

Management for Professionals

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Managing Business Family Dynasties

Between Family, Organisation, and
Network

Forewords by
Dennis T. Jaffe and Torsten M. Pieper



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Foreword by Dennis T. Jaffe¹

You are about to enter a world that is very private yet has great impact on commerce and corporate impact within Germany, and throughout the world. You will learn about the nature, organization, and relationships within the large multi-generational families that own or control many of the largest business enterprises. This book explains how the family exerts influence in the business enterprise, and illuminates the goals, practices, values, and visions of these large extended families.

The usual image of family business is of an owner-led business, where other family members help out and eventually take over. This is how family businesses start, but when they are hugely successful over generations, the number of households and family members who share ownership grows exponentially. A small business diversifies and becomes global, the family invests in other ventures and set up family philanthropic entities. There are too many family members and the businesses are so specialized that helping out or becoming an employee is not expected. Instead of a single family-managed business, the extended family shares ownership of several diverse entities, that may include public companies and other shareholders.

So, what is the relevance of the family in this huge venture? This study offers a picture of what the family enterprise looks like when it is hugely successful. Does the family simply become less and less important as it evolves successfully? That is not the case. The huge, diversified family enterprise is not at all like the owner-managed family business, but the presence of aligned, committed, and value-based family owners defines their essence and nature.

An extended family of owners makes these enterprises fundamentally different from other kinds of public companies. The family owners have two qualities that underlie who they are in business. First of all, the owners, as family, have a shared heritage and a personal relationship that goes beyond business. Because of this

¹He held the professorship of Organizational Systems and Psychology for 35 years and is considered one of the founders of research on business families worldwide (<https://dennisjaffe.com/bio/>). In addition to his research and teaching activities in the field of family entrepreneurship, he has been advising family businesses and entrepreneurial families across the globe for over 40 years. As a team of authors, we were delighted with Dennis' spontaneous willingness to contribute a foreword and would like to take this opportunity to thank him once again.

relationship, they share a legacy, heritage, values, and interests that go beyond financial advantage. They have a reputation and stand for something, and their rising generations want them to adhere to these values. They care about each other and the business and they express this in how they go about their business. Secondly, as a family, they share a desire to preserve the business and the family resources for their children and grandchildren. Therefore, as investors, they are stewards, with a long-term perspective and willingness to forego short-term returns for long-term values.

These differences arise because multi-generational family enterprises as a hybrid of two vastly different social systems: a business and a family. Each of these social systems has its own culture and structure, and the complexity and challenge of a business family is that the owners are also family and want to combine shared family concerns with a productive and sustainable business.

These enterprise families are not single households of parents and children growing up. By their third generation, a successful business started by a visionary entrepreneur becomes a shared resource jointly owned by dozens of households, with no individual having the majority ownership. Therefore, while to the outside world, the business is seen as “owned” by a family; in reality, the ownership is dispersed among households, with members who live in different places, and may have different goals, needs, and views of the business. The many painful public family feuds that split families and destroy business value illustrate the need for the “family” to have a process to negotiate differences before they become public and destructive. By the fourth generation, the small number of business families that remain must be able to bring the family owners together to align their ownership needs, in a business environment that is increasingly challenging, uncertain, and unstable. Many families cannot do this, or decide to cash out and separate, leaving only the best and the most dedicated.

The huge families that own and control huge, diversified enterprises face the dual challenges of succeeding as a business while also maintaining shared purpose and alignment as a family. This is more than a business challenge, as we will see in these pages. To do this, they need to organize themselves as both family members and business owners. They are growing businesses that need a board and responsible ownership. This is traditional governance for family business owners.

But because of their personal relationship, family enterprises face another set of challenges: they have to define, organize, and carry out non-financial activities that add value to them as a family and enable them to work as a business/financial entity. These family activities include celebrating and remembering the family legacy, defining shared goals and policies, conducting education for next-generation family members, defining policies and rules for working in the business and assuming governance roles, pursuing values, creating philanthropic initiatives, managing assets and real estate, setting up new ventures, distributing wealth and passing ownership, and getting alignment and resolving conflict between owners. These are only needed if the owners are also a family and have other ties. If they don't exist, these issues tend to blend into the business and cause tension and confusion. These families need to manage this family governance as well as the other demands of business governance.

The stories of the families in this book concern aspects of family that are rarely shared. They are private and concern activities that occur outside of the public eye. The authors have been able to interview and learn from these hugely successful families. By interviewing family members and advisors from multiple generations, they are able to look at the dynamics of family and business and share not what families think, but what they actually do.

Families that succeed and become huge over generations have to deal with the fruits of their success. As families and as businesses, they have huge responsibilities and huge benefits. But with each generation, there are new people coming of age and marrying in, and there are new business challenges. There are so many pitfalls and chances to fail. By learning from the wisdom of these successful long-term families, those families who are on the path can become aware of what lies ahead and prepare themselves. Prepare yourself to hear about some remarkable families and how they manage tasks of complexity that we can only imagine!

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Foreword by Torsten M. Pieper²

“Extinction is the rule. Survival is the exception.” Carl Sagan’s cautionary words are vindicated by the often-cited statistic that less than three percent of family businesses make it past the third generation, or about 75 years of existence.³ While these numbers are sobering, there are abundant examples of family businesses that have been persisting for centuries, some even for well over a millennium, and continue to thrive as the renowned Hénokiens companies demonstrate (www.henokiens.com). These numbers become even more so impressive when compared against the survival rates of organizations that lack family influence. For example, research by McKinsey & Co.⁴ suggests that the average life-span of corporations on the Standard & Poor’s (S&P) 500 list, an index of the 500 leading publicly traded companies in the United States, has decreased from 90 years in 1935, to 61 years in 1958, and to less than 18 years in 2016.⁵

In light of these statistics, family businesses clearly make any of their non-family counterparts look pale in comparison. But what exactly is it that the surviving family businesses have or do that sets them apart from their non-family cousins and from the countless other family businesses that cease to exist within a relatively short period of time? This question has preoccupied me since the beginnings of my doctoral studies in the early 2000s. It is also a question that our fine colleagues at the Witten Institute for Family Business, WIFU, have been exploring for quite some

²He is the President and a Board Member of the International Family Enterprise Research Academy (IFERA), the world’s largest association of family business researchers, and Editor-in-Chief of the Elsevier Journal of Family Business Strategy (JFBS), one of only two journals in the world to publish scholarly research on family business. Torsten and I have been friends for more than 10 years. His expertise in managing bonding and cohesion in entrepreneurial families has been and continues to be groundbreaking for us. We are delighted to have his foreword and thank him for his valuable input over many years.

³Beckhard and Dyer (1983). Unfortunately, there is a lack of systematic research comparing the survival patterns of all businesses (family and non-family) over time, so the statistics should be interpreted with some caution. However, there is preliminary evidence that the family exerts a positive influence on the survival of new businesses.

⁴Garelli (2016).

⁵McKinsey also estimates that, by 2027, 75% of the companies currently listed in the S&P 500 index will have disappeared.

time.⁶ It is therefore not surprising, and indeed highly gratifying, that three of their thought leaders, Arist von Schlippe, Tom Rüsen, and Heiko Kleve, present their most recent research insights on the topic in this volume.

Family business survival does not happen accidentally. What my research on multi-generational family businesses in Germany with a widely dispersed ownership base, sometimes encompassing several hundred family members, revealed—and since has been corroborated by other studies—is that the continued survival of the family business hinges on the effective management of the owning family.⁷ In particular, creating and maintaining cohesion within the large, extended business family crystallized as a key ingredient to family business longevity. This finding is well aligned with the ideas around “big family management” presented in this book. Drawing on a multi-year research project involving seven families in business differing in size (ranging between 120 and 700 members), age (fifth to thirteenth generation), organization (three had specific family governance mechanisms), company revenues (ranging from two to 20 billion Euro), and industry affiliation, Arist, Tom, and Heiko take the conversation to the next level by adding several important advancements to any of the prior writings on the subject and thereby enhance family business research and practice in significant and meaningful ways.

The research design and underlying sample are worth recognizing on their own. While the authors make it seem effortless, in large ways owing to their close ties with the family business community, gaining access to members of business owning families represents a considerable challenge for most other researchers. Moreover, securing contribution and active support from multiple members of several families and engaging them in interviews, workshops, and regular focus group meetings over a period of 3 years is remarkable and speaks volumes to the social capital and trusting relationships that WIFU has cultivated among its members over the years. Especially in times where academics are increasingly pressured to produce “quick hits” in scientific journal outlets, longitudinal and in-depth research as it is presented here tends to be in rather short supply. Our colleagues are to be commended for resisting this trend and for demonstrating the value and importance that rigorous long-term research has in providing meaningful insights to both family business science and to the owning families who are helped by it.

The family business field has made significant progress since its early inception in the 1980s. Some data suggest it has become one of the fastest growing domains in business research.⁸ While the bulk of the research has primarily focused on the business side of family enterprise, the University of Witten/Herdecke and the WIFU, in particular, have been pioneers in emphasizing the critical role that the family plays within the family business system. The present volume is a continuation of their pioneering efforts, trailblazing a path toward better understanding of how business

⁶See, for example, Plate et al. (2011), Rüsen et al. (2019), Simon et al. (2005), Schlippe et al. (2021).

⁷Pieper (2007).

⁸Stewart and Miner (2011).

families organize themselves and their organizations for long-term survival. To begin, the gifted team of authors illustrate how business families tend to move from a core family 1.0 (typically the founder generation), over a formally organized business family 2.0 (in the second or third generation), on to a large, extended network family 3.0, often consisting of several hundred members. This is a useful insight, for many reasons, not the least being that it shows business families of all types that survival is achievable, and becomes more likely when it is managed purposefully. To this end, the authors present six central questions that emerged from their research as frequently arising in the management of big business families; namely, communication, participation, professionalization, wealth management, conflict management, and an integration of the various insights into an overarching framework. One chapter is dedicated to each of the six issues, making the information easily accessible and modular to use.

When it comes to defining human nature and what drives individual and group behavior, the marvel fighter pilot and strategy mastermind, Col. John R. Boyd, summarized it succinctly by stating that goal is to “survive on own terms, or improve our capacity for independent action”.⁹ The fascinating stories and illustrations of the dynastic families featured in this book consistently demonstrate their efforts to survive *on their own terms*. Through their rigorous and creative work, our gifted colleagues, Heiko, Arist, and Tom, provide a research-based yet highly accessible way to think about continued survival, and provide essential tools to help families in business define their own terms as they sustain their longevity. The insights presented here symbiose with some of the work around family strategy that my esteemed research colleagues and dear friends, Joe Astrachan, Andrew Keyt, George Manners, and I have been involved with. In both our research and practical work with families in business, we have come to realize that families in business eventually want to define a strategy for the family that is independent of, but interdependent with the business, giving them focus and direction through a shared purpose, enhancing their unity and thereby fueling their survival capabilities. The present book directly feeds into these ideas and provides perspective and meaningful applications to further our thinking. On a personal note, I am thankful that I can call Tom, Heiko, and Arist not only colleagues, but also dear friends. I am grateful to them, as well as to the many other fine scholars at WIFU, for continuously pushing the envelope and for walking the fine line between relevance and rigor in family business science. The field is better and the families helped by the research are stronger thanks to your restless efforts.

In concluding, I am reminded of a statement that a member of a large, dynastic business owning family from Northern Europe recently made during a conference. She stated: “You cannot outsource ownership. . . All other business functions, you can outsource. But ownership, you simply can’t. So, you either manage it yourself, or you don’t. And the latter is usually the beginning of the end for a family business.” The quote succinctly summarizes the critical role that effective ownership and family

⁹Boyd (1986, p. 10).

management play in large, extended business families. The insights presented in this book provide business owning families with essential resources, thought exercises, and practical tools on how to organize themselves for continued survival and thriving on their own terms. They shall inspire all those with dynastic intentions and help set themselves up for long-term success. It is a book you and your extended family will be happy to have read!

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Torsten M. Pieper

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A book like this would not have been possible without the support of many people, whom we would like to thank at this point for their suggestions, feedback and questions.

First of all, we would like to thank our team colleagues at WIFU, first and foremost, Claudia Reusse and Jennifer Tiedemann, who actively supported us in preparing and conducting the research meetings with the participating family representatives. In addition, our special thanks go to Fabian Simons and Tobias Köllner: both have supported us in the preparation of scientific publications in the context of the project. We have also gained Fabian for a doctoral thesis in this context and are already looking forward to the results of his evaluations and analyses on the understanding of trusteeship in dynastic business families. We would like to express our special thanks to Daniela Wallerand for her valuable support in the preparation of this work. Special thanks also go to Christine Sheppard and Sabine Bernatz from Springer Verlag; without their friendly and understanding support, the project could not have been accomplished.

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We had already experienced fruitful cooperation with some of the project participants in the previous FÜG project. Nevertheless, we were surprised by the great trust that was placed in us and the other project participants from the very first

moment of the BFM project, enabling us to identify quickly the core questions that preoccupied the heads of the families present.

We would like to thank our project partners not only for their participation in the project but also for their openness and willingness to engage with our reflection formats and questions.

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We hope that our book will provide many other comparable business families with valuable advice on how to manage the tension between family business, ownership and a large business family in a sustainable way.