group is no stranger to change. Founded in 1662, the family firm started its life as a commodity trading company. By the end of the 19th century, the company changed its strategy and moved into niche food markets and has kept that approach up to the present day.

Today, partly specialising in food supplements, they saw an opportunity with the aging global population who were turning to health enhancing products. Constantly looking for new ventures, the company's longevity can be attributed to the unspoken family values of being "entrepreneurial but with a low-risk strategy". As former CEO, Willem Van Eeghen, explains, "Starting a new venture has its risks and the usual way we go about that is we start an activity in an embryonic way by usually putting it under an existing operation and it's then separated from the existing operation when you know it can stand on its own two feet [usually within a year]."

Current Managing Director, Jeroen Van Eeghen, is now re-thinking the company's future strategy with the help of a supervisory board consisting of two family- and two non-family members. Flexibility will undoubtedly be part of the strategy and taking an interest in the increased number of family shareholders' views will have an influence too. Having reduced the voting power of the family foundation from 75 percent to around 40 percent, the family has been given a much greater say in the company's future. Jeroen thinks that, "every different time [period] needs a certain shareholder structure" and that they have currently found the right balance which works on a practical level. Not only did the share offering serve to raise the family commitment to the firm, but it also raised equity for future ventures.

Just as the governance structure has evolved with the times, so has the core business and as it continues to evolve with the effects of globalisation, the company is currently considering where they stand in the value chain. As Willem Van Eeghen explains, "Longevity is not a guarantee, it's something that you really have to fight for and every generation has to do it."

It is remarkable how each of the families have been able to base their business strategies on well-defined family assets and this has allowed for long-term planning based on a commitment to the legacy for the next generation. The family assets are protected and transferred from generation to generation and provide the foundation for future family ownership and management. The families have foreseen the family, business and institutional roadblocks that are bound to arise over time and they are designing efficient governance structures to mitigate the consequences of these challenges.

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