INSEAD Professor Randel Carlock talks to Knowledge editor Stuart Pallister about succession and stewardship in family businesses.

Stewardship: it’s a seemingly old-fashioned term, thought to have been first used in the 15th century, and, at first sight, maybe somewhat obsolete in today’s business world of quarterly profits and shareholder value.

But although it’s a centuries-old term, it may still resonate today, particularly with family businesses.

It’s all about leaving your business in a better condition than you inherited it, says Randel Carlock, Berghmans Lhoist Chaired Professor of Entrepreneurial Leadership at INSEAD. “We see stewardship as one of the best practices of successful family businesses because it gives them something to focus on and think about larger than just making more money.”

It’s about the family legacy, its emotional connections and it may even have a spiritual element, Carlock says. “Why are we on this earth? A family that thinks in terms of stewardship can answer some of these bigger questions rather than just what’s the economic return.”

According to Carlock, stewardship’s an overriding value in high-performing family businesses. It’s all about the long term rather than the next set of quarterly results, business leaders thinking in terms of decades rather than months or years, the family business – or entrepreneurial family team – sharing values and a vision of the firm’s direction. This, says Carlock, is key to the growth of the family enterprise and ownership continuity.

“Family values are a powerful competitive advantage for family businesses simply because, if I’m competing against a widely-traded company with a million shareholders, it potentially has hundreds of thousands of different goals and expectations. If I’m with my family and we’ve taken the time to talk about what values are important to us and how those values shape our vision, then we’ve accomplished 50 per cent of the strategic planning process already. But on top of that, we have focus. We have a clear idea and we are all going to the same place. So values and vision are really a distinctive competence of family businesses if it’s done right.”
In a new book, 'When Family Businesses are Best', Carlock and his co-author John L. Ward note that stewardship in family businesses can take many forms, including:

- using family values as the basis for planning and action
- teaching children about the responsibilities of wealth
- ensuring the business has the resources to grow
- planning for ownership transitions
- contributing family talent and resources to philanthropy

As for the recommendation to teach children about the responsibilities of wealth, Carlock says family members have to be prepared for their role in a family-controlled company. “You have to educate them about the family business and then about the values that drive your family.”

“We argue ... that family businesses that think about stewardship have a competitive advantage. That long-term perspective thinking – in terms of five years or ten years, not one quarter or one year – that alone gives you a huge investment opportunity.”

Succession can be a major headache for many business leaders, whether you’re the Sage of Omaha or in charge of a small business. For family businesses, there’s the added complication of trying to find someone within the family who would be capable of taking over the reins.

“Family businesses face a double challenge because the succession process not only involves the business, but it also involves the family leadership.”

Warren Buffet has waited a long time to find the right person, says Carlock. Then there will be the grooming and leadership responsibility. “We’re seeing this as a key success in the family businesses because they have built in succession with their next generation of young people.”

Many family businesses though struggle to pass on the business to the next generation. Traditionally in Asia, this means the first-born son.

“That was the model, the Confucian model based on respect and hierarchy. But it won’t be the model in the rest of the 21st century, simply because these powerful entrepreneurs have sent their children to places like INSEAD and they’ve learned about merit and developing talent and accountability.”

The game is changing – from one individual being in control to a more team-oriented approach, with the family getting involved. “Ideas like strategy and developing talent and governance become important themes that the entrepreneur didn’t have to worry about. To them it was just a part of their life.”

The big challenge for family businesses whether in Asia, South America, Europe or the Middle East, Carlock says, involves dealing with the emotional aspects of family life. “Families are about emotions, they’re about feeling, they’re about caring. And businesses are about economics and performance. And quite honestly, these two pieces don’t go that well together.”

“We have to think very carefully about how these families can plan and strategise so that these transitions are successful and the businesses continue to grow.”

Carlock argues that the 21st century will usher in a new era of global opportunity, particularly for family businesses, in part because family enterprises are able to combine professional practices with an emotional commitment which cannot be matched by publicly-listed companies. He goes on to suggest that the best family businesses “outperform” their listed competitors because “they plan and govern based on analyses and logic, but lead based on passion and personal motivation.”

When asked to elaborate, Carlock points to research in the Journal of Finance which compared
the performances of family-controlled firms in the S&P 500 with their non-family counterparts. The family firms performed better.

“Professional management is important to all businesses. But what we find in the 21st century – and this is bigger than the family businesses, this is part of our thinking from our global leadership centre here at INSEAD – is that leadership is the difference in a successful organisation. It's the quality, the passion and the motivation which you inspire in your people. And family businesses have that opportunity because of what they stand for.”

“If a family can have professional practices like a good board of directors, like clear family agreements, but also have the passion about what this business means and what this business can be, then that is the best possible combination.”

Professor Carlock has co-authored a new book with John L. Ward called ‘When Family Businesses are Best: The Parallel Planning Process for Family Harmony and Business Success’. The book is published by Palgrave Macmillan.

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