Enduring Firms Transfer Assets and Knowledge Effectively

How family assets such as name and members are managed matters for longevity.

Family business is the lifeblood of the global economy. Two-thirds of global businesses are family-run firms. A third of companies in Standard & Poor's 500 index; 40 percent of the 250 largest companies in France and Germany; in Korea, even **large conglomerates** are family firms. **Japan's business groups** are two-thirds family controlled.

Co-written by Brian Henry, **"The Hénokiens: The Families and Firms Who Made History"** is a case study of 47 family businesses which have been in the same family for more than 200 years, revealing important insights into how such firms have not just survived, but prospered. How they handle important issues, especially family "assets" and succession, is crucial.

Family asset management

Understanding assets is important to all businesses. Family businesses need to identify how their core assets fit with the current economic environment; how they can be transferred to the next generation, and how they can add value to the firm's business strategy.

For our Hénokiens, some family assets are intangible – the family name, a history of survival, values-based leadership, skills and quality.

The Hoshi family, owners of the Hoshi Ryokan since 718, understand that their name is one of the strongest family assets, particularly in Japan which values family-run companies like few other countries. In Japan, the knowledge that a hotel or even a restaurant is operated by the descendants of an established family is enough to put its name ahead of the rest.

This hot spring spa and hotel in the Ishikawa prefecture has been run by the same family for 46 generations. For the current owner of Hoshi Ryokan – as for his ancestors – the family's *raison d'être* is clear, "The Hoshi family's responsibilities are passing on our long history for future generations and to protect our hot spring. That's why we bear with many things and endure it all…To keep Hoshi hot spring and Hoshi Ryokan running, our young daughter is the right person to do it," said "Zengoro" Hoshi (46th generation).

A long-heralded name is important, as is the instinct of survival. The jeweller Mellerio dits Meller was created by the Mellerio family in Paris in 1613. As a family business that has survived multiple French revolutions and multiple invasions, one of their strongest assets is their understanding of which way the wind is blowing and when it's time to take flight. As jewellers to royalty, they lost one of their most loyal clients, Marie Antoinette, in the French Revolution of 1789. The Mellerio wisely escaped from Paris and worked for a well-known Milanese jeweller. France later became an Empire and the first wife of Napoleon, Joséphine, inspired the Mellerio family to return to France, briefly. In 1848, after another French revolution, they went to Spain and continue to be well known amongst the Spanish royalty of today. The Mellerio family are back in Paris, not far from the Place Vendome.

Belgium's Pollet (1763) is a Hénokien that has stayed in the same location but has reinvented itself three times since its inception 253 years ago. During World War I, when they were soap manufacturers, they learned that their factory would be bombed by Germany to prevent glycerine (important in soap and bomb making) from falling into the hands of would-be bomb makers. The owner of the company decided to close the factory down rather than let it become a possible target, yet he kept his workers on. This values-based leadership, focused on the commitment to the area, is another family asset. The workers and their families never forgot what the Pollet business did for them, and this loyalty has helped to differentiate the firm from its larger rivals.

Smoothing succession

Without a succession plan, however, the family assets are left to flounder. The Hénokien families have passed their business on at least five times. How they did it came down to sticking to what was most important to them.

The Hoshi family succession model is primogeniture, whereby the first-born son inherits. The eldest son of the current owner (Zengoro) is first in line to take over the Hoshi Ryokan. If he declines or is not capable, and no other son is available, the position is offered to a daughter's husband, who is adopted by the family, taking the Hoshi name, leaving his own family behind. Adoption is a culturally respected way to ensure the family business endures.

If there are no children, a successor is adopted into the family and takes over the ryokan. Ownership and management is given exclusively to one person; other children are not involved in succession. However, the primogeniture model is increasingly under pressure in Japan as more and more long-lived family firms are making exceptions.

The current Zengoro is Hajime Hoshi, of the 46th generation. His eldest son, who had been working at the ryokan, preparing to succeed his father, passed away in 2013. His death deeply impacted the career path of Hajime's youngest daughter, Hisae, a university graduate who had been working in a doctor's office. Following the death of her brother, Hisae gradually took over many of the management responsibilities at the hotel. Hisae has not yet married, but when and if she does her husband could become the 47th Zengoro. Her parents would like her to continue the 1,300-year-old family tradition of running the Hoshi Ryokan. Perhaps Hisae will become its first female Zengoro.

Related to succession, ownership design allows families to balance the need for growth and control in their business ventures by creating control-enhancing mechanisms. Flexibility in ownership design is another lesson from the Hénokiens.

Ownership of the Van Eeghan Group (1662), a food company, which prior to World War II consisted of a family partnership with a varying number of partners over time. After the war, it set up a new holding company in which the family owned 100 percent of the shares of the operating companies of Van Eeghen & Co B.V., then issued shares to family members. They also created a charitable foundation which holds shares of the family holding company, managed by a board of directors of family members who are not necessarily shareholders. The foundation derives income from donations and dividends originating from the shares it owns in the holding company. Over time, as non-shareholding family members passed away, naming the foundation as beneficiary of their assets, this foundation had more assets – and shares – than the family shareholders.

This imbalance weighed heavily on the family leaders, and some began to feel less committed to the business. In 2013, new CEO Jeroen van Eeghen decided to rethink the succession planning at the beginning of his tenure. A new structure was drawn up in which the family had a stronger voice. New shares were issued, diluting the foundation's shareholding. In addition, a new class of shares was introduced offering more voting power to family shareholders.

Lessons of longevity

Gerard Lipovitch, secretary of the **Hénokiens** since 1995, says the firms are different but there are certain things they share: values; their approach to management; relationships with people or a region; and fidelity to their country or region. The Hénokiens have a "combination between behaviour and humanism which is so particular to these family companies. They are not only looking on a return on investment but also at relationships. The other important value is the company is more important than the owner of the company. The owners are there to pass the company on to the next generation. They don't want to squeeze the company and take the maximum profit for themselves; they want to leave it in better shape."

"In family companies, relationships are so very important," Willem van Eeghen, the President of the

Hénokiens said, reminding us that the way that trust is weaved throughout a family enterprise and across generations is what sustains its customers and therefore its longevity.

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