

How to lead your family business out of the crisis



Professor **Randel Carlock**, INSEAD's Berghmans Lhoist chaired professor in Entrepreneurial Leadership and director, Wendel International Centre for Family Enterprise, outlines strategies to help your family business through the current storm.

In recent months many firms have laid off employees, shelved growth plans and cut budgets as the recession and general pessimism continues to afflict the business world. Amid the deepest and most widespread economic downturn for more than 50 years, international trade is forecast to fall by more than 13% and world economic activity to shrink by 2.7%, according to Paris-based body the Organisation for Economic Co-operation and Development (OECD).

Family-owned companies have suffered along with everyone else, but they have an inherent competitive advantage that can be leveraged to ensure they survive and prosper despite the poor business and financial climate. This advantage encompasses the well-documented benefits of committed owners, a long-term strategy, industry knowledge accumulated over generations and values such as trust, stewardship and longevity. However, such characteristics on their own do not ensure survival or success. More than

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at any other time, this crisis demands confident leadership and a focus on the competitive advantages created by family ownership and control. The following ideas should help you identify opportunities for improving your family and business leadership.

1. TAKE THE TOUGH DECISIONS

Management's decisiveness is a critical success factor in any organisation's ability to deal with threats and give the employees a sense of purpose and safety. Nowhere is management more second-guessed than in making the tough decisions about closing businesses or divisions, delaying new initiatives, cost cutting or layoffs. Unfortunately management teams often fail to make the tough decisions and instead opt for a process that could best be described as a "death of a thousand cuts." The best recent example is General Motors who, for years, had too many brands and models compared to competitors such as Volkswagen and Toyota. Everyone knew that the right strategy was to close the smaller divisions such as Buick and Pontiac and concentrate resources on the Chevrolet and Cadillac brands, but it never happened. GM, which was the largest corporation in the world, is now bankrupt and has been delisted from the New York Stock Exchange.

During a crisis, management needs to monitor results so that they are ready to take decisions on critical priorities such as controlling assets (cash, inventories and receivables). Sam Walton, founder of Wal-Mart, had a hands-on approach to monitoring his stores competitiveness that allowed him to take immediate corrective action.

Sam would ride with the Wal-Mart delivery trucks taking goods to his stores but before arriving at his store he would first stop to check the local competitor's prices. After checking the competitor's prices he knew if his store manager was beating the competition. When pricing deficiencies were found Wal-Mart prices were changed that morning to ensure their price leadership position was maintained.

2. MANAGE RISK AND CONTINGENCIES

Managing risk requires increased attention to financial planning so your firm can continue to exploit its opportunities and strengthen its competitive position. Effective financial management in a crisis demands an aggressive business strategy combined with a shift in focus from growth and the bottom line (P & L) to the balance sheet and cash, debt, inventories and receivables. This financial focus demands considering the impact of different performance scenarios on long-term liquidity and debt.

Pernod Ricard, the French spirits and wine group, is a good example of a market leading family business that is working to balance an aggressive growth strategy with a solid financial structure. Last year the group had the opportunity to acquire Absolut vodka, a world-leading brand, for €9 billion. After the purchase was completed the next action was to complete a €1 billion rights offering to cover the group's

financing needs until July 2013. Business risk can never be eliminated but Pernod Ricard is protected if business and credit conditions remained severely impaired. Most important their strengthened financial position ensures that they can weather the recession and still exploit the opportunities created by their acquisition.

3. SHARE INFORMATION AND COMMUNICATE

Communication during a crisis serves two valuable purposes, first to inform and second to motivate. Engaged and well-informed employees and shareholders are more willing to make sacrifices that contribute to the business' future success. Listening to people's concerns and fears and allowing them to contribute ideas to creating a new vision for the family business is an important tool for strengthening long-term relationships and building commitment.

Communication in business families can be a logistics nightmare because of growing numbers of shareholders, multiple generations and increased mobility. Maintaining the family's connection is one of the goals of Younited, a web-based multimedia platform that enables business families to use technology to share information and collaborate more effectively. The real benefit is creating cost-effective ways for family members to connect person-to-person to learn more about each other, the business and their family.

Edouard Janssen, one of the founders of Younited and a member of the 3000 plus Solvay family, jokingly calls it: "The secured family-centric Wikipedia/Facebook for business families." If he is right this tool is ideal for reaching the younger generation of a business family who may have

limited business interest but are strongly motivated by the chance to be a part of a social network.

4. PRACTICE EFFECTIVE FAMILY AND BUSINESS GOVERNANCE

If there is one thing the last ten years should have taught all of us it is that businesses need stronger governance processes that focus on leadership, accountability and performance. Effective governance is critical because family ownership shields non-performing management from the market pressures facing publicly-traded companies. If family governance is not effective then there are no forces to counterbalance management and the business can suffer from the owners' complacency. The consequences of limited accountability are missed opportunities and a loss of shareholder value.

The Dow Jones, owned by the Bancroft, family is a good example of ineffective family ownership and governance. While their entrepreneurial ancestors created financial journalism over a hundred years ago, the family's commitment to sound governance and active ownership has faded. For the last 30 years they have taken a very hands-off approach, basically delegating control of the company to management. Unfortunately the management was comprised of journalists and their focus was not on strategy or expanding the business. After the Dow Jones was sold to Rupert Murdoch a

"Managing risk requires increased attention to financial planning"

Bancroft family member observed: "That had things been run differently [Dow Jones], we might own a \$50 billion business today not a \$5 billion business."

Family business governance requires two basic elements. First, a capable family ownership group who is willing to constructively demand sound business strategies and long-term value creation and second, a board with a diverse membership that represents all the stakeholders' interests. Cargill, the world's largest agribusiness company, has used a strong board comprised of family members working alongside independent and employee directors as a foundation for their successful governance model. Kenneth Dayton, a member of the Dayton family and the founder of the Target Stores, described effective governance as a partnership between the board and the CEO with great boards supporting great CEOs. I would expand on this to say that effective governance also requires great owners.

5. DEMONSTRATE VALUES AND STEWARDSHIP

Family businesses are driven by values and relationships that reflect long-term commitments to their stakeholders and communities. During times of stress family members and employees need enacted demonstrations of the family's values to create a sense of stability. Continued support of philanthropy is a tangible example of a values driven organisation. It is easy to justify cutting charitable activities in the current environment but unfortunately this is when the needs of the communities we serve are at their greatest.

The Tsao family from Singapore and the Chen family from Hong Kong are engaging heavily in philanthropy by moving forward with important projects despite the current economic conditions. The Tsao family is leading the development of a new Family Business Network chapter for Asia Pacific and the Chen Yet-Sen Family Foundation is rolling out its Adaptive Eyewear programme to correct the vision of the entire nation of Rwanda. As James Chen says: "Beyond the personal benefits of correcting someone's vision is an economic development action because you create new opportunities based on improved productivity. Now is the time for action."

6. ENCOURAGE ENTREPRENEURIAL BEHAVIOURS IN THE NEXT GENERATION

Entrepreneurial founders launch the firm, their children professionalise it and their grandchildren expand to new markets or create new enterprises such as a family office or foundation. All of these entrepreneurial acts help the family become enterprising, grow its core business and expand into new activities. A capable and committed next generation is the most important legacy a business family can have. The next generation sustains the family legacy but also act as change agents with new perspectives on business and family. In Asia, entrepreneurship by the second and third generation is often the blending of Western management practices with Asian entrepreneurship to create a powerful hybrid model of business strategy.

"Authentic leaders recognise the emotional impact of their leadership style"

BW Group, a world leader in shipping, represents this type of family development. The two succeeding generations – Dr Helmut Sohmen, chairman, and his son, Andreas Sohmen-Pao, managing director – have continued the entrepreneurial legacy of YK Pao to create one of the world's most important transportation groups. Dr Sohmen describes the difference between himself and the founder: "YK liked to receive information through personal discussions and networking, and sometimes acted on spot advice. I, on the other hand, prefer to get systematic input on the broad economic outlook before making any decisions."

Family leadership development is not an optional activity so family businesses need to develop their next generation leadership talent during both good and bad times. The Wates Group, a five-generation UK construction company, started this process five years ago. First they identified a team from the next generation who had the interest and talent to replace the five senior family members leading the firm at that time. Then they hired an outside consultant and proceeded with an accelerated programme of talent development. This included psychological assessments, custom designed executive workshops and participation by the next generation at board level. Of the seven family members who began the process, four have leadership roles, two are serving as executives in the firm and two are on the group board.

This development has given the Wates family a next generation that has the ability to make a positive contribution to the leadership of the business during these difficult times. During a recent lunch the remaining two senior-generation family leaders expressed a quiet confidence and even optimism about the prospects for their business because their next generation is in place working with a skilled non-family chairman/CEO and the board. The crisis may mean a drop in sales but their long-term vision of another century of Wates family ownership is safe. Andrew Wates, former executive chairman of the group, says: "We are at the beginning of our family journey today, not the end of it."

7. EXPLOIT FAMILY BUSINESS CULTURE

Families are driven by values that reflect their shared beliefs, experiences and psychologies. The family's unique values and behaviours as owners and leaders shape how their family business culture develops. In Family Business on the Couch:

A Psychological Perspective five family behaviours that contribute to the cultures that give business families an advantage over their non-family competition were identified: networking; goal alignment; control; time frame; and organising structures.

Family business culture is a powerful tool for motivating individual and organisation performance and creating behavioural norms that support the firm's strategy. These long-lasting, shared beliefs about how and why the organisation operates provide stability, shared learning and a unity of purpose. Long-lasting business cultures are reinforced and supported by the organisation's rewards and recognition pro-

cesses as well as the myths and stories about past successes and employee heroes. The business' goals, values, vision, and strategy also reinforce the culture. The advantage of a strong culture is that it empowers employees and replaces management's dependence on administrative controls or sanctions such as policies, procedures, budgets and employee performance reviews.

A good example of the effectiveness of cultural versus administrative controls is the financial services industry. It is generally accepted that the large banks and their employees, who maximised short-term gains for their own advantage despite administrative controls, caused much of the current economic malaise. A comparison of the large, publicly traded banks and their family business peers demonstrates the impact of family cultures on performance.

Family-controlled banks such as Banco Santander, Julius Baer, C Hoare & Co, Pictet & Cie and Lombard Odier Darier Hentsch & Cie, have experienced fewer asset write-offs from the crisis and are strengthening their market positions. Their cultures, based on long-term performance and accountability, explain the stronger performance. They did not chase the quick profits as they prefer to plan and invest for the long-term. Their strong, family business cultures supported organisations where employees, management, directors and owners were all focused on building their business not their bonuses.

8. BE AUTHENTIC LEADERS

Many business executives are facing their first deep recession and leading their firms in new ways is the most daunting career task they have faced. Critical to a leader's success is their ability to use themselves as a tool to influence and motivate others to learn new behaviours and perform at higher levels.

Authentic leadership is a concept that has many advantages to family business executives because it helps them appreciate the importance of both the technical dimensions of their work, such as planning a marketing campaign, and the human dimensions, such as developing more effective interpersonal relationships.

There are no formulas for authentic leadership because leadership is situational, based on the interaction of the leader's style, experiences and personality with the challenges his or her organisation faces. It is a personal activity that requires the leader to recognise how their values and behaviours can influence their followers to move beyond achieving

business goals to building a more effective organisation.

The Agnelli family and Fiat are leveraging executive and family leadership to build long-term value. Fiat's non-family CEO Sergio Marchionne has done an excellent job of demonstrating authentic leadership behaviour through the company's acquisition of the bankrupt car manufacturer Chrysler. His empowering personal style is supporting the new Chrysler team in implementing a turnaround and new global business strategy.

John Elkann, vice-chairman of Fiat and a sixth generation of Fiat's founding Agnelli family, is leading on the family side to ensure that the owners are fully committed to a new global strategy for Fiat. The Agnelli family has always publicly supported the idea of consolidation, showing employees that Fiat has the ability to grow despite the tough economic climate. This helps lessen anxiety over the stability of the company and shows their ability to incorporate new business ideas in order to move forward.

Elkann's behind-the-scenes leadership demonstrates an important trait of authentic owner-leaders; they know their talents and roles. Elkann recognises that Marchionne has the industry knowledge and expertise to best implement the new strategy. Authentic owner-leaders resist the temptation to get involved in everything; instead they trust their managers to manage the firm. Authentic leaders support their managers, as Elkann did in June, and recognise their team's successes.

Authentic leaders also recognise the emotional impact of their leadership style on the firm and its stakeholders. Most families and their employees are experiencing anxiety about the economic crisis and it is the leader's responsibility to help contain and redirect these often-destructive emotions.

One tool family leaders can use is a new vision of how the business will succeed in the future. Leaders also need to be alert to their own fears and uncertainties to avoid slipping into a default command and control leadership mode rather than a more effective coach and control pattern that combines listening and learning with goals and accountability.

According to Napoleon Bonaparte: "A leader is a dealer in hope." If family business leaders can practise this simple idea in their interactions with employees, family members and stakeholders they will not only emerge from these challenging times with stronger organisations and more committed families, but the family business community around the world will once again assume its larger leadership role based on long-term performance, value driven leadership and stewardship.●



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