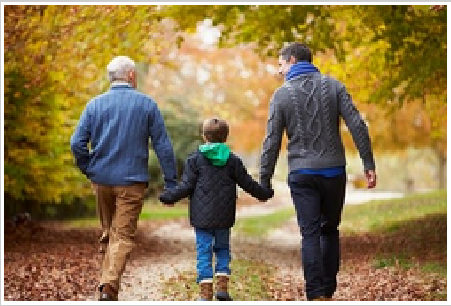
EXCLUSIVE EXPERT VIEW: St Gallen University On Wealth And Ubiquity Of Family Dynasties

Dr Miriam Bird and Professor Nadine Kammerland, St Gallen University, 15 June 2015



Academics from a prominent Swiss university look at the qualities that enable family business dynasties to endure - with lessons that wealth managers and advisors should heed.

This item on the forces shaping family-run firms – an obviously important segment for wealth manages – comes from Dr Miriam Bird and Professor Nadine Kammerland of St Gallen University in Switzerland. This publication is grateful for the opportunity to share these experts' insights and welcomes reader responses. Readers can email tom.burroughes@wealthbriefing.com

Are family firms an anachronism of the 20th century? Hardly. Still today, family businesses are prevalent all around the world and constitute one of the most dominant business forms, thereby contributing substantially to employment and economic growth.

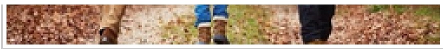
The purpose of the newly compiled Global Family Business Index is to shed light on the largest family firms worldwide. In an effort to better understand the magnitude and ubiquity of family firms and how they surround us in our daily lives, we – a team of researchers at the Center for Family Business at the University of St. Gallen – collected and analysed data on the 500 largest family firms worldwide. Here is what we found:

What is the economic impact of family dynasties? We found that the biggest 500 family firms employ altogether a workforce of around 20.9 million people. This number equals approximately the entire population of Australia. Furthermore, in 2013, they generated revenues equalling $6.5 trillion. Some 45 per cent of those revenues were generated by European family firms, while US family firms contributed 35 per cent to those revenues.

Where are most family dynasties located? Nearly half of the largest 500 family firms are located in Europe (49.8 per cent) followed by the US (24 per cent) while the rest are divided between Asia (17.6 per cent), South America (7.2 per cent), Australia (0.8 per cent), and Africa (0.6 per cent). This refutes the commonly held belief that family businesses are becoming less and less important in Western societies due to changing demographics and the weakening of family ties.

Within European countries, large family businesses are particular prevalent in Germany (a total of 94 out of the 500 family dynasties), Italy (31), and France (28).

What does the typical family dynasty look like? The majority of family firms (55 per cent) operate in the manufacturing and construction sector while around 40 per cent are active in the service sector. Family firms are particularly dominant in industries such as retail and wholesale, diversified industrial products, and consumer products. One possible reason for the strong dominance of family firms in these industries is their ability to build and sustain strong brands across generations.



The split between private and public businesses is relatively even, with 260 family firms being publicly listed and the remaining 240 firms privately owned.

Looking at the age of the firms reveals that the 500 largest family firms have managed transitions from one generation to the next quite successfully - almost half are already in the fourth generation, showing how long-lasting and enduring these firms are.

What can we learn from the most successful family dynasties?

They are family equity investors, not private equity investors. Further recent research projects of the Center for Family Business illustrate how family firms manage to grow to successful family dynasties over time.

First, a study on German family business groups shows that many of the wealthiest family firms followed a path of "buying, building, and selectively quitting." That means that after having established the core business of their family firm and strengthened its brand, those families invest into enlarging their dynasty by thoughtfully diversifying their business, whereas the bulk of family firms remain invested in one or only a few firms. However, when doing so, they do not act like private equity investors. Instead they act as what we call family equity investors. The average holding period of family equity investors is much longer than those of private equity investors.

But this is not the only difference. Another difference is the level of integration and monitoring of top management teams. Family dynasties often only loosely integrate newly acquired firms. While this means foregoing potential synergies, it also facilitates a smooth divestiture at a later point in time. Moreover, managers of firms that belong to family dynasties are rarely confronted with tight financial targets, as are those working with private equity firms. Instead, family equity investors typically work closely together with the firms' managers ("tight personal monitoring") but grant them relatively broad freedom with regard to financial aspects ("loose financial monitoring").

They transfer the entrepreneurial spirit to the next generation. Another key success factor of long-lasting family firms is innovation. Long-living family dynasties manage to keep the entrepreneurial spirit alive across generations and foster a climate of innovativeness. Easier said than done? Another recent study of family-owned Sardinian wineries shows that using dinner conversations in the right way can be very supportive to this end.

Based on a sample of family-owned and managed wineries, we observed that the most innovative family firms spread their "family myth": that means they share stories among the family members that are built on the achievements and successes of the family firm and the family's values, so generating positive emotions. Transferring those stories across generations also helps the younger generation family members to maintain a sense of belonging and commitment to the family firm, while at the same time feeling encouraged to continue past successes and leave their own legacy.

It also encourages them to participate in the decision-making and consider broad strategic options. As a result, those family firms turn out to be very innovative. In the least innovative family firms, to the contrary, we observed that the families also shared stories but those narratives were focused on the founder, who was perceived as an outstanding hero and who was honoured for his or her merits. In those families, the achievements of the founder were perceived as almost unattainable, decision-making was concentrated in the hands of the senior family members and considered strategic options were narrow, leaving no leeway to innovate. It is no wonder then that those stories actually impeded innovation, change, and ultimately growth, whereas stories focusing on prior achievements and values inspired younger family members to strive for entrepreneurship and the growth of the business.

This article is based on the following literature:
1. Global Family Business Index. http://familybusinessindex.com/
- Zellweger, Thomas; Kammerlander, Nadine: Family Business Groups in Deutschland: Generationenübergreifendes Unternehmertum in grossen deutschen Unternehmerdynastien. St. Gallen: Center for Family Business der Universität St. Gallen, 2014. Working Paper.
- Kammerlander, Nadine; Dessi, Cinzia; Bird, Miriam; Flores, Michela. 2015. The Impact of Storytelling on Innovation: a Multi Case Study. Academy of Management Best Paper Proceedings, 2015.