Trouble at the family mill?

By Nicholas Bray

Family-owned companies need to be run with emotional, as well as professional leadership, experts say. That's one area where senior family members often have a crucial role to play.

Two of your fellow-shareholders in the family business are fighting over strategy. They're your cousins, and their dispute threatens the firm's commercial prospects. It's a common enough situation and if left to fester it can turn to disaster. What can you do? Call in the CEO.

No, not the chief executive. The CEO you want is the Chief Emotional Officer. It's not yet a title that you'll find on corporate rosters, but it's a concept that is gaining currency among family-owned companies and those that advise them. In a family-owned firm, says Randel S. Carlock, the Berghmans Lhoist Chaired Professor in Entrepreneurial Leadership and Founding Director of the Wendel International Centre for Family Enterprise at INSEAD, emotions can run high and family managers need to know how to handle them.

It's not just a question of emotional literacy. What's at stake here is what Carlock calls emotional professionalism. "The family has to plan for the business, like all businesses, but they have to plan equally well for the family: things like participation, developing the ownership, a good board of directors, a good family counsel." Successfully meeting this challenge is important, not just for family businesses, but for the economy at large.

Family-controlled businesses are everywhere, from retailing and banking to fashion and fast cars. Research shows that they often outperform public companies on key dimensions such as stock price and return on equity. More important still, in today's dicey economic climate, family businesses can be valuable poles of stability for employment and productive investment. That's because, in many cases, their owners see themselves - and their heirs - as in business for the long-term.

For a family business owner, says Olivier de Richoufftz, who as the executive director of the Family Business Network organises and coordinates a worldwide network of 4000 family business leaders in more than 55 countries, "the business represents everything: not only their patrimony, their wealth, but very often the name of the family, the brand."

For that reason, he explains, "They probably have a greater sense of responsibility toward their employees, toward society. They don't only act as an entrepreneur, but as people who play a role in society and in the economy."

In France, more than half of the 250 largest public companies are controlled by families. So are most of the public companies in China, Hong Kong and Singapore. In Germany, the role of Mittelstand companies as the backbone of the nation's economy is well-known. In Italy, family companies have underpinned the prosperity of cities like Brescia and Bergamo.

In the United States, big names like Walmart, Target and Ford owe their origins to family enterprise. In Britain, according to a 2008 report published by the Institute for Family Business, family firms provide employment for 9.5 million people, accounting for an estimated 38 percent of turnover and 42 percent of jobs in the private sector, In Australia, one out of every 10 family-owned companies has a turnover of more than AUS$ 50 million a year.

In some ways, this preponderance of family companies is normal. Most businesses, after all, start out as the gleam in the eye of an individual entrepreneur. But there are many challenges along the way, particularly when it comes to passing on ownership from second to third and fourth generations. Typically, according to Carlock, family firms have sound business strategies but neglect planning for the family - until they are forced to confront it because of a conflict between family members.

Who should lead the business into the future?

What are the rights and responsibilities of a family shareholder? Only if family members share clear agreements on issues such as employment and long-term investment can consistency, rather than personalities, drive continued success.

Deepak Gupta (MBA ‘93) is one third-generation executive of a privately-held family business who is determined to ensure an effective succession plan. He is chairman of the Romav Group – a Singapore-based conglomerate of a half-dozen businesses in shipping, real estate and private equity, in which some 10 Gupta family members play an active role.

“Typically the third generation destroys the business,” says Gupta, who is already grooming his own young children to take the helm. “I’m not ‘grooming’ them as the older generation did that,” he says, referring to his school holidays spent in the office with the family. “They get exposed to the business so they can make their choices.”

As contrary models, there are plenty of examples out there of companies whose family owners failed to maximise their heritage. One was Dow Jones & Co., the publisher of The Wall Street Journal, that was controlled for most of the 20th century by the Bancroft family. In contrast to earlier generations, the younger Bancrofts were for the most part remote, upholding their forebears' commitment to journalistic excellence but delegating management to non-family members and largely contenting themselves with taking dividends. By the mid-2000s, a succession of ill-fated management moves combined with the woes affecting the U.S. newspaper industry had weakened the company to the point where it became a takeover prey. In 2007, an entrepreneur with a very different approach to journalism, Rupert Murdoch, seized the initiative by offering a generous premium for its flagging shares. After months of discussion over the direction that the firm might take under such an aggressive new owner, the family members swallowed their misgivings and sold out.

But there are also firms that have known how to tackle family challenges constructively and at the same time maintain their traditions of corporate responsibility and community giving. Take the Wates Group, one of Britain's largest construction firms, founded in 1897 by Edward Wates and his three brothers and under family control ever since.

Like many family firms, Wates faced a leadership crisis in the early 2000s as the five senior family leaders and owners came close to retirement. While younger family members worked in the company, none had served in senior management or at board level. As the first step in a three-stage transition process, the family met to discuss their vision for the company and agreed on the need to bring in outside management talent. They then worked together to review individual family members' potential and ambitions, crafting individual development plans for family members that wanted to stay with the company. Finally, they restructured the ownership, enabling family members who wanted to pursue alternative avenues to cash in their holdings.

Today, under former ICI executive Paul Drechsler as chairman and CEO, the company is proud to proclaim the maintenance of its corporate values of commitment to community, staff and customers, backed by an order book in which 80 percent of business comes from existing customers. "We have a family 100 percent committed to this company, today and in the longer term," says Drechsler, who in 2004 became the first non-family member to hold a senior management position in the firm.

If what's good for companies like Wates is good for the community, the secret of such success lies in the readiness of family owners to devote time to managing the family relationship. Says Carlock, whose cutting-edge research has focused on such families as the Bancrofts and the Wates, "The Wates family is a model of parallel planning for family businesses. The first 100 years they focused on the business, now they are thinking strategically about both the family and the business." Carlock offers the following quote from Andrew Wates, former Chief Executive: "We are at the beginning of our family, journey today, not at the end of it."

When a business goes into the transition from one generation to another, success or failure lies 80 percent on "soft factors" and only 20 percent on "hard factors"," says de Richoufftz. "The family businesses doing it best are the ones who find the right balance between the family influence and the business influence.”

That’s where emotional professionalism comes into its own. ”There are very good managers out there,” says de Richoufftz, “but the one who can manage the emotional dimension has to be a family business member: the one we call the CEO, the Chief Emotional Officer.”

Gupta concurs. “The business doesn’t stop in the office,” he says. “You need to be able to handle the overlap between your business and personal life, and you’ve got to have physical stamina to be able to handle the high levels of stress that comes with all that. It takes a high level of emotional maturity.”

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