



## Long-Lasting Family Firms Transform in Times of Hardship



By Morten Bennedsen , INSEAD Professor of Economics and Political Science

### **Firms that span generations are characterised by a willingness to change.**

Although family business is important to the global economy, there is a misperception that family firms stubbornly hold fast to their values and traditions, making them stuffy, entrenched and unwilling to change. But not when that tradition is one of innovation and transformation in times of uncertainty. Family firms that span centuries, such as the **Hénokiens** – firms that have been in a family for 200 years or more – have often had to change completely to adapt.

In a **unique case study** on the Hénokiens, Brian Henry and I found that prominent and long-lasting family firms prosper by developing new and innovative ideas to stay contemporary and overcome major roadblocks brought about by succession challenges, political developments and changes

to the economic climate that they operate in.

Some companies have changed completely over the years. There are two Hénokien members that started as coopers – barrel makers – but in their current incarnations one is a drinks maker (De Kuyper Royal Distillers - 1695) and the other a supplier of luxury aircraft interiors (Catherineau - 1750). Entrepreneurship flows through the DNA of the Hénokiens, which brings an ability to adapt and transform.

At this year's **Family Enterprise Day** at INSEAD's Europe campus in Fontainebleau, Hénokien families shared insights about their companies' stories and how they steered their businesses through times of enormous change.

## **Roadblocks**

Although each family business has its own idiosyncratic story, there are issues that unite the Hénokiens. Individual companies have endured family issues, revolutions, tax problems but they have all surmounted roadblocks with long-term leadership. There are three main types of roadblocks that face all family businesses: family roadblocks, generally related to succession; market roadblocks, in which the economic climate changes drastically for a family firm; and institutional roadblocks stemming from governments, regulatory issues or taxes.

Adaptation is mandatory in long-lived family businesses. Christoph Kochert, of AE Kochert jewellers (1814), was in his 20s when he unexpectedly took over the family business, after the death of his father. His uncle also died young and Christoph and his cousin were thrown into partnership in the Viennese jewellery shop. He said, "We did not choose each other. The first years were tough and we had a 'who is the really important guy?' competition. The good thing with us was that we did talk. Every week we would talk for hours...Like a good marriage, you have to talk."

Family issues are not the only concerns for long-lasting businesses. For more than 400 years, Toraya (1600) in Japan had no problems finding customers for their *wagashi*, a special confectionary made from rice and azuki red bean paste. But the company knew global expansion was its only logical next step. Finding a global market for *wagashi* presented a major obstacle for the Kurokawa family.

Mitsutomo Kurokawa (16<sup>th</sup> generation) opened a tea shop serving *wagashi* in Paris in 1980 but it would take 15 years and several iterations of “westernised” *wagashi* before Europeans flocked to the shop. The roadblock was taste and the solution was finding the right mix of chocolate, fruit and traditional ingredients for Toraya’s European customers. After many experiments, the patience of the family paid off in the long run.

Long-term planning by family business helps them to identify challenges, plan future changes and decide what to cultivate into the next generation.

### **The innovation paradox**

*"Tradition means innovating. We have 380 years of tradition because we have innovated continuously," said Haruhiko Okura of Gekkeikan (1637).*

The Hénokiens exemplify three key enablers in innovation: family assets, survival and keeping the next generation interested.

After their primary foray into barrel making, the De Kuypers discovered that what went into barrels was more profitable and turned to the liquor industry. The challenge they faced was adapting to markets – their primary market in the 19<sup>th</sup> century was the U.K. and British colonies. Napoleon then abolished trade with Britain overnight; in one fell swoop their market was wiped out because the firm was 100 percent export, they did not sell any product in the Netherlands. The owner downsized the company until trade was free again. Another roadblock that turned into an opportunity for the De Kuyper firm was when Prohibition in the U.S. and Canada in the 1920s closed their main markets the firm introduced their products to the Dutch drinks market after 200 years of exporting only. Survival meant looking at their homeland as a market for the first time.

VMC is a company that started in nuts and bolts but has expanded greatly, through acquisition as well as innovation. Their expertise in metallurgy was exemplified by the invention of an automated process to make the famous treble hook, by a VMC Pêche worker in 1970. Even 40 years after its conception, the treble-hook machine is an integral part of the company’s competitive advantage and the invention remains a company secret. VMC later acquired a major Finnish brand and are now the global market leader in fishing lures. Innovation doesn’t stop there. Again, through the strategy of acquisition as well as nurturing in-house original ideas, the nuts and bolts company is now expanding into aerospace, medical, automotive and

cosmetics arms.

## **Moving from guns to binoculars**

Fabbrica D'Armi Pietro Beretta S.p.A. was founded in 1526, by Bartolomeo Beretta who delivered 185 gun barrels to the Republic of Venice. Throughout its history, the Beretta family have built up their unique assets in a business currently run by two brothers, Pietro and Franco Gussalli Beretta (15<sup>th</sup> generation). The family-owned firm produces weapons of all sizes and shapes for military and police worldwide. Innovation is absolutely essential in their business. Strategically, Beretta decided to diversify and broaden its portfolio of products in the relevant “non-firearms” sector. In 2002, Beretta acquired a company to help develop its fast-growing electro-optics division. In 2008, Steiner, the innovative German maker of the first pocket-sized binoculars, was acquired. Beretta is now investing in night-vision goggles as well.

## **Guardians**

Studying the Hénokiens, one can see them as the guardians or as the guarantors of long-term leadership and adaptability. Family assets such as name and values cannot be underestimated when they are meticulously enforced by a willingness to adapt. It is this willingness to change that characterises family enterprises that span generations. Having the patience to experiment is also key to survival, something firms everywhere would do well to take note.

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