Cover Story

Family businesses

Family spirit

TEXT Corinne Briault PHOTOS Getty Images

Entrepreneurship can take many forms. It may simply be a question of creating and starting a business from scratch or it may be – and today this is one of the most widespread forms in Luxembourg and globally – a family activity. Indeed, family businesses are the world's oldest and most common form of entrepreneurship. But what exactly is a family business? What are its characteristics ? And what are its strengths, weaknesses and challenges?

In no matter what country, and although there are no precise statistics in Luxembourg, it is estimated that family businesses remain the most common form of existing businesses. According to the studies, '*Family firm: A resilient model for the 21st century, PwC Family Business Survey 2012*', and '*Vive le long terme ! Les entreprises familiales au service de la croissance et de l'emploi*' ('*Long live the long term! Family businesses for growth and employment*') (*ASMEP-ETI and Montaigne Institute*, September 2013), family businesses represent between 65% and 90% of all businesses in the world and 70% of companies in Europe These family businesses come in all sizes and operate in a variety of sectors, often at an international level. For several years now, these family businesses have been emerging from the shadows where they previously cultivated a certain discretion. They now freely display their family roots and use them as a marketing asset in the market. Some of the best known: Salvatore Ferragamo (see the Business Voices section), and the Fiat Group in Italy; L'Oréal and the LVMH Group in France; the LG Group and Hyundai in South Korea; BMW and Siemens in Germany; and Ford Motors and Walmart in the United States.

But what exactly is a family business?

Currently, there is no single definition of a family business. According to IFC (International Finance Corporation) of the World Bank Group, in its Family Business Governance Manual, '*a family business refers to a company where the voting majority is in the hands of the controlling family; including the founder(s) who intend to pass the business on to their descendants*'. In addition to voting rights, the European Commission also specifies that a company is family-owned if, among other things, '*at least one of the representatives of the family or relatives is formally involved in the governance of the company*'. Beyond formal definitions, a family business remains above all a human adventure, of a woman or a man who created their business and pass it on to subsequent generations who share their vision and ethics. Beyond the image which often comes to mind of a small family-run business, family companies actually range in size from very small businesses to large well-known international groups. Thus, a third of the companies in the S&P 500 ranking are family businesses. About 1.30% of the global total of companies generating more than USD 1 billion in turnover have their capital under family control and 2.40% of the 250 largest companies in France and Germany are owned by families.

The family: key to success?

Numerous surveys show that family businesses are more efficient and are much more profitable over time than other businesses. Indeed, the model defies time and relying on its roots equips family businesses to weather storms better than other forms of company. The family is shield against turbulence, yet, with this, a paradox: even though the concept of family is universal, each family is unique with its own specific past, history and functioning which distinguish it from all others. Luc Darbonne, President of Family Business Network France (see also the interview with Georges Krombach, Managing Director, Family Business Network Luxembourg) explains that '*The thing these companies most often have in common is that they seek to develop in the longer term. Short term thinking is not in their DNA and whenever possible, they avoid placing themselves under the eyes of shareholders who care only about quarterly results. They look far ahead, build ambitious projects by investing on a regular and reasonable basis, with the constant concern to innovate, to build solid companies and strong brands*' (in The anti-crisis recipe for family businesses, L'entreprise, 2013).

Books (Sir A. Cadbury, J. Ward, I. Lansberg, P. Davies) which have examined the subject note some common aspects of all family businesses. They play on several facets. Thus, family businesses consist of two social institutions: the family and the business, which although seen as distinct concepts are in fact identical. Indeed, the 'primary' social function of the family is to ensure the security and support of its members, and that of the company consists of the production of goods and services within the framework of organisational tasks structured to facilitate production process. Each is defined in its social relationships in terms of the unique values, norms and principles that are intertwined in the family business. So, in family businesses, all participating shareholders are committed to meeting the needs of the family and the business. This means loyalty to the family as well as to the company and the willingness to work to achieve the objectives of the company (Rania Labaki, *Dual commitment and performance, Family businesses*).

Being involved in a family business means adhering to strong values that span several generations and being part of a business culture, because these companies know and are proud of their history and their roots. Thus, the identity of the family forms as a unit, and although the family structure changes, the family does not disappear. Being part of a family that owns a business leads to a high degree of commitment and perseverance, which often comes from pride in the family tradition to carry on growing the company and transfer it in the best possible condition to subsequent generations.

Duality

Family businesses are characterised by having two objectives: the needs of the business and those of the family, especially since many of them bear the name of their creator (Ford, Johnson, Renault, Benetton, Koch , Heineken…). They thus play on the reliability and pride of this dual identity (family/company) because their name and reputation are associated with the products or services they sell. They therefore have every interest in adopting commercial behaviours and values which do not harm their image in the market. This double identity can turn out to be a double-edged sword: the family is known, the company too, and the more the family is known, the more the company (its goods and services) is also known but this can be a heavy burden for children, whose behaviour could harm the business. A family business must never lose sight of the fact that its name, its history and its reputation are powerful marketing and communication tools: customers and consumers identify with and often like

'Family businesses have come out of the shadows where they previously cultivated a certain discretion. They now freely display their family roots as a marketing asset.'

to recognise themselves in a brand, even more so if it transmits family values, since, very often, the visibility and reliability of the family behind a product brings a feeling of security and a guarantee of quality.

I love you, well I don't

While family businesses benefit from undeniable advantages, they also have incredible challenges to overcome because their greatest strength – the family – can also be their greatest weakness as their success requires combining family harmony with economic performance. This is where running a family business can be more complex than other forms of business. The accumulation of family problems and management and performance problems in the markets can quite simply lead to dissolution. According to F. Neubauer and A.G. Lank, only 5 to 15% of family businesses pass into the hands of the third generation. Unless the family has an only child – and this remains

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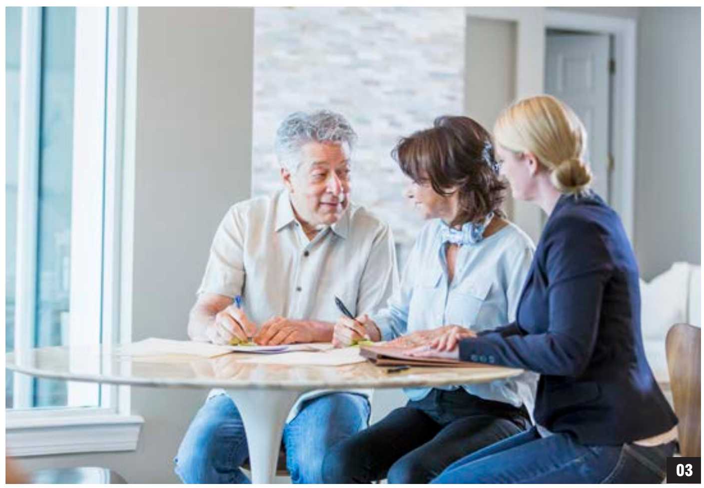
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03. Family businesses are characterised by two-fold objectives: the needs of the business and those of the family, especially since many of them bear the name of their creator.

the exception – any transfer of power to the next generation involves sharing roles, powers and properties... . In normal inheritances, it is relatively easy to make equitable shares, but in a company there are rarely two or more general managers, two or more presidents, and two or more managers of the family business. This is often where the problems begin, because a poorly organised division of labour between heirs can lead to conflict and resentment, leading, in the worst case, to the demise

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And the girls in all this?

A 2003 survey by the Raymond Institute (USA) showed that in 34% of American family businesses, the next manager would be a woman and that when the managerial position was held by two or more people, nearly half would have a woman in their team. This is mainly due to the fact that girls now follow the same path as boys in terms of studies and develop the same sense of competition. In addition, not being *a priori* destined to inherit, they tend to be more combative in proving their capabilities.

Business Transfer

The national business transfer platform is the result of a partnership between the Chamber of Commerce, the Chamber of Skilled Trades and Crafts and the Ministry of the Economy. It is intended to bring together all the offers for the sale and takeover of all companies established in Luxembourg. With more than 10 years of experience in the field of handovers, the Business Transfer team of the Chamber of Commerce and the Chamber of Skilled Trades and Crafts aims to help sellers and buyers in the various stages necessary for the smooth running of the business handover process. The team helps whatever the transfer model: within the family, internally, externally or in the event that the company has not found a buyer, or the buyer has not found a business. This service is free.

Email : support@houseofentrepreneurship.lu or contact@cdm.lu

of the business. In a family business, the economic heritage that brings together and unites family members can also divide them or exacerbate personal demands. In 2002, the Teisseire company was plagued by a violent conflict between two brothers from the founding family, who were the main stakeholders, regarding who was to be director. At first its financial health did not deteriorate too much, but then the conflict led to family members quitting operational positions, and the company, founded in 1720, lost its family status and fell to a takeover bid by Fruity in 2005. In another case, in 2011 this time, Jacques Dessange published a vitriolic column on the Internet, then a book, in which he castigated the attitude of his son who allegedly 'fired' him from his company, which then ended up being taken over by a large financial group.

'In a family business, the economic heritage that brings together and unites family members can also divide them.'

Finally, over the generations, the bonds between the different members of the family can loosen naturally, resulting in a weaker interest in the family business. Then, new generations may have personal interests outside the business, they may want to create their own project, or they may simply doubt they are up to it. Finally, after a few handovers between generations, a company can give the impression of having hit its stride and the generation which 'takes over' feels that there are no more challenges to be met and there is no more motivation. Entering the family business can be seen as the last job of their life, a loss of freedom in their choice and a point of no return.

Delicate question

If many family businesses do not pass the third generation, this is very often because

they have weaknesses in their governance, which is more complex than in other forms of business. Over the course of its life, the family business is first run by the founder who takes decisions alone. According to the IFC Family Business Governance Manual, at that point, the governance issues are quite limited. Succession will be the first challenge as power is transferred to the founder's children and more family members are involved in the business. Governance issues then become more complex. The manual notes that among these challenges are maintaining fraternal harmony, formalising business procedures and processes, establishing effective communication channels between family members and succession planning for key management positions. The next step, with a 'constellation' of cousins, is a crucial step in the life of the family business as even more family members are directly or indirectly involved in the business. As many of these members come from different branches of the family and from different generations, it is almost certain that differences of opinion are to be expected on the management and strategy of the company. The manual emphasises that any conflicts that existed between siblings are

04. While family businesses benefit from undeniable advantages, they also have incredible challenges to overcome because their greatest strength - the family - can also be their greatest weakness since their success requires combining family harmony and economic performance.

Fernand Ernster
Director, ERNSTER – *L'esprit livre*, Vice president of the Chamber of Commerce, President of the clc (*Confédération luxembourgeoise du commerce*)

'In a family business, relationships are human and based on trust.'

In your opinion, what enables family businesses to endure?

One of the strengths of family businesses is that the main shareholder is often very attached to the trade of the business and knows it perfectly. Then, the atmosphere in these companies is perhaps more family-friendly than in other companies and everything is less anonymous. This reinforces the idea of belonging to a family, that of the main shareholder and that of the company as such, the relationships are therefore more human and more based on trust.

What are the big challenges for family businesses?

Ensuring the sustainability of a family business is undoubtedly the biggest challenge. We must succeed in combining a family spirit, while respecting the values and culture of the company, and efficient management, not only financially, but also in the management of human resources. Then, the passing of the baton between generations, especially when there are several heirs, is also one of the great challenges for family businesses. Everyone should be aware that the company is not only a 'milk cow', but must also be fed. Having good governance is therefore essential, because the more shareholders there are, the more difficult decision-making becomes. This is often where crises arise which are sometimes difficult to overcome and can cause the business to collapse.

How do you see the future of your family business?

The succession between my father and I went very well, as we made sure that when I turned 40, I would be the main shareholder of the company. I have three sons. One of them is already working in the business and the other two have expressed interest in the family business. So, I started thinking about how to set up my succession, to see what can be developed and how it might be so that no one is disadvantaged. In this context, communication between all of us to set up future governance is a major issue. But since I am an incorrigible optimist, I see the glass half full. We will make sure things go well!

Cécile Bemelmans-Merenne
Senior Entrepreneurship Project Advisor, House of Entrepreneurship, Chamber of Commerce

'Referring to experts or external consultants allows the business manager to see more clearly.'

In your opinion, what are the main specificities in Luxembourg of family businesses, which represent nearly 70% of companies in the country?

Many agree that the heads of family businesses have a common feature in having a long-term vision for their business, that is to say, to grow their capital whilst instilling and upholding traditions and values, which will be transmitted when passing the business on to subsequent generations. In a country the size of Luxembourg, managing a business as a 'good head of the family' is all the more important as the reputation of the business is often linked to that of the family that owns it and which everyone knows. Furthermore, we often notice that, in family businesses, the stage of business handover is approached too late, and therefore poorly anticipated. The business manager tends to solve daily problems without devoting himself to passing the baton...

What are the key steps that make a handover between generations a success in a family business?

A business handover can take several years, usually between 2 to 5 years. In a family business, this step should be anticipated long before so that the next generation is well prepared and well accepted by employees. This point is sometimes overlooked by the entrepreneur. Obviously, it also depends on the type of business to be taken over and the degree of technicality that the handover requires. Legitimising and supporting the next generation in front of the employees is one of the most important steps for a successful transfer, just as it is for the transferor to gradually hand over the reins to the next generation. Sometimes this is easier said than done because working life in the company and personal life are one and the same for the transferor. For this reason, referring to external experts or consultants allows the business manager to see things more clearly. Certainly don't wait: the sustainability of the company depends on it. Planning for a smooth handover and transition between an active life within the company and other activities will only be more profitable for the future of the company and its successor.

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05. 06. Succession is a challenge in governance if powers are transferred to the founder's children. Maybe the business will not find a successor and that power is transferred to someone outside the family.

likely to also affect a generation of cousins. Companies then often encounter common issues such as the rights of family shareholders, the liquidity of shares, dividend policy, the roles of family members within the company, the resolution of family disputes and establishing a family vision and mission. The survival of the family business therefore depends at each generational handover on putting in place the right structures and the right governance mechanisms so that management problems do not become grafted onto the normal concerns of any business which result in closure (poor management, insufficient cash flow, poor management of staff and stocks, special economic conditions, etc.).

Succession and handover

If take-over and hand-over is sometimes a difficult step for any business, it is even

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more so for family businesses and can sometimes be very difficult to resolve when successors from several branches of the family covet managerial positions. Postponing the problem as some of them do can prove fatal to the survival of the company because the crises raised by succession cannot be resolved. Succession is often a weakening process for the company and for the family, and it is often full of emotions. As already explained in a Merkur file dedicated to Business Transfer (March/April 2016) and in the Guide to Business Transfer published by the House of Entrepreneurship of the Chamber of Commerce, most specialists recommend advance planning, sometimes of five to ten years, so that the handover can take place under the best possible conditions. In addition, it is also essential to have support in order to know good practices, tax issues, and the golden rules to be observed. Successful handovers in family businesses require a partnership between generations, good communication about the chosen candidate and good planning. Because every family business is different, the more family members are involved in establishing the rules of protocol, the more likely they will be to accept the new rules afterwards. It is also essential to establish a clear transition process with a precise date because there are many cases where the parents do not want to give up their place and where successors between the ages of 50 and 60 are still waiting their turn. A study by the International Institute for Management Development shows that in successful family businesses, the parents were initially protectors and influencers of their children's cultural and academic education but then relinquished their control and left a high level of freedom to the new generation.

Legitimacy of the 'heirs'

Family values are instilled from an early age and this is even more true for the culture of a family business. It is not uncommon for some family businesses to involve new generations from an early age by having them do odd jobs, summer jobs or by having them meet employees or customers informally. The transmission of knowledge then begins very early and sometimes in a playful way and for certain professions (oenologists, goldsmiths, restaurateurs, caterers, watchmakers...) requires special know-how, which allows a certain ease and a degree of commitment to be acquired very early on. Today, in the vast majority of cases, it is no longer the 'father's son' who automatically takes over the company without any experience or training because they don't know what to do with him: families have very precise rules on training, experience and internships for their successors. For a good number of families, this training, sometimes in third-party companies, in addition to the experience acquired, also makes it possible to establish a certain credibility and legitimacy in relationships with the employees in order to avoid possible internal crises for those in charge. Management skills, and the fact that one can then be well supported thanks to solid training, ensure that the future generation has what it needs to work for the company, because it is not enough to have a name to be a good manager and lead a family business to success.

'Family values are instilled from an early age and this is even more true for the culture of a family business.'

Family stories

The book ‘Family Stories’, published by Maison Moderne in collaboration with the *Banque de Luxembourg*, draws an original portrait of ten families of Luxembourg entrepreneurs and of the significant events that marked their journey in the historical and social context of the country during the last century until today. Throughout its 172 richly documented pages, the book invites you to discover ten portraits through which an eleventh emerges: that of the Grand Duchy itself.

Chair in Family Businesses

Launched in early 2019, the HEC Liège Family Business Chair was created in partnership with the *Banque de Luxembourg*. The academic research, spread over three years, aims to examine the model of the family business and to determine to what extent this model makes sense. For HEC Liège, this new Chair opens up an academic field little seen in other universities, while addressing current entrepreneurs and potential future entrepreneurs who continue their training at HEC Liège. By joining this Chair, the *Banque de Luxembourg*, which has always supported family entrepreneurship in Luxembourg and Belgium, sees an opportunity to scientifically deepen a subject in which it expresses great interest.

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Action and handover!

Family businesses go through many changes during their lifetimes and good management guarantees their sustainability. Governance is one of the pillars of this sustainability: when the number of family members grows, the company can set up a board of directors. Many family businesses restrict the right to sit on the board to family members in order to preserve family control over the management of the business. Whilst we sometimes see certain trusted non-family members sit on the board, most of the strategic decisions are taken by directors from the family. A clearly defined share ownership policy is also essential in the good management of a family business. It makes it possible to clearly define the status of non-direct family members (in-laws, cousins, etc.), and the policy for selling shares can influence the management and survival of the company and prevent the risk of conflict. The size of the board depends on the size of the company. When family businesses reach critical size and complexity for the family, it is not uncommon for the family to turn to an ‘outside’ board of directors. According to a study conducted in the United States by J. Ward and cited by the IFC in its Family Business Governance Handbook, of more than 80 family businesses run by the third or subsequent generation, the existence of an active outside board (not controlled by the family) is the most important element for survival and success. The IFC also insists that having independent directors can have significant advantages such as adding an external perspective on strategy, contributing new skills, and taking decisions (on hiring for example) independently of family ties and playing the role of judges or ‘buffers’ in intra-family conflicts... .

Today, when companies reach a significant size, there are also many possible ‘arrangements’ in the form of financial groups, investment funds or holding companies to take control of a company by financing the acquisition of securities – with (or without)

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the agreement of the family. These operations generally take place during the handover process. The Zephyr information database (Bureau Van Dyjk –Thomson Reuters, 1998 - 2010) notes that during that period, family businesses were the main targets, in terms of number of operations, for private equity funds and, in many European countries, constituted more than a third of leverage buyout transactions (buyout or takeover by one or more investment funds). For example, Galeries Lafayette was a family company in which shares were held by 'branches': the Moulins and the Meyers. In 2005, Noëlle Meyer, a leading shareholder in her branch, decided, for family and tax reasons, to sell her shareholdings, thus risking the loss of family control of the company. The Moulin branch then set up an arrangement making it possible to buy back the shares. This operation ended a few years later with the buyout of shares by the Moulin family and continued family control of the business.

07. 08. The survival of the family business requires putting in place the right structures and the right governance mechanisms for each handover between generations. The more family members involved in the business, the more complex the governance issues become.

'Family businesses are one of the main sources of growth in many economies.'

Anne Goedert
Family Practice Advisor,
Banque de Luxembourg

'In the face of the crisis, a new dynamic has developed to confront it.'

What do you think gives strength to a family business?

The fact that it is a family! Equal skills, passion, motivation and commitment are usually more important to a family business and make all the difference. When you are immersed in the family business from an early age, knowledge of the market is stronger and quality products are the result. The culture is imbued with this family spirit and the relations between employees and bosses are really more family-friendly. These companies also display greater resilience, a greater ability to bounce back and adapt; they can show greater flexibility because the decision-making circuits are generally shorter. Finally, these companies often rely on a long-term strategy rather than immediate profitability. Financial management is prudent, and this makes it easier to resist crises.

You recently published a study on the impact of the crisis on family businesses and how the next generation feels about it: can you share the main lessons?

We at *Banque de Luxembourg* have believed in the family model for more than 100 years and we support these companies at all stages of their life, in particular with the handover from one generation to the next which is a critical moment. When the Covid crisis hit, it seemed important to us to collect the feelings of the next generation. We then interviewed around thirty young people between the ages of 20 and 30, one third women and two thirds men, with very diverse profiles. Some were already working in the family business, others were still in school or, at the time of the survey, simply did not want to join the family business. We found that the crisis had had a very strong impact on their personal situation. For all of them, the pressure was enormous, and they felt real pain at the lack of prospects. However, the study also revealed a new dynamic that very quickly developed to confront the crisis. Many of the young people rolled up their sleeves, took the opportunity to embark on new projects, get into the field and into teams and turn the crisis into a test of strength. This period was an opportunity to come closer to their family and find a new solidarity. For others, it was an opportunity to really take the reins of the business and realise the role they can play in it by feeling more legitimate. The crisis has led to the creation of an intergenerational dialogue around the family business in order to emerge stronger.

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The future?

It is undeniable that family businesses are one of the main sources of growth in many economies. In any case, they are the most widespread form of private initiative, whatever the country, and they continue to defy time. Although they face many challenges, sometimes more than other companies, due to their very nature, an idea has emerged since the Covid crisis: these companies, thanks to their roots, which leave them better equipped than others, are more likely to weather crises and adapt, often thanks to the new generations who take over the helm. In France, the beauty brands Clarins and Yves Rocher have transformed their production network to supply the medical profession with hydro-alcoholic gel. The Decathlon company donated diving masks, which are useful for respirators in hospitals. Michelin has reopened its factories to dedicate them to the manufacture of masks and protective visors. Being a family business is no guarantee of success, but by being more

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resilient, more able to adapt and by relying on long-term plans rather than on trends, the family business model is a model with a future!

Other sources:

Succession in Family Business, Denise Kenyon Rouvinez, Gabs; Family businesses, under the direction of Gérard Hirigoyen.

09. 10. 11. It is not uncommon to see some family businesses involve the new generations from an early age by making them do small tasks or summer jobs and by making them meet employees or customers in an informal way. The transmission of knowledge then begins very early.

Philippe Heinisch
Manager of Tour-operating (organised trips, groups and incoming), and of WebCamper (motorhome rental), *Voyages Emile Weber* travel agency

'Ensuring its continuity, consolidating the company's position and respecting its foundations whilst leaving my mark'

You are the next generation of the company today, what does that mean to you?

My first objective was to get a global view of the various activities of the company and have a solid operational experience whilst already actively contributing to the strategy of the company in close collaboration with the managing partners and directors of the company. It is a great challenge to join the company at such a crucial time, including, among other things, during a health crisis. It is also a great opportunity to prove myself and actively support the company in order to prepare for a future under the best auspices. For me, *Voyages Emile Weber* represents tradition within modernity: it is a dynamic company that is not afraid to reinvent itself and to diversify. Moreover, we have always played a pioneering role, whether in the field of mobility or tourism. Proof of this is the TravelCenter, a new travel agency concept that we have just launched (editor's note: see Corporate News), or our efforts in electromobility. Our desire to diversify is also reflected in the recent launch of the WebCamper, offering motorhome rental. This is the first major project that I have managed autonomously at both operational and strategic levels, while being supported by upper management.

How was your entry into the company and the handover between the generations? How do you see the future of your business?

I will soon be thirty and I joined the company just over a year ago. I completed a Master's in Business Management in Fribourg, in order to best prepare myself for my future duties, then, I had various internships and my first professional experience at LuxairTours. I also obtained a bus driving licence and I have completed various training courses for professional drivers. From a young age, I have been involved in the activities of the company. Integrating means ensuring its continuity, and consolidating its position, respecting the foundations created by previous generations, whilst leaving my own mark on it. As for its future development: innovation, diversification, digitalisation and ecology will be the key words, while maintaining the family values that are dear to us. Putting people at the heart of our activities has been and always will be important to us. In this regard, I can say emphatically that I am grateful to be able to take over in a very close-knit family with motivated and supportive employees.