Responsible ownership in the family firm and its impact on firm performance
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- Specialties in Entrepreneurship and Family Business
- Today’s presentation is based on nearly a decade of my research, supported by public and private sources, including EDHEC Business School’s Family Business Centre.
Today’s presentation

1. Introduction to family business
2. What is meant by responsible ownership?
3. Can responsible ownership affect firm performance?
4. What steps can a family firm take to build a strong family-owning group?
5. Fostering innovation among Mittelstand firms
1. INTRODUCTION TO FAMILY BUSINESS
“The Henokiens”: Family firms with a legacy

• A membership group named after the Bible figure and patriarch, Henoch.
• Must be at least 200 years old and still managed by a descendent of the founder.
Some French members of “The Henokiens”

- BANQUE HOTTINGUER (1786)
- CATHERINEAU (1750)
- DESCOURS & CABAUD (1782)
- EDITIONS HENRY LEMOINE (1772)
- HUGEL & FILS à RIQUEWIHR (1639)
- ETABLISSEMENTS PEUGEOT FRERES (1810)
Houshi Ryokan-46 generations
Founded in 717
De Kuyper Royal Distillers-1695

Bob de Kuyper
10th generation

70 million bottles with De Kuyper label distributed annually

Headquarters-Schiedam

Mark de Witte-Current CEO

Marc de Kuyper,
CEO, USA, 11th gen.
J.D. Neuhaus-1765

Wilfried Neauhaus-Galladé
7th generation CEO

From wooden shaft winches to modern day high-tech products worldwide
The “Mittelstand” Firm

- A group of successful and highly ambitious German medium-sized companies which constitute the backbone of the world’s fourth largest economy.
- Typically owned and predominantly managed by a controlling family across generations
- The common values amongst owners, including family, which engender an exceptional quality-oriented management spirit.
- Although officially SMEs in Germany are less than 500 employees/< 50 million euros in revenues, larger family firms fitting the rest of the definition seem to spill over into the perception that they are part of the “Mittelstand” as well.
Checklist: Are you a family business?

1. Would you *describe* your firm as a family firm?
2. Does one family influence the firm’s strategy?
3. Does the founder and/or his/her descendants own controlling interest (>50%) in the firm?
4. Are two or more owners related to one another?
5. Do one or more of the family members manage the firm (and/or serve on its board)? (More strict: at least 50%)
6. Do the current owners intend to retain control of the firm for their heirs? (Continuity of family ownership as key objective)
7. Has the firm ownership already passed from the founding generation to the next generation?
In France…

• 76% are **first** generation firms.
• Most are small: only 9% have more than 2 million euros turnover
• 88% of all family businesses are 100% family-owned (rather than a mix with nonfamily).
Some factors in FB survival

- **Ownership social capital:**
  - Shared vision; Function as a team
- **Stewardship:**
  - Other vs. Self regarding owners
- **Balance:**
  - Family vs. the Business
- **Pruning AND Patient capital:**
  - Weeding (buying) out unhelpful owners
A MINI-CASE: FAMILY FEUD
Berger & Berger - first generation

• Bruno Berger and Marie are co-founders of Berger et Berger. He works together with his wife, Marie. They have two children (Bernard and Nicole), neither of whom work yet in the business.
The Three-Circle Model

Ownership

Family

The Business
The Three Circle Model

1 = Family members only
2 = Nonfamily, nonemployee Owners
3 = Nonfamily, non owning Employees
4 = Family employees
5 = Family owners
6 = Employee-owners
7 = Family-owner employees

Ownership

Family

The Business
Berger & Berger: first generation

- Family
  - Nicole
  - Bernard
- Ownership
- The firm
- Employees
  - Bruno and Marie

Make an impact
Berger et Berger – second phase

Ownership

Nicole

Bernard

Marie

Gilbert

The children of Bernard and Nicole

The firm

Other employees

Family

Make an impact
Family Business Dilemma as the Ownership Circle Grows

Active versus Passive Shareholders

Majority vs. Minority Shareholders

Reinvestment of earnings?
Growth vs. Harvesting?
Bigger salaries?
Dividends?
What could have been done to prevent such conflicts?

• In the first phase (first generation?)
• Now that conflict is at its peak?
Some parting comments about Berger & Berger

- **No succession plan** was developed in Phase 1.
- **There was no discussion** when the children were **young** about their **future roles** in the firm.
- **In its first phase, the firm lacked a clear vision** as a family business—or the family’s role in it.
- **As a consequence**, the eventual outcome was **quite negative**.
2. WHAT IS RESPONSIBLE OWNERSHIP?

Make an impact
Responsible Ownership IS: Achieving a Balance between Rights and Duties

- Rights
  - Dividends
  - Capital gains;
  - Prestige;
  - Satisfaction

- Duties
  - Abide by agreements
  - Help the firm succeed
  - Behave properly to others

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Importance of responsible ownership

 Responsible Ownership Behaviors

 Financial performance (firm/holding)

 Commitment to (growing) family wealth

 Family governance practices

 Collective Mindset

 Make an impact
1: Successful family firms need a **collective mindset**

- A bonding of owners toward each other
  - Ties among the owners (quality of relationships)
  - A shared vision
Owners of the business need to:

- Trust one another
- cooperate
- be honest with one another
- Share a positive team spirit
And they need to have a “shared vision”

• Owners:
  – Feel bound to invest as a group rather than as individuals.
  – Share the same vision of the firm.
  – Agree about the most important objectives of the firm.
Shared Vision

Make an impact
This way, they pull toward the same goals to make a winning team!
And Collective mindset matters

Collective Mindset:

- Ties among owners
- Shared Vision
- Financial Performance

Make an impact
2: In successful family firms

- Owners behave responsibly toward each other and toward the business.
Possible responsible ownership behaviors identified

- **Keep informed:**
  - Attendance at shareholder meetings, reading shareholder reports.

- **Mobilize their network to help out the Firm:**
  - Providing contacts for the benefit of the firm

- **Acting Professionally:**
  - Respecting the hierarchy of authority; abiding by shareholders' agreements, and staying out of the way!

- **Support the firm for the long-run:**
  - Patient capital; long term strategy

- **Actively Govern (though not always):**
  - Monitoring; Prepared to take action with Management
However some findings suggest:

• Involvement in day-to-day affairs may be *meddling* rather than *monitoring*

• **Building trust** and **acting according to expectations** may be more effective than monitoring
Importance varies by behavior and type of firm

• Acting professionally: **Positive 😊**
• Supporting the firm for long run: **Positive 😊**
• Mobilizing resources: **Positive** to neutral
  – Especially helpful for smaller/younger firms 😊
• Keeping informed: Neutral 😞
• Active monitoring: Neutral 😞 to negative 😞

3: Successful family firms

• Implement family governance practices to build a strong family-owning group
### Building the family owning ‘team’

<table>
<thead>
<tr>
<th>Family governance</th>
<th>Teambuilding</th>
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<tbody>
<tr>
<td>Family Council</td>
<td>Shared vision</td>
</tr>
<tr>
<td>Constitution</td>
<td>Shared vision</td>
</tr>
<tr>
<td>Clear selection for leadership roles</td>
<td>Clear roles/responsibilities</td>
</tr>
<tr>
<td>Website, newsletter, reunions</td>
<td>Interpersonal relationships</td>
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<tr>
<td>Code of conduct</td>
<td>Ways to resolve conflicts</td>
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In SMEs, we found:

- Family Governance Practices
- Collective Mindset
- Responsible ownership behaviors
- Commitment to building family wealth
TO RECAP...

Make an impact
To build family wealth and to assure effective firm performance

1: Owners should function as a team:
   - trust one another
   - cooperate
   - be honest
   - share a positive team spirit
To build family wealth and to assure effective firm performance

2: Owners should share a common vision for the firm including a commitment to building wealth as a group.
To build family wealth and to assure effective firm performance

3: Owners should take a long-term view of their investment (patient capital) and of the firm.
To build family wealth and to assure effective firm performance

4: Owners should consider implementing *family governance practices* to build in team spirit into the family firm:

- family council
- family constitution
- code of conduct
- reunions/website
To build family wealth and to assure effective firm performance

5: Owners need to act professionally—respecting the shareholders’ agreement and the hierarchy of authority.

Shareholders Agreement

CEO

Marketing  Accounting  Operations
To build family wealth and to assure effective firm performance

6: Owners should take inventory of their own resources (time, network, funds) to support the firm where they can.
To build family wealth and to assure effective firm performance

7: Owners should be cautioned against monitoring management UNLESS it is their explicit task to do so
The entrepreneuring family Paradox

Each individual enhances personal gain by commitment to the business-owning family
Figure 3: A Resource-Based Model of German Mittelstand Innovation (from DeMassis, Audretsch, Uhlaner, & Kammerlander (in press)).

1. Niche focus and customer collaboration
   - Mitigates

2. Globalization strategy
   - Enabled by
   - Weaknesses can be addressed by

3. Preference for self-financing
   - Enables

4. Long-run mindset
   - Enables

5. Superior employee relations
   - Fosters

6. Community embeddedness
   - Mitigates

German Mittelstand Firms
- Lack of financial resources
- Familiness resources
- Lack of human resources

Innovation of the German Mittelstand

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QUESTIONS?
Thank you