Integrating family and firm

by Hans Hinterhuber

The challenge of leading family firms is arguably greater in Europe than it is in the United States.

The family business is a complex system comprising two interdependent sub-systems: the company with its economic logic and organisational rationality on the one hand, and the family with its values, traditions and emotional relationships between members on the other. My research (see yellow box opposite) shows that the more turbulent the environment, the more the international competitiveness of the family company is tied to effective connection between these two sub-systems. Integrating family and business into a forward looking and dynamic unit is therefore the leadership challenge for this type of enterprise.

According to Joseph A. Schumpeter, the famous Austrian economist, family entrepreneurs are trained to work for the future. His or her objective is long-term survival and the growth of the family firm. In order to achieve this goal, the family company must earn a profit greater than its capital cost, or to put it another way the economic value added must be above average.

The power base of European family companies is generally larger and more complex than in the United States. Family companies in Europe have to be accepted by their employees, by the trade union, by the region and by public opinion. The underlying legitimacy required in Europe is fundamentally different.

Leaders in family companies in Europe must not only be alert to new opportunities and have the capacity to profit from them, they must also be able to negotiate with and inspire many stakeholders, and to enable family members and managers to work enthusiastically towards their common goal.

Tasks not to delegate

The task of the family entrepreneur is more difficult than that of his counterpart in the firm with anonymous shareholders. He has to lead a family and manage a business and he has to develop and implement a family and a business strategy. According to our research the responsibility of leaders in family businesses revolves round three pillars (Figure 1).

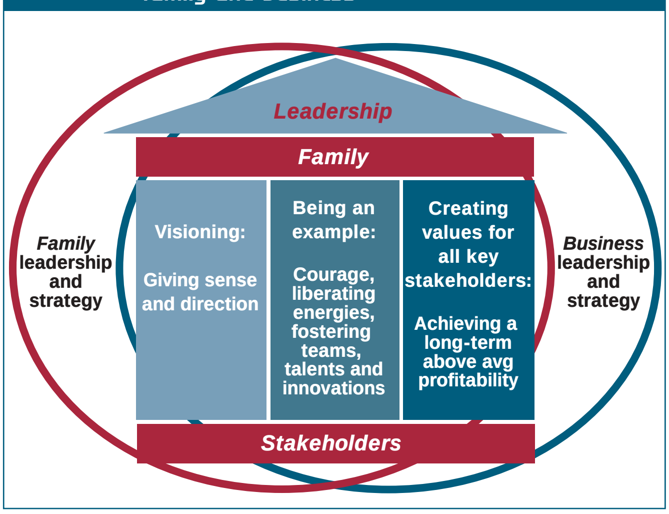
First of all, the family entrepreneur has to develop a vision and to embed it in the hearts of family members and business managers alike. The vision is not a goal, it is the manifestation of an inspiring, energising and meaningful route which is envisaged for the firm. The vision of Swarovski, for example, Austrian-based world leader in crystal jewellery stones, objects, and crystal components, is enjoyment and fascination through crystal. That vision, shared by the majority of the fourth and fifth generation of the family, is now concentrating minds on whether the company should focus on its core business and divest all unrelated businesses. The vision of Barilla, meanwhile, undisputed global leader of pasta and baked products, is to spread the Italian style of nutrition all over the world. Note that family companies often try to serve a socially relevant purpose (which is reflected in their vision).

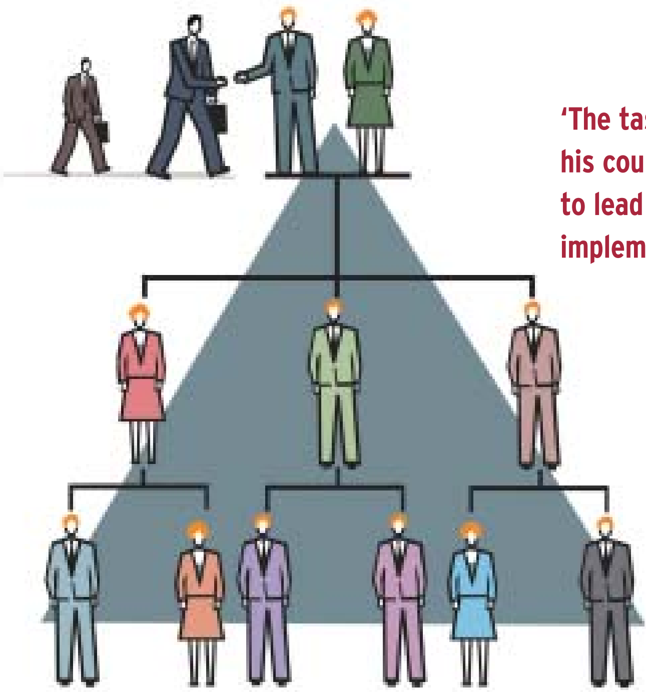
Secondly, the family entrepreneur has to be an example, not just for family members but for all employees. Ingvar Kamprad, founder and CEO of IKEA, and A.H. Feizlmayr, founder and CEO, ILF group of worldwide-operating consulting engineers, both fly economy class; they take the view that they could not claim to be responsible economic ‘stewards’ of the company if they did not practice what they preach.

Great family entrepreneurs are always great personalities. They seldom follow management fashion. Renato Soru, founder and CEO of the leading European provider of internet services Tiscali, has been criticised for not being the market leader in any country, not even in Italy; yet he counters with the convincing, some would say unimpeachable, argument that his company has achieved an above average return for years. Outstanding family companies like Swarovski, Pirelli, Benetton, Henkel, and Voith take pride in delighting customers and engaging employees, knowing that a high cash flow will result.

Thirdly, successful family entrepreneurs have to be stakeholder oriented. They should not give family members special privileges, rather preferring to help their customers become even more competitive with products and services they are proud of, and feeling socially responsible towards their employees and partners in the regional community. The Kober brothers, managing directors of AL-KO Kober, market leader in the area of vehicle technology, gardening, and ventilation technology, Martin Viessmann, managing director of the Viessmann Group, one of the most important manufacturers of heating technology products, and Rudolf Miele,

Figure 1: Integrating two subsystems – family and business





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Keeping it in the family

The Department of Management, University of Innsbruck, is conducting a massive in-depth study of family-owned enterprises in Europe. The focus of the research is the companies in their fourth and fifth generation who excelled at turning family member's talent and wisdom into long-term top performance. The sample size is about 40 family enterprises in Austria, Germany, Italy, and Switzerland.

third generation CEO of Miele, leader in manufacturing premium household appliances, are all renowned for social engagement of this kind.

Selecting the right managers

Perhaps the most important leadership responsibility of the family entrepreneur, however, is to select senior executives who will feel committed to the family and who will behave as if they were owners of the firm. This kind of senior executive, according to Alfred Schindler, managing director of the Swiss-based market leader of elevators and escalators, seems to have disappeared in publicly quoted companies. Greed, megalomania and power seem to be the dominant traits of many of today's top executives. No worthwhile entrepreneur, continues Schindler, would think of taking measures to artificially boost the share price merely to enrich himself through an increase in the value of his share options. His solution is to give managing directors and senior executives shares which are financed by the company itself. In this way the debt burden induces them to operate in the interests of the company and its owners.

Family dissent – the greatest enemy

The greatest enemy of the family company is controversy among family members about the future. "Peace nourishes, discord destroys", is how Carl Miele puts it. After a 15-year family quarrel, for example, the German cake and biscuit manufacturer Bahlsen is to be split into two companies with all the disruption that entails. The difficulties of Fiat are compounded by dissension in the Agnelli family. Consider Romano Prodi's thesis: "It is not possible to be at the same time stupid and rich for more than two generations."

Outstanding family entrepreneurs such as August Oetker (fourth generation head of Oetker), Reinhard Mohn (CEO and proprietor of Bertelsmann), Helmut Rothenberger (CEO of Rothenberger AG, one of the world-leading firms in premium pipe tools and machines) and Marco Tronchetti Provera of Pirelli add value not only for all key stakeholders. They administer and increase their private wealth in the same professional way that they lead their family companies into the future. This gives them greater discretion in handling problems arising from the succession of generations.

Tolstoy says that all happy families are similar. Family companies which have prospered over 15 generations such as Beretta, the world leader of guns, or Grassmayr, the leading European bell founder, follow a coherent family and business strategy. The family strategy aims to maintain a harmonious relationship between family members: this is achieved by executive development programmes for high-performing family members, clear policies for their careers in the company, assistance for family members starting and growing their own companies or finding their own way in their lives, and offering fresh opportunities for those retiring. In selecting their managers, the best family companies follow the principle: A players attract A players, B players attract C players.

High-performing family companies know, according to Horst Albach, the German economist, that customers are like Schopenhauer's porcupines: they come as close to customers as necessary in order to prevent competitors dealing with them yet keep sufficient distance to control effectively the cost of customer delight.

Consider finally the principles of Walther Rathenau, entrepreneur and statesman, son of the founder of AEG. Family companies, he says, must be led in an enlightened monarchic way; teams seldom work badly but in the best case their performance is only mediocre; profit maximisation should not be the prime objective, rather it is long-term survival and the supply of benefits to Society. The prerequisite for achieving this goal, of course, is above average profitability.

References

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