FAMILY-OWNED BUSINESS

30 years of answered questions

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Biography of Josep Tàpies

Josep Tàpies is a Professor in the Department of General Management and holder of the Family-Owned Business Chair at IESE Business School. He holds a PhD in Industrial Engineering from the UPC (1987). He also holds a Master in Business Administration from ESADE (1979).

His areas of specialization include, among other topics, strategic management, corporate governance, family businesses, their development and governance systems. He currently teaches several courses in both the MBA and executive education programs at IESE. He also designs programs that are highly focused on the problems of family businesses in which he teaches Management, Government and Strategy of Family Businesses.

He has taught at different business schools around the world: CEIBS in China, AESE in Portugal, IDE in Ecuador, PAD University of Piura in Peru, ISE in Brazil, IAE in Argentina, ESE in Chile and INALDE in Colombia, among others. He has also been a member of the Academic Council of IPADE in Mexico and ESE in Santiago de Chile.

Professor Josep Tàpies served as a member of the board of IFERA (International Family Enterprise Research Academy) from 2006 until 2013, when he took up his current position as a fellow of that academy. He has worked as a consultant for several companies as well as for Spanish and international banks. He sits on the Boards of Directors of several Spanish companies.

Other publications of Josep Tàpies

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To family businesses all over the world and their family owners.

Also, of course, to my family, who stoically endured my absences and confinements which have allowed me to focus on my teaching and research into family business, a subject that has occupied me and which will continue to occupy me for a long time to come.

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There are many people and institutions that I have to thank for teaching me so much about family business. The foremost of these is Professor Miguel Angel Gallo, who held the Chair of Family Business at IESE from 1978 to 2003. I would also like to thank Carlos Cavallé, who first came up with the idea of sponsoring a chair of this kind thirty years ago, and Jordi Canals, who, with his constant encouragement, has succeeded in setting us increasingly higher goals.
Likewise, I would like to thank all the people who have collaborated in the different publications and activities of the Chair from various research and teaching positions. Last but not least, I would like to mention all the business families that have supported our activity over the last thirty years.
To all of them,

Thank you very much

Presentation

If you've come this far, it's because you're interested in the world of family business. Congratulations. The publication you have in your hands is nothing more than the paper version of a small interactive manual, available in digital form (empresafamiliar.iese.edu), that contains the essential elements of what we at IESE's chair of family business believe anyone in the business world or linked to a business family should bear in mind when deciding to enter the exciting world of family business. Although a printed version can never have the agility of a digital edition in terms of cross references, we have tried to include a series of "pointers" between pages to interrelate the various themes developed in the manual. Our intention is that whoever reads this book will see the importance of the interrelation between the different topics treated, thereby allowing him or her to jump from one topic to another in an agile way. I hope we have achieved this.

Introduction

Thirty years have now gone by since the first chair of family business in Europe was launched at IESE. It was a particularly good time to do so as the family business had just emerged from a great lethargy, academically speaking. Family businesses have always existed, and they will continue to do so. However, the 20th century was a long journey across what was an academic desert for this type of company. Indeed, the first relevant study recorded in the field of family business was the thesis that Grant H. Calder published in 1953, entitled "Some management problems of the small family-controlled manufacturing business". In 1964, Robert G. Donnelley published an article in the Harvard Business Review entitled "The Family Business". In this article, he showed that the link between family and business does not necessarily lead to less efficient businesses. The negative image of the family business began here.
It was not until the 1980s that there was any significant progress in the development of the discipline. Published works ceased to be something sporadic, and family business became a real object of academic study.
John Davis's doctoral thesis at Harvard University, presented in 1982, was a before and after event in the sense that it constructed a specific theoretical framework for family business. This thesis included the so-called three-circle model (Figure 1). This model maintains that three systems interact within a family business: the property, the company and the family; and showed that it is necessary to separate and manage each one of these in a specific way to ensure the proper functioning of the whole. A few years after the reading of this doctoral thesis, another influential book on family business was published, "Keeping the Family Business Healthy", written by Professor John Ward. This work pointed to a series of good practices for the proper governance of the business family and the family business. The foundations of the new discipline were laid in these and other pioneering works.

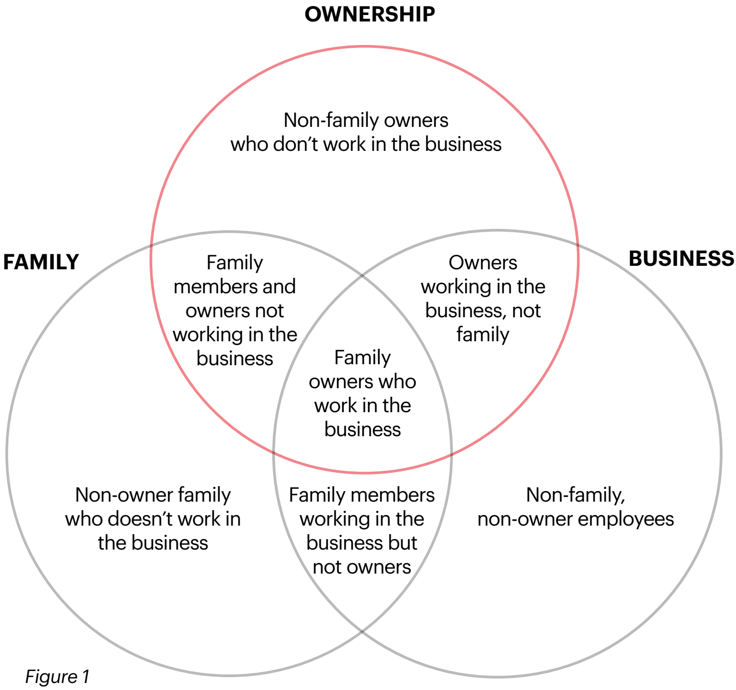

Figure 1

It was also at this time that family business found a specific place in business management schools, in both research and teaching, through specialized centers. The creation of the Family Business Chair at IESE Business School in 1987 was a landmark in this regard, and the entity was the first of its kind in Europe. March 1988 saw the publication of the first issue of the leading magazine in the field: Family Business Review. At the same time, institutions and organizations devoted to studying and defending the interests of this type of company were established, and these included the Family Firm Institute (1986) in the United States, the Family Business Network (1989) in Europe and the Family Business Institute (1992) in Spain. Interest in the subject grew exponentially during the 1990s and the first decades of the 21st century.

It does not seem risky to say that family businesses are different from other companies. The difference lies in the institutional configuration of the company. Non-family businesses are governed by mercantile codes that are not sufficient in family businesses.

In the aforementioned model of John Davis's three circles, the interaction of three areas governed by different criteria is evident.

The family business system is described as three interacting subsystems: business, property and family.

In the ownership circle, mercantile legislation helps to clarify things, and the rules for use in the capital market make it possible to establish clear criteria for a return on invested capital. Family businesses have in their patient capital a clear competitive advantage, but ignoring the rules set by the capital market can be dangerous in the long term. Shareholders deserve a fair return on their invested capital.

Within the area of company management, one single criterion is required if we are to maintain the company in a competitive position: meritocracy. The positions of greatest responsibility must be in the hands of those who are best prepared to assume them.

In the third perimeter, the family, there is only one rule: love. People are loved as they are, not for what they are or what they know how to do. One does not have to be very clever to understand that a confusion of rules between spheres can be a lethal combination. Feeling deep love towards an employee should not result in us demanding less from that employee. Managing each of the planes with the right criteria facilitates the harmony of the family, although this can occasionally create some kind of tension.

Anyone linked to a family business can be situated in any of the seven sectors that are formed by overlapping the three circles of the subsystems. These will be family members, owners, employees or several things at the same time. The intersections between the different circles give rise to situations in which the person plays a double or triple role, making it easier to fall into the errors of this type of business. People who, because of their double or triple roles, are framed in one of the intersections of the three circles can get easily embroiled in interpersonal conflicts that appear when decisions are being made about the family business (succession, professional career, dividends, etc.).

Having a good understanding of the interests of these people is key to preventing the emergence of these conflicts and, where they do arise, being able to manage them properly. Successful family businesses differ from unsuccessful ones insofar as the former offer mechanisms to resolve the conflict before it appears, notwithstanding the fact that conflicts do appear in both kinds of company. Conflict is inherent in human nature. Whenever two or more people come together, there will obviously be conflicting interests. Therefore, it is necessary to be prepared for conflict when it does arrive, and to make sure that it does not hinder the good running of the company.

We hope that this “pocket manual” will be of some help to all those who believe, as we do, in the importance of the family business.

1

FAMILY-OWNED BUSINESS

30 years of answered questions

1 FAMILY-OWNED BUSINESS

Many people express surprise when they discover that almost 90% of companies in Spain are family-owned businesses[1]. One would say that the family and business environments are as far removed from each other as the heart is from the brain. However, if we look at things more closely, we will see that family and business are two realities that have always gone hand in hand. Ever since the beginning of time, and in the most natural way, people have made considerable efforts to create and maintain businesses that can sustain their families and, in turn, families have offered a guarantee that the business would never run short of labor. How many people have founded a company in order to ensure a future for their children? How many businesses have come together by uniting families, and conversely, how many families have been split because of a business decision?

Family survival - the desire to ensure the livelihood of future generations - lies at the heart of most of the business adventures that people have undertaken. And this remains true to this very day for 17 million companies throughout Europe; 60% of the total[2].

Times change and society evolves. The realities of business are now taking increasingly diverse forms and the same can be said about the reality of families. However, the shared space - that in which both realities must coexist - continues to appear as a constant challenge. A challenge to family unity. A challenge to the very survival of the company.

It is precisely here in this common space, this area of intersection between the personal and the professional realms, where we have focused our attention over the past 30 years.

The IESE Chair of Family-Owned Business is nothing other than an ongoing effort to help define these spaces and preserve them. Because – as we often say – it is simply a matter of "treating the company as a company and the family as a family". Knowing where one begins and the other ends, and safeguarding those limits and acting accordingly, is the bedrock on which the survival of both is built.

1. Data from the Instituto de Empresa Familiar. URL: www.iefamiliar.com
2. Data from the Instituto de Empresa Familiar. URL: www.iefamiliar.com

Over these thirty years of study we have used many scientific, sociological, anthropological research tools, but the most powerful of them all, the one that launches the entire process, has always been the same: *the question*. As scholars, we put ourselves in the shoes of the members of a family business to ask ourselves all those questions that they encounter in their everyday lives. Attempting to resolve all those questions is what has kept us busy over the last thirty years.

The ANSWER is out there:

Somewhere among those almost 90% of family firms[3] that resolve - or perhaps fail to resolve - the challenges that they encounter on a daily basis. Their successes and their failures are what inspire us to learn valuable lessons. However, this is a journey of comings and goings: we feed off reality in order to generate knowledge, and we generate knowledge in order to contribute to improving reality. IESE's proximity to the business world is the perfect platform insofar as it allows us to study all those things that we wonder about at close range, and the Chair of Family-Owned Business is the perfect outlet for disseminating our learnings in the form of books, articles, meetings, and a variety of publications and activities[4].

We are now celebrating our thirtieth anniversary with a publication that faithfully reproduces the essence of the Chair of Family-Owned Business: a compendium of questions and answers taken from the perspective of those who divide their everyday lives between the family environment and that of the firm.

3. Data from the Instituto de Empresa Familiar: URL: www.iefamiliar.com
4. Further information at: empresafamiliar.iese.edu

IDENTITY: the importance of knowing who we are

It might seem obvious, but a company does not become a family business simply because its founder has a family. Bill Gates has a family but Microsoft is not a family business. Walmart, on the other hand, belongs to the Walton family.

Do I have a family business or am I the owner of my company?

There is no questioning the fact that the Gates family participates in some way or other in all that is concerned with the company, but for whatever reason, Microsoft never actually crossed the line that would have made it a family business. On the other side of the coin, we find Sam Walton, who founded a family business back in 1962 when he started what has since become one of the world's largest companies in the retail sector. Walton thought out all his strategy on the basis of family ownership of the company, which has continued under the control of his children and grandchildren since his death in 1992.

These examples apply to the United States as well as to the rest of the world, and they are as relevant to companies that have become huge multinationals as they are to smaller businesses.

The governance of the company in one case and the other will involve different challenges, and therefore – just as in our personal lives – knowing who and what we are is essential. Do I want my company to be a family business with all that this implies? Or do I want the company that I have founded to be owned by me but without getting my family involved? If the company has already been handed down to us as a family enterprise, these questions will surely have passed (or at least they should have) through the mind of whoever founded it.


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What we establish when we create a family business is a complex reality full of nuances, but at a general level, we will stick with the definition of the Brussels-based Group of European Family Businesses (GEEF). According to this institution, a family enterprise is one that fulfills certain requirements:

1. The ownership or the majority of the voting or decision-making rights in the company should be held by the same family.

2. The family should exercise its decision-making rights either directly or else through holding companies.

3. The family should be the founder of the business or else it should have acquired the business.

4. At least one member of the family should be involved in the management or running of the business.

Across the world, the persons who choose to create a family business are in the majority with respect to those who chose another route when starting their company. According to data from the Family Firm Institute, family businesses account for between 70% and 90% of world GDP. It goes without saying that most of these are SMEs and small businesses, but we also find some of the world's biggest companies who represent some of the largest family fortunes on the planet.

What type of family business do we want to have?

When a person creates a family business, that person is accepting – among other things - that the company will continue to exist after he or she has retired. Knowing that there will be a "next generation" is something that should be on the cards from the very moment that the company is founded, and the sooner this is recognized, the better.

Recognizing and keeping in mind that the firm must continue to exist beyond one's own time is the first step towards defining the roles and strategies that will facilitate the succession, and therefore the survival of the company.

There are several formulas.

1

Family-Run Business.

When the members of the family develop their professional careers within the company, we have what is known as a family-run business. These businesses range from those micro-SMEs in which a profession or trade that is passed down from parents to children is carried on, to any other type of company in which the members of the family are part of the workforce.

2

Family-Managed Business.

In some family businesses, it is decided that the members of the family can only join the business if they are prepared to undertake an executive or managerial position. In these cases, family members who want to access these positions can only do so after a specific period training for their future job, and occasionally, they are obliged to acquire professional experience in companies outside the family.

3

Family-Governed Business.

In some cases, the family decides to reserve only positions on the company's Board of Directors for its members. In this way, the family remains on the governing body but without getting involved in the day-to-day running of business activities.

4

Family Holding.

This formula continues to be considered a family firm although in practice the family members are owners of business participations in several companies within the family holding, and their commitment is exclusively through the Family Office[5].

5. For further information see "What should we expect from a Family Office?", p. 72.


5

What role do we want the members of the family to play in the firm?

Just as there are small, medium and large companies, family size is also an element that should be taken into consideration by those in charge of a family business.

Surely, there are few cases in which all the members of the family are qualified to occupy a position in the firm as well as being willing to do so, and the company is large enough and has sufficient space to incorporate them. In the majority of cases, how the members of the family fit into the business structure is something that is studied or at least it should be studied to ensure that no wrong or false steps are taken for one or other environment[6].

For a start, we will need to know which members of the family are willing to join the ranks of the company as active members. This desire must be expressed freely and without any pressure – otherwise problems will arise sooner or later –, although it is evident that those who are born into the heart of a business family will feel a *natural* predisposition. Indeed, one of the obligations of any business family is to instill a love for the company among family members from a very young age and also to inculcate them with an entrepreneurial spirit so that the family members feel the urge to contribute to the continuity of the project over time[7].

6. For further information see "What are the five golden rules for avoiding conflicts?", p. 120.
7. For further information see "Values, vision and mission: the importance of knowing where we are going", p. 41.

***The link between the family and the company can take several different forms[8]*, but in any event, the incorporation of members of the family who have shown a willingness to do so should always respond to one single question: does this family member contribute something to that position which a person from outside the family would not?**

8. For further information see "What type of family business do we want to have?", p. 27.

That *something* opens up a world of possibilities

That *something* opens up a world of possibilities, and these range from more objective aspects (training, experience, skills) to more subjective ones. If there are two candidates for a position (one from within the family and another outside it), the balance would undoubtedly tip in favor of the family member insofar as he or she would bring all those intangible things that make a difference: family values, pride of belonging to the project and to the family, motivation, involvement, etc.

In any case, taking special care when assessing a family candidate versus other possible candidates is key to avoiding one of the typical mistakes[9] that could put the company at risk, and which would generate unrest within the family sooner or later.

Observation has shown us that the most successful family firms reserve adequate jobs for the members of the family who are suited to each position. The company space is a big one, and it is not necessary to have everybody in an executive position. A family firm intent on surviving over time will have provided itself with all the structures and mechanisms necessary to make it competitive in the long term.[10] In each of these structures, the members of the family will find a space to which their profile is suited, and this will allow them to contribute to the success of the company and also to ensure their own personal fulfillment. Even when that space is limited to ownership as a company shareholder, the role of the family members can, and must, demand a sense of involvement and responsibility[11] that will keep them closely linked to the future of the company.

9. For further information see "What are the five typical errors that we should avoid?, p. 124.
10. For further information see "Corporate Governance: the importance of creating institutions", p. 53.
11. For further information see "Shareholders: the importance of making sure that all owners can feel a sense of responsibility", p. 87.

Unless we are talking about a micro-SME in which all the jobs are covered by family members, the company will have family members working side by side with non-family members, and depending on the role that we have defined for each of them, there may even be some managers or members of the Board of Directors who are not part of the family.

So, how do we define the space that is to be occupied by employees who do not belong to the family?

Like any business, all employees should know and share the vision, mission and values of the company.[12] However, where a family company is concerned, there are some other tools that we should use, and this is especially true regarding the management team.

Transparency with non-family executives in all that might directly or indirectly affect them creates a "psychological contract" that can even become more important than their work contract, because at the end of the day, what unites the family is a combination of loyalty and trust. Accordingly, sharing with them something as important as the Family Constitution[13] - which sets out the roadmap of the business family – will be a way to make them feel part of the idiosyncrasy of the family, and this will help them to get a better understanding of decisions that lie beyond their control. Anything that helps people outside the family to feel that they are participating in the same project as the founders – albeit at a certain distance – will result in a greater link to and involvement in the firm.

In the majority of cases, the challenge is not so much a case of building that bond of trust as knowing how to define it. As the family entrusts responsibility to a member of the management team, that person generates even more trust and shows more loyalty, leading to positions with even more responsibility. This dynamic sees the manager grow so close to the core family unit that it is often said that "they are *like* family". This observation shows that knowing how to identify the limits and not crossing them is the element that guarantees coexistence and harmony, and this is what helps to avoid problems. Once again, the key to achieving this is to have tools such as the Family Constitution that specify the rules of the game clearly and explicitly and in such a way that everybody will always know the role that they play within the company as a whole as well as the one that they have within the family.

12. For further information see "Values, vision and mission: the importance of knowing where we are going", p. 41.
13. For further information see "Do we need a Family Constitution?", p. 82.

What advantages does being a family offer us?

Combining company and family truly is a challenge as far as making each of these projects successful is concerned, but it also offers certain advantages.

MOTIVATION

A job can offer many vital motivations. In the worst-case scenario, the only motivation we have is what we receive in each wage packet, but in most cases, we find a sense of personal fulfillment, self-esteem, and in the best-case scenario, happiness. Members of a family who work in the family business can have all these motivations, but they may be able to add a few more simply because of the fact that they are family: they are working to build, maintain and pass on a legacy, a material and immaterial wealth that they will share with their nearest and dearest.

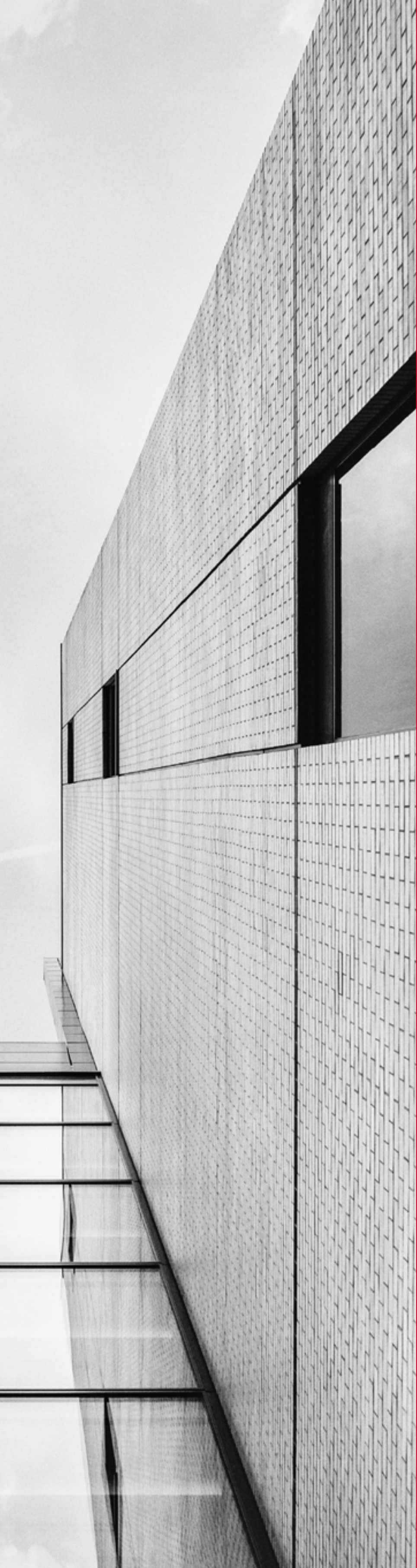
MISSION[14]

Today, almost all companies have learned the importance of identifying, affirming and sharing the mission that gives meaning to what they do with the entire organization. However, it is often difficult to transfer this and to ensure that all the members of the company are imbued with it. In the family firm, on the other hand, the business mission stems from the family itself. It is rooted in the culture and in the way of doing things. The mission that the company pursues with its activity is based on explicit values that come from the family. In a natural way, it is shared and passed on to the employees from the very moment that they join the company, because it is part of their DNA from the time that it is founded.

14. For further information see "Values, vision and mission: the importance of knowing where we are going", p. 41.

REPUTATION

One of the challenges faced by any business is that of differentiating itself from the competition to make sure that it stands out within its sector. Building this personality is easier when there is a family behind the company that is already providing those distinctive features and its own way of doing things. A family that enjoys a good reputation as a family will want that good reputation to extend to the business. For the end customer, the sensation of proximity that accompanies things one has heard about the family, or even the idea that one already knows the family because of the reputation that precedes it, adds an extra boost of confidence which can sometimes help to tip the balance in its favor.



PATIENT CAPITAL

When a company has a duty to shareholders who do not have a relationship beyond the purely economic one, the pressure to produce results is more than obvious. In the case of the family firm, on the other hand, there is what we call "patient capital". In other words, the shareholders, since they are members of the same family, are better at supporting periods of crisis and lower distributions of dividends because company results are measured in terms of generations rather than financial years.

What dangers do we face compared to other companies?

When one side of the coin is all advantages, it is impossible not to think that there is also a flip side. Family businesses are primarily faced with one threat that other companies never have to deal with: the unity of the owning family. If the family remains united, it will be possible to bring all the advantages that that union bestows upon them into play. However, if personal relationships are strained, the future of the company will be at stake.

It might be surprising to learn that one single disadvantage could tip the balance so quickly, but the dimension and complexity of the challenge must be taken into account. Maintaining family unity will involve a myriad of additional efforts when it does not depend solely on the good relationship between and among its members, but also on how the transformation of the company and the involvement of each and every member of it can affect, alter, and influence the emotional wellbeing of the family.

It is indeed true that the company may occasionally play in favor of family unity and act as a powerful binding element. If this feedback is achieved through a shared feeling of responsibility, the pride of belonging to the same business project, and the opportunity that that company offers to put certain family values into practice, the company can even act as a driving force behind family unity.

2

VALUES, VISION AND MISSION

the importance of knowing where we are going

Today, most companies have already accepted the fact that they need to have a code of values to govern the actions at the center of their activity. Moreover, most of them also know that there is no point in trying to build this code for purely cosmetic reasons because the lack of authenticity will always come to the fore.

On the other hand, a deeply rooted code of values can become a base that can support the architecture of the entire business structure. Why? Because people create emotional bonds with those who share their values. If our company defends the values that represent us, we will create a much stronger emotional bond: one which will be more difficult to break than if we were part of a company to which we were only tied by an economic or contractual link.

What is the relationship between family values and business values?

In this regard, family firms have an advantage: unlike other companies, the values of the family firm do not have to be built from scratch because they stem directly from the values of the family itself. If it is possible to identify these values, make them explicit and share them within the family, they can become the best resource that a family firm can have at its disposal. Indeed, observation shows us that family firms that manage to endure over time usually have, whether in written form or otherwise, a system of values that - notwithstanding the fact that it may undergo changes and adaptations - is upheld by consistent principles which represent the essence of the business as well as that of the owning family.

Consequently, the challenge of the business family is based on transferring that system of values from the family environment to the business one. To achieve this, it is important for the family to equip itself with a series of structures and processes that help to develop, imbed and share the values in both the family environment and the business setting, and to use them to help identify a vision and a mission that will guide the day-to-day work towards the future.

VISION

When we speak about vision, we are referring to what is often called the *common dream*, in other words, a dream for the future that is shared by the members of the family. This vision is something aspirational that points the company in the right direction for the long term. Identifying this vision, making it explicit and sharing it with all the members of the family and the company is vital in terms of generating an emotional engagement and moving together as one in that direction.

MISSION

The mission is the *raison d'être* of the company: what real need of society are we satisfying through our activity? From the most tangible to the most tacit, companies are born to satisfy needs that have been detected in the market. Google, for example, has given itself the mission of "organizing the world's information and making it universally accessible and useful"[15]. In the world of the tangible and physical within one of the most traditional and most competitive sectors, the textile multinational GAP has also found its own mission:
"Gap Inc. is a brand-builder. We create emotional connections with customers around the world through inspiring product design, unique store experiences and competitive marketing[16]*"* .
As we can see, the mission sets out the *raison d'être* of the firm clearly, simply and directly, and within the company - whether a family business or not - this will help to decide what is the best governing and managing structure to execute it.

15. Taken from https://www.google.com/intl/en/about/our-company/
16. Taken from https://gapinccompanyinfo.weebly.com/mission-statement.html

Do family businesses have values that are different from those of other firms?

When it comes to publicly stating the values that represent them, family and non-family businesses obviously have many points in common.

All matters concerned with the purely business side of things such as customer focus, transparency, or a commitment to quality, among many others, appear indistinctly in both types of companies. However, when we leave this common ground, we find a number of values that appear mainly or more prominently in family firms.

1

Generosity.

A family that has been formed in a particular territory, and which has grown and expanded in it, can feel a very close bond with that territory. In this context, generosity emerges as a value that allows those in the firm to contribute to the development of that territory to which they feel rooted.

2

Humility.

The family firm sees this value as a reminder of what it is and as a means of keeping its feet firmly on the ground. Even though success and business growth are indeed objectives of all companies, they can also carry a threat if the members of the family lose sight of their true position in terms of the ground that supports them.

3

Service.

In line with humility, a vocation to serve is a value that emerges in family firms in particular, where there is a risk of thinking that the company is at the service of oneself and the family, rather than the other way around.

4

Communication.

One of the keys to maintaining the cohesion and wellbeing of all the members of the family is to make sure that constant and fluent communication is maintained. This need for communication even extends to those family members who are not involved directly in the day-to-day running of the business because making them feel linked to and involved in the results will depend on it.

5

Reputation.

The future of all companies depends on their social reputation. But in the case of a family firm, the reputation of the firm also compromises the reputation of the family, and vice versa. How many family businesses use the family surname as their brand name? When both realities share the same name, obviously the reputation is also shared. This is the reason why taking care of reputation is such an essential value in family firms, because it means preserving not only the company name but that of the family as well.

What are the values that help us feel like a business family?

Apart from these aspects, the list of values that are particularly present in family firms also includes what we might define as "learnt values", in other words, all those things that one has seen done at home since birth. These are the values that one grows up with and which that person then incorporates as an adult into the way they manage the family business.

These values include the entrepreneurial spirit, the culture of effort, the importance of discipline, respect, etc. And, unlike other companies, in a family firm, from the moment they are born, people not only receive an education that contemplates their possible incorporation into the business when the time comes, but also in the role for which they are best suited and prepared.

Obviously, all families have certain obligations towards their children. These are obligations that form part of a personal and social setting, such as the obligation to feed them, educate them or teach them to live with others in society, to mention just a few. However, within a business family, there is another specific characteristic that should be seen as an obligation: the obligation to instill in them an enthusiasm for the family business project.

Specifically, in order to feel like a business family, it is important to instill two values in the following generations:

AN ENTREPRENEURIAL SPIRIT

Regardless of the position that the descendants end up holding in the company, this entrepreneurial spirit will allow the company to continue innovating in order to adapt to the times. Even at a shareholder level[17], the entrepreneurial spirit is key to supporting decisions that will guarantee a future for the company.

A PRIDE OF BELONGING

From a young age, the members of the family can start to learn what the business actually is, and to discover what it does and how it does it. The idea that our family is in the driving seat of a competitive business and at the head of a socially responsible company can help to generate a pride of belonging, and consequently a desire to preserve this asset and contribute to its permanence over time.

17. For further information see "Shareholders: the importance of making sure that all owners can feel a sense of responsibility", p. 87.

But how can these values be passed on?

1

By setting an example.

As researchers, our observations have led us to confirm that family businesses that have lasted for hundreds of years have known how to pass on these values from one generation to the next through the example given by the members of the family. In some cases, this training in values can be made more explicit by appointing mentors who work with the future generations. These mentors can be either members of the previous generation of the family or external persons.

2

By teaching the responsibility of the inheritance.

When persons are born into the heart of a business family, they may take it for granted that they will someday lead the business that they are going to inherit without having to make any considerable effort. An education in values helps to avoid this complacent spirit or relaxed approach by inculcating the idea that all privileges carry a great responsibility. Feeling the responsibility of the inheritance is key to making sure that future generations get involved in the future of the company, even if it is only in the role of responsible shareholders[18].

18. For further information see "Shareholders: the importance of making sure that all owners can feel a sense of responsibility", p. 87.

3

By planting the seed of a meritocracy[19].

Future generations must understand that simply belonging to the family does not place them directly in a job within the firm. On the contrary, from a very young age, they need to understand that they must show that they deserve this business legacy.

4

By respecting individual vocations[20].

Not everybody who is born into a business family will want to take an active part in the family firm. To prevent conflicts and maintain family unity – which are key for the survival of the company – it is very important to respect the individual preferences of the following generation and to maintain fluent communication from a very young age about what each one expects.

5

By documenting the family history.

The transmission of values from one generation to the next will be more effective if the youngest members know their origins and fully understand them.

19. For further information see "What are the five typical errors that we should avoid?", p. 124.
20. For further information see "Happiness: the importance of making sure that all family members can find their space", p. 133.

3

CORPORATE GOVERNANCE

the importance of creating institutions

Why do we need a system of governance even more than other companies do?

Family businesses have to deal with a risk that typifies their status: an excessive dependence on the people who hold key positions in the organization. In many cases, the same person owns the company, is in charge of its governance, and holds maximum responsibility for its daily management. This concentration of functions in one person or in the hands of a few family members can lead to a lack of what is known as accountability, in other words, the need to report or give an account of what we are doing. This represents a clear risk for the durability of the firm, because in these cases, if the people who hold all the power retire or die, the company will be left an "orphan" and it will be affected in a way that could be traumatic.

To neutralize this risk, family businesses, even more than other types of companies, need to equip themselves with institutions that allow them to structure the ownership, governance and day-to-day management of the company, because (as we often say) people move on, but institutions remain.

If a business is excessively dependent on specific people, this will weaken it and put it at risk. Roles are important but it should be possible to change the people who perform them over time. Taking steps to prevent such dependence requires an effort to rationalize a very emotional reality that is typical of a family environment in which personal and affective relationships are everything. Consequently, the shaping of an institutional system that can be passed on from one generation to the next offers a rational, objective, and strategic framework; one in which these relationships are subordinated in a consensual and non-conflictive manner to the better good of the business.

The involvement and decisions of family members are key if this institutionalization process is to be completed successfully, because those at the head of the firm are precisely the people who must overcome the emotional variables, "egos" and relationships, and make a strong commitment to institutionalization. If they fail to do so, it will be difficult for the business to sustain itself over the course of the following generations.

Just as important as defining an institutional configuration, it is essential to specify what role each organ is going to have in order to prevent the functions from getting mixed or overlapping. This is a usual occurrence, especially during the leadership of the first generation.

MANAGEMENT COMMITTEE

Having a Management Committee prevents the power of decision-making from being concentrated in the hands of a single person. The creation of a management team, with members who may or may not be employees, helps to neutralize the executive dependence of the firm on a single person, and this also helps to pluralize points of view.

BOARD OF DIRECTORS[21]

The Board of Directors is the firm's highest governance body. This is where consultations are made and where the strategical decisions that mark the long-term course of the company are taken. The composition of this body is key in terms of ensuring that the future of the company is in the hands of a team that has the necessary experience and vision. The fact that these persons can come from either inside or outside the family business will ensure the presence of persons who are not so sentimentally attached to the business, and for whom decisions have a lighter emotional burden.

21. For further information see "What role does the Board of Directors play?", p. 58.

Family and Corporate Governance

How can we prevent family relationships from interfering in the composition of the corporate governance bodies?

One of the five basic rules[22] for making sure that the relationship between family and business does not generate conflicts might seem simple enough in theory, but it can be quite difficult to execute: we must treat the business as a business, and the family as a family. In order to put this principle into practice, it is important to identify and maintain the criteria on which decisions are based in each area.

Within the business, the people who hold the various positions within the operational structure or on the governance bodies should only be chosen on the basis of meritocracy; in other words, each position should be occupied by the person with the best qualifications for the job. In the case of the family, on the other hand, it is obvious that we should not judge people by what they do but love them for who they are. The family is founded on relationships of affection and it is a universe in which members do not compete in the market but rather they look after the relationships with and among each other.

This fundamental difference confronts us with two realities that might seem antagonistic at first. Rather than see it as a threat, we should regard this enormous distance as an opportunity, because if we respect it and act according to the differences between one area and the other, we will discover the key to the survival of both the company and the family.

22. For further information see "What are the five golden rules for avoiding conflicts?", p. 120.

What role does the Board of Directors play?

The Board of Directors is the most strategic body of governance in a family business. By monitoring and guiding the Management Committee, the Board of Directors can ensure the continuity of the company and its long-term focus. In a family firm, this body must be capable of carrying out these functions, adding an extra ingredient to its deliberations: the family. The fact that the ownership of the company lies in the hands of a family adds different overtones to both the members of the Board of Directors and their decisions, compared to those that we might expect to find in companies where the shareholders do not share an emotional bond. The tasks of the Board of Directors include some of the things that it must do, and others that it should allow to be done.

1

Mission, vision and values[23].

As the representative of the owners, the Board of Directors must help to transmit the mission, vision, and values that the owners have defined for the company to the Management Committee.

2

Strategy.

The Board of Directors must approve the strategy that the Management Committee proposes. It is evident that the members of the Board are professionals with broad experience and with very valuable opinions that can enrich the information and ideas of the Management Committee when it comes to developing the strategy. However, to prevent conflicts, it is important for the roles to be well defined[24] and the Board of Directors will be responsible for approving the strategy even though it is not responsible for its implementation.

23. For further information see " Values, vision and mission: the importance of knowing where we are going", p. 41.
24. For further information see "¿ Why do we need a system of governance even more than other companies do?", p. 54.

3

Control.

In order to ensure the continuity of the firm, the Board of Directors must control both the strategy that has been marked out for the long term, and the financial health of the business. Not following the strategy set out in the business plan can be harmful, but failure to fulfill financial commitments can be lethal.

4

Promoting institutional development[25]*.*

As a guarantor of the continuity of the firm, the Board of Directors must promote the development of institutions to ensure that there is no dependence on specific persons, and to allow the firm to move forward. People come and go but institutions remain, and accordingly, if we want the firm to pass from one generation to the next, the Board of Directors must promote the development of structures and processes that will ensure that everything can endure regardless of whoever is occupying each position at any given time.

5

Succession.

All Boards of Directors, whether they be of a family or a non-family firm, should have a succession plan for the position of company CEO. It would be reckless not to have a contingency plan that makes sure business activity could continue if something were to happen to its top executive. Having such a plan and facilitating its implementation is one of the obligations of the Board of Directors.

6

Leadership.

In addition to the functions that it must develop directly by itself, the Board of Directors is also responsible for making sure that others - mainly the Management Committee - carry out their functions. For example, once the strategy has been approved, the Board of Directors will see that it is executed correctly by the Management Committee. It will also make sure that results are achieved, and that the managerial talent of the team involved in the everyday running of the business is developed.

25. For further information see "Why do we need a system of governance even more than other companies do?", p. 54.

What is the role of the Management Committee?

Unlike the Board of Directors, the Management Committee is a body devoted to establishing actions to fulfill objectives in the day-to-day activities. It is made up of members of the senior management team, and its scope of action is the short term, although it should not lose sight of the importance of the company's long-term strategic objectives.

In a family firm, having a Management Committee - formed by people from both inside and outside the family - helps to neutralize the company's executive dependence on a single person, whilst simultaneously pluralizing points of view when operational decisions are being taken with regard to day-to-day activities.

The relationship between the Management Committee and the Board of Directors is a very close one, and it is often difficult to separate the functions of one and the other since they are very closely related. However, we need to make an effort to maintain this separation. Governing and managing are two different things.

THE TASKS OF THE MANAGEMENT COMMITTEE

Executing strategies and budgets.

The Management Committee is responsible for preparing the strategic plan, operational plans and annual budgets, which must then be approved by the Board of Directors. Once these have been approved, the Management Committee shall be responsible for meeting these budgets and strategies through the operational decisions of the day-to-day running of the firm.

Organizational structure.

To fulfill its objectives, the Management Committee must ensure that it has the best organizational structure to achieve them. Defining functions, delegating authority and assigning responsibilities to the persons who are best prepared to carry out each task is the best way of making sure that more operational decisions respond and contribute to achieving the strategic objectives.

Communication.

The Management Committee remains in direct and daily contact with the entire organization, and it is responsible for providing information about anything that might affect the company and the persons that make it up, and will do so with transparency, precision and conviction.

Evaluating and developing managerial talent.

The Management Committee is able to observe the performance of each member of the company at close range. Evaluating these people and compensating them in the most suitable manner is the best way of making sure employees are satisfied, and if necessary, adjusting these systems is key to maintaining an organization in which everybody counts. The Management Committee can, and must, also propose the appointment, training and hiring of staff in each of the areas or departments where an opportunity or need for improvement has been detected.

4

FAMILY GOVERNANCE

the importance of creating institutions

Does the family also need to have governance structures?

It is often said that the golden rule for making sure that a family business can continue to exist is "to treat the company as a company and the family as a family". But, what aids do we have to help us achieve this? Governance structures are undoubtedly the best means of contributing to this objective, both within the business arena and within the family *per se*.

While on the business side we have a Board of Directors or the Management Committee[26], in the family environment there are other bodies such as the Family Council, or powerful tools such as the Family Office or Family Constitution.

A business family not only reinforces itself in its own right with these structures, but it can also strengthen its ties to the business by establishing a relationship that adds value to one and the other. In possible crisis situations, these tools offer a stable and objective framework that can help to resolve conflicts.

26. For further information see " Why do we need a system of governance even more than other companies do?, p. 54.

What does having a Family Council offer us?

The Family Council is a space for deliberation and debate, and a forum in which the family can reflect and take decisions on matters that affect the future of all its members.

Having a Family Council is the best way of preserving family unity as far as the realities of the firm are concerned because it establishes a line of defense and a structured debate framework in which emotions can be better managed, and in which it is possible to actively ensure that the rights and aspirations of all the members of the family are represented. In this way, the Family Council becomes a communication space that not only protects but also promotes dialogue between family members.

At the same time, the Family Council establishes a direct line of communication with the firm through the Board of Directors, thereby keeping the link between family and business alive at all times.

What are the functions and responsibilities of the Family Council?

The ownership of a company carries many and varied consequences for a business family. The precise purpose of a Family Council is to take care of everything situated within this space of intersection, and to shed light on all the issues that need to be seen, debated, and decided, and also to obtain the greatest possible consensus in order to avoid conflict or overcome any conflicts that may appear.

1

Stating the mission.

The Family Council must be a space where the beliefs and values of the business family are articulated and embodied in a mission and an action plan for the family. All of these may be enshrined in a Family Constitution[27], but even if that does not happen, one of the essential functions of the Family Council is to articulate the beliefs and values of the family and to set out clearly what its mission as a business family is. Similarly, it is essential to agree on a common long-term vision of the project.

2

Establishing a strategic family plan.

The family's strategic plan must identify how and where the family is today, and how we would like it to be, and where we wish to find it in the future. The questions are many and of many varied types: Will it be possible to admit all the members of the family to the company? Will there be room for independent professionals? What merits does one need to prove in order to access certain positions? The Family Council offers a calm and orderly debate framework in which all these questions that set out the strategic plan of the family can be deliberated.

27. For further information see "Do we need a Family Constitution?", p. 82.

3

Defining succession policies.

This is not a matter of deciding who will be the successor in the next business generation, but rather one of establishing a succession plan[28] that makes it possible to carry out the entire process in the most natural and least traumatic way possible whenever the moment for a succession arrives.

4

Designing information channels.

The company uses the Board of Directors as a sort of spokesperson, and the family must use the Family Council in the same way to receive all that information and then pass it on to all the members of the family. Information is key to maintaining the link between the family and the business.

5

Ensuring the management of family wealth.

With the passing of the years, the family will hopefully have accumulated a body of assets, and these should not be totally dependent on the risks of the main business. The family may decide to create a Family Office[29] to maintain and manage its wealth, and also of course to make sure that it continues to increase. By creating this office, the Family Council will be providing not only a wealth management tool but also a binding element to maintain family unity.

6

Ensuring the applicability of the Family Constitution.

The Family Council must promote the creation of a Family Constitution[30] that sets out the roadmap that the family should follow in accordance with its principles and values. Once this powerful tool has been created, the Family Council must also make sure that it is developed and communicated to all the members of the family, and measures should be taken to ensure that it is kept up to date and modernized over time.

28. For further information see " Succession: the importance of preparing for a change of cycle", p. 99.
29. For further information see "What should we expect from a Family Office?", p. 72.
30. For further information see "Do we need a Family Constitution?", p. 82.

What should we expect from a Family Office?

The Family Office is the instrument that a business family uses to preserve its wealth.

This is the minimum that most families expect, but if used properly, the Family Office can also be a powerful tool that contributes to family unity, and it can serve as a truly binding element as well. Every business family should expect its Family Office to work to:

1. Preserve family wealth[31]
2. Maintain family unity[32]
3. Act as an incubator of talent and new entrepreneurial ideas at the heart of the business family.

The first of these functions is probably the one that leads all families to create a Family Office in the first place: the family business creates capital and the Family Office is set up to preserve this capital. In precise terms, the key to getting the maximum value out of the Family Office lies in understanding what we mean by the "capital" that the family business has created.

31. For further information see "Apart from financial capital, what other types of capital should the Family Office look after?", p. 74.
32. For further information see "How can a Family Office contribute to maintaining family unity?", p. 78.

The purely economic and financial aspects can be managed in several much simpler ways, and this can be done outside the family by subcontracting a classic wealth management formula. The added value of the Family Office lies in considering the capital to be preserved in a much broader sense than in purely financial capital terms, by managing not only economic wealth but human wealth, talent, personal ambitions, the values and principles of the family, and many other forms of wealth as well.

Apart from financial capital, what other types of capital should the Family Office look after?

The Family Office is an instrument that can offer a high added value for a business family, provided that it is used correctly and that the most is made of it. To achieve this, it is important to see business capital not as something purely economic and financial, but rather as something with many other dimensions.

Intellectual capital.

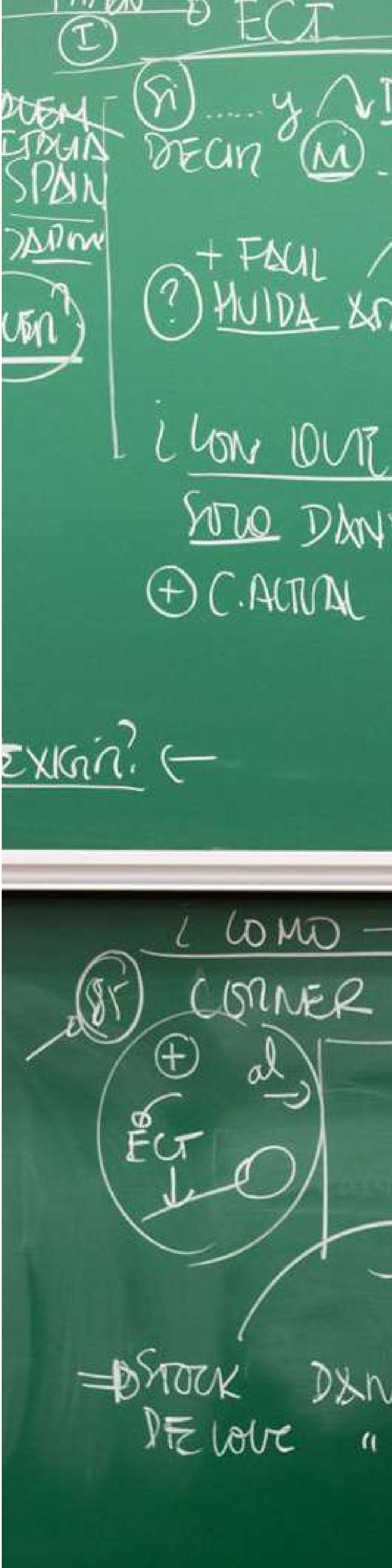
If a business family is to continue to exist, talent will have to be found in each generation of the family. The Family Office must oversee the intellectual development and entrepreneurial spirit of the persons who will take over at the head of the company in the future, following a generational changeover.

Human capital.

Understanding where the talent of each person lies is an essential task that the Family Office must undertake for all the members of the family. This should be done at the most appropriate moment of their life cycle, starting from a very young age. Not everybody has to be an executive, and it is not necessary to have all family members do the same thing. Helping to manage this human capital is key to ensuring that all family members can find their place, either inside or outside the family business.

Relational capital.

Personal relationships are a specific type of capital in a family business. Understanding how the individuals who belong to the same family relate to each other and learning how to resolve conflicts is essential for a business family. Unlike other organizations, in a family business there are far more emotions at play, and conflict management can be more complex. It is necessary for the Family Office to understand these relationships and to build conflict resolution mechanisms to deal with them when they appear.



Social capital.

Philanthropy is a powerful binding element in any organization. Helping others is inherent in human nature. If managed in a professional and proper manner, philanthropy can be an excellent way of bringing the members of a family together.

Operating capital.

What value does the culture of effort have? Effort carries huge value in a family firm. The attitude to work, a commitment to results and, ultimately, the value that each person attaches to his or her own work is a precious capital that must be preserved and passed on, because this involvement and this culture of effort is what will allow the family business to move on from one generation to the next.

How can a Family Office contribute to maintaining family unity?

Not all the members of a business family play an active part in the family business. Even so, the structures of family governance[33] cover the important objective of getting everybody to participate in the firm and getting all the members to share, bind, and commit to the future of the family business, because the continued existence of the company over time depends to a large extent on this unity and this sense of belonging. The Family Office is one of these instruments, and accordingly, it must contribute to maintaining family unity through its functions. To this end, it must give special priority to these three tasks among others.

By offering individual and family advantages.

The Family Office offers some very far-reaching benefits for all the members of the family. At a personal level, being a member of the family, even if not directly linked to the business, means that the Family Office can manage one's personal wealth, take care of one's finances and tax payments and design strategies to reduce one's tax burden, etc. Family members appreciate these services, which they can avail themselves of thanks to the fact that they belong to the group. Moreover, they also know that they are benefitting from economies of scale since managing the wealth as a group makes it possible to achieve greater benefits than if each person were to act separately. Accordingly, all members of the family see the tangible advantages that they can reap from belonging to the Family Office.

By looking after the liquidity of the shareholders.

The family firm must never become a gilded cage. There must be exit mechanisms in place for those who, for whatever reason, want to convert some or all of their shares into cash. It is normal for some members of the family who are not linked directly to the management or governance of the company to have some cash requirements, and the family can help them overcome this problem through the Family Office.

By managing philanthropic activity.

In the governance structure of the business family, it is a good idea to open the way for the professional management of philanthropy, either through the Family Office or using some other specialized structures. This allows the family to contribute to society in a professional and organized way. Philanthropy is a very powerful binding element[34], especially among the younger generations which are increasingly attaching more value to non-economic aspects. This has seen the management of this social capital emerge as one of the strategic lines of the future.

33. For further information see Does the family also need to have governance structures?", p. 66.
34. For further information see "Apart from financial capital, what other types of capital should the Family Office look after? p. 74.

What mistakes should we avoid when we have a Family Office?

Experience has shown that some mistakes tend to repeat themselves in the management of a Family Office.

In one way or other, all of these have their origin in one basic mistake: conceiving the Family Office as a purely economic or financial instrument, without taking into account the complexity of the assets of the family business, which are determined, precisely, by the very characteristic of being a family. The most typical mistakes when managing a Family Office include:

Focusing on the economic side of things.

Human capital is the only source of economic capital. In other words, it is a mistake to focus solely on the financial aspects without paying attention to and developing the intellectual profile and talent of people, because in the family firm the continued existence of the business is dependent upon having people within the family who are able to lead the business.

Not managing risk appropriately.

No organization is free of risk. And Family Offices are no exception. They carry an intrinsic risk linked to the management of the financial capital that they must deal with through an adequate allocation of assets that is coherent with the level of risk that the family is able to bear. However, there are also some risks associated with people which have to be managed. It is essential to establish debate forums that allow us to understand each person's level of aversion to risk.

Being too static.

Wealth management is often viewed as something static. However, families represent a reality that is in constant evolution. There are births, deaths, marriages and separations. Accordingly, the management of this wealth must keep in line with this dynamism, and it is necessary to manage it in a similar way.

Considering the wrong unit of time.

In a family business, the unit of time is not measured in economic cycles, but in generations. Therefore, the strategic plan must establish objectives by taking the generation we are in into consideration as well as the objectives we have set for it and those that we have established for the following generation.

Thinking in quantitative rather than qualitative terms.

Each family is a world of its own. Each family has its own history, a heritage of major importance which is undoubtedly the number one cohesive element and the main source of pride of belonging to the family. Managing wealth in a quantitative way, without taking into account all the qualitative attributes of each family in particular is one of the most typical errors that we should try to avoid.

Do we need a Family Constitution?

Family Constitutions have been used by family businesses since the 1980s. Their purpose is to contribute to a better coexistence between the different generations within a business family.

A Family Constitution embodies the entire universe of values and beliefs of the business family, and it establishes the roadmap that the family will follow in accordance with these principles. More than a document, the Family Constitution is the end result of a process of debate and reflection in which all the members of the family can set out their vision, and thus maintain a dialogue on all those things that unite them as well as all those aspects where they may have different outlooks.

In a family business that is not linked solely to market developments - just like all other companies - but also to everything that goes on at the heart of the business family, having a Family Constitution offers a golden opportunity to get to know each other better, to avoid surprises, and to gather all the members around a common project that has been established in an explicit and consensual way.

What are the four pillars of a Family Constitution?

1

The raison d'être.

What is the objective of a business family? Everything that has been identified in the Family Council[35] regarding the vision, mission, and values of the business family can be set out explicitly in a Family Constitution. This pillar is one of the most important and strongest foundations of the family firm because it tells us the system of beliefs and values that will guide the company towards the future, as well as those that will be transferred from generation to generation. The notions of significance and legacy, which are basically the essence of the family firm, are established in the Family Constitution when we set out the unique and non-transferrable *raison d'être* of each family.

2

Type.

The plans for the future must include a clear idea of what type of family business we want to be[36]. We must have a clear idea about whether we are building a family-run company in which a trade predominates, or a family-governed business, or one where the family will be defined by its investments in other businesses. The Family Constitution is the instrument that helps to establish these constructive discussions, and it combines them all with an analysis of the stage at which the firm finds itself[37]. The longer a business lasts and the more generations that have joined its ranks, the more important it will be to diversify the business to cater for new members of the family and to prevent conflicts arising out of a struggle for power. A Family Constitution will allow us to observe and foresee things in such a way that the business will be able to evolve just as the family does, creating new businesses that can open up new spaces where the members of the following generations can fully and satisfactorily develop their desires and contribute all their talent.

3

Expectations.

We need to decide what it is that we expect from the family business: economic performance, a sense of security derived from having a job for life, the pride of belonging to a project that is worth the effort, or social status. All of these reasons are legitimate, and this issue must be raised and remain clear when we are preparing a Family Constitution. Whatever the expectations, it is important to validate all of them and for an agreement to be reached with all the members so as to guarantee the maximum level of understanding.

4

Extinction.

No company, whether it be a family or a non-family business, lasts forever. In the case of family businesses, the process of building a Family Constitution helps to reflect on the causes that can endanger the continued existence of the company. These can be grouped into two types:

- External causes: the company might cease to be competitive and disappear for market reasons. It might also receive an offer for a takeover or merger, or other procedures whereby the company remains in existence but the family loses its ownership.

- Internal causes: the firm might become a source of disputes due to family reasons, and this could threaten family unity and the continued existence of the company itself.

In both of these cases, reflecting on all of this and agreeing on the strategies to be followed is key to being able to deal with what the future holds in store for us.

35. For further information see "What does having a Family Council offer us?", p. 69.
36. For further information see "What type of family business do we want to have?", p. 27.
37. For further information see "Succession: the importance of preparing for a change of cycle", p. 99.

5

SHAREHOLDERS

the importance of making sure that all owners can feel a sense of responsibility

5 SHAREHOLDERS

What happens to those family members who do not play an active role in the business?

However large a business may be, it is almost certain that there will not be enough space to allow all the members of the family to take an active part in it. Indeed, not all members of the family would wish to play such a role even if they could. Does this mean that these people are no longer part of the family business? Experience shows that not only do these people continue to be a part of the firm, but they should also exercise that role. Even though people may be far removed from the center of decision-making, they should be able to feel the maximum amount of responsibility and involvement possible.

Even when they are not linked to the daily management or governance bodies of the firm, family members, as holders of shares in the business, continue to be owners.

Some of these shareholders will be content to sit back and enjoy their position as paper owners without the need to play any further role while others will seek to get involved in some way perhaps until such time as they become what are known as “proprietary directors”. There will also be others who will choose, with total entitlement, not to be shareholders at all, and sell off the part of the family business that they own. Indeed, since being or not being a shareholder in a family firm is a freely defined right and one without any economic and financial connotations, this represents an expression of commitment and a desire to continue the legacy started by the founding family.

People cannot be obliged to accept this legacy. But if they do accept it, it is important to make sure that they play a much more active role than would be the case with shareholders in a non-family firm.

Why should we have responsible shareholders rather than passive ones?

In any company, a shareholder is somebody who owns a share of the company. However, in a family business, the fact that people are shareholders just because a mercantile company has been created does not mean that they feel the same as shareholders in other companies who are able to buy and sell their shares according to market trends and developments. In the case of a family firm, we are talking about *owners* rather than *shareholders*. If we only have *passive shareholders* who simply attend the General Shareholder Meetings once a year to collect their dividends, we will be losing a valuable family bond as well as the talent that these people can bring to the business. Bearing in mind that what defines a family business is precisely the link and feedback between the two universes - the family and the business - it goes without saying that this distance could be a major danger. And so, to prevent this from happening, it is important for all the owners (i.e. each and every one of the company shareholders) to assume their responsibility as members of the family. In other words, we should take steps to ensure that those who accept the family legacy do not become passive shareholders, and we should do our best to help them become *responsible shareholders*.


S
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MUCH MORE THAN A DIVIDEND

Above everything else, responsible shareholders know what it is that they have, and this is something they value and appreciate. They feel comfortable with the business project of the family to which they belong. They are not merely satisfied with receiving a dividend, but rather they feel that they are a responsible part of a joint project.

LIMITS THAT IMPLY RESPECT

Responsible shareholders respect the organizational and governance structure of the company and they clearly understand the dividing line between their position as shareholders and that of the people who occupy positions on the governance and management bodies.

INVOLVEMENT AND PROACTIVITY

Responsible shareholders contribute and place their own skills at the disposal of the firm in order to guarantee the future of the family business. Furthermore, even though shareholders do not need to be knowledgeable about everything, they ought to have a clear idea of what type of advisor they should turn to whenever certain problems arise.

What are the rights and obligations of the shareholders in a family business?

Exercising ownership of a family business in a responsible way means not only benefiting from the rights that shareholder status implies but undertaking certain obligations as well. Fully understanding this double role will help maintain a strong bond between all the members of the family and the business so that everybody can enjoy the advantages[38] that come with owning a family business.

Experience has shown that the best way to guarantee responsible shareholders is to create a climate in which people are answerable for their actions and have respect for the business; in other words, a climate in which even the people who do not form an active part of the business can also feel responsible for what happens with and within the business. This is known as accountability. However, what can the shareholders of a family firm feel responsible for?

38. For further information see "What advantages does being a family offer us?", p. 35.

1

Values.

The shareholders are members of the family, and accordingly, they can make sure that the values of the business are aligned with those of the family.

2

Transparency.

To exercise responsible ownership, shareholders must know and understand the performance standards that the firm expects, and they must make sure that there are adequate accountability processes.

3

A commitment to objectives.

Shareholders must not only be aware of the economic and non-economic objectives that are established in the business, but they must also understand and assume them.

4

Supporting governance.

Responsible shareholders have an obligation to insist on the firm having responsible and competent management bodies and senior management teams. However, the main responsibility of shareholders is to promote changes in these governance bodies.

5

Respect for shareholders.

Shareholders are owners, and as such, they are entitled to be kept informed of certain aspects of the company. The management team must transmit this information using straightforward language that all the shareholders can understand.

6

Training.

Shareholders need to have a minimum understanding of the business world if all that has been set out above is to happen. This will help to ensure that they are speaking the same language and are "on the same page" as the persons who are informing them.

What training should shareholders be given?

Responsible shareholders have rights, but they must also assume their obligations. Nevertheless, one might be tempted to ask: how can someone be responsible for something that he or she does not understand? Irrespective of the profession or studies of the family members who are shareholders, it is essential to ensure that they receive the necessary training to allow them to undertake their activities as responsible shareholders.

Business organization.

Shareholders must understand the governance structures that companies have as well as the different forms of business organization, and they should also be aware of the implications that these can have.

Communication.

In a family firm, communication should be fluid, and the information should make it possible to monitor the progress of the family business. Responsible shareholders need to receive training in order to understand the mechanisms that are available to them if they wish to communicate with the governance bodies. In the case of a family business, having a General Meeting of Shareholders once a year as dictated under the Companies Act is certainly not a sufficient means of achieving this, so there should be more tools to ensure that people are kept informed of the future of the business.

Finance.

Shareholders must have a minimum knowledge of economics and finance if they are to be able to understand the firm's financial statements, and they should also be familiar with such basic concepts as cash-flow, leverage, dividends, etc.

Taxation.

Without having to go into great detail, shareholders must be able to understand the fiscal consequences of the succession process. The transfer of ownership involves a series of taxes that shareholders must understand if they are to make the right decisions.

6

SUCCESSION

the importance of preparing
for a change of cycle

6 SUCCESSION

What are the six key aspects that need to be considered when preparing a succession process?

Succession is a hard and complex process at many levels, but it also offers confirmation that the family business is progressing and incorporating a new generation of leadership. The start of a succession process offers an opportunity to stop, take a breath, and restate an entire series of questions that will enable us to rebuild our business edifice and prepare it for a new stage of growth.

After more than three decades observing and researching succession processes in a multitude of family businesses, we have identified six aspects that need special attention if we want to have greater possibilities of success:

The type of family business[39].

A succession in a company based on a trade or craft is not the same as the succession process for a small shop or an international industrial firm. The context in which the succession process is going to take place will determine many of the decisions that need to be taken.

The state of the firm itself.

In a family business, there is one dimension to which close attention should be paid before the succession process begins: the stage or phase at which the business is at. There are essentially three possible phases: owner controller; sibling partnership; and cousin consortium. In each of these phases, the leadership being replaced will have different characteristics, and we should know which stage or phase we are at before beginning the succession process.

The personality of the current leader.

In his work "The Hero's Farewell" (1991) Jeffrey Sonnenfeld offers a very useful classification for determining the behaviors of different types of leaders as they pass on the baton to a new generation: a monarch; a general; an ambassador; and a governor. To a large extent, the succession process will depend on the personality of the individual who is going to vacate the position. Understanding this person and taking his or her way of being into consideration will help us to establish a succession process that will have a greater possibility of success.

The existence of a successor.

It is often taken for granted that the business successor should be the natural successor of the family, in other words, the son or daughter of the person who is to be replaced. However, leadership cannot and should not be forced. We can ask any member of the family to be a responsible shareholder[40], but family unity and the continued existence of the business depend to a large extent on knowing and respecting the individual desires of people. Therefore, a successor should be chosen only after he or she has expressed a desire and a willingness to occupy the position, and after taking into account what sort of person he or she is.

39. For further information see "What type of family business do we want to have?", p. 27.
40. For further information see "Shareholders: the importance of making sure that all owners can feel a sense of responsibility ", p. 87.

The number of aspirants to replace the leader.

When there is more than one possible successor with the necessary preparation and skills to lead the company, the process tends to become more complex. Once again, before the process begins, it is essential to identify how many possible candidates there are, what their expectations are, and the real skills and preparation that they would bring to the position.

The process itself.

All the following considerations must be taken into account before starting the process; the questions that we need to identify, study and put on the table to make sure that all the key points are crystal clear before we enter the succession process. Once the process begins, we will go through four phases, and one key figure in the succession will be prepared during each of these phases: the successor, the business, the family, and the predecessor.

How do we prepare the successor?

When a family firm decides that it wants the business to continue from generation to generation, it immediately implements the almost subliminal process of finding a successor. The youngest members of the family will have lived with this possibility from a very young age: they will be aware that the family firm is going to pass into their hands some day or other, and that there is a possibility that they might also end up leading it when the time comes to pass the baton on to the next generation. In this regard, possible successors find themselves in a privileged position where they can feel the entrepreneurial spirit and awaken their vocation to be businesspeople.

The process of preparing a successor will start at the heart of the family as the first of a series of steps towards forming the future leadership of the business.

Planting the seed from an early age.

Family members are taught to love the family business right from their childhood days, and this love gradually awakens a vocation in them. In a more formal or more casual manner, the young members of the family soak up the *raison d'être* of the business, its vision, its mission and its values, and they recognize these as something belonging to the family itself. This initial more familiar contact should be followed, while they are still adolescents, by a more in-depth approach to the realities of the business. School holidays, for example, can offer a perfect opportunity for young people to participate in some of the tasks of the firm and to spend some time working in the different departments, or in different companies if the family owns a group of companies. In this way, they can get first-hand experience of the realities of the business, and this is how the bond between the younger members and the business germinates. After some time, it will be possible to identify which of these members are interested in taking that approach to the next stage and presenting themselves as leadership candidates. Even though this moment might seem very far off and distant, it will eventually arrive some day in the future.

Prior experience outside the family business.

Notwithstanding the strong temptation to incorporate the youngest members into the company as soon as they finish their studies, evidence shows that it is highly recommendable for successors to experience other business realities outside the family. Understanding the real labor market, where one's surname means very little, is an excellent way to see how people get on outside the family setting, to test their skills, and bring them closer to other working methods that could help bring innovation to the family business in the future. Moreover, workers who are not part of the family usually feel greater respect for a boss who has come from the labor market as opposed to one who has been directly "placed" in the business simply because he or she is a member of the family. However, predecessors **occasionally** view these experiences outside the family firm with some reticence as they may fear that the successor will distance himself or herself from the family business and that he or she will end up working for another company. This risk does exist of course, but it is part of the fundamental value of respecting the individual freedoms of each person. Furthermore, if the following generation has been trained in the family values and taught how to appreciate the family business, it is logical to imagine that successors will wish to return and develop their profession within their family's own business so that they can pass on their own legacy to those who eventually succeed them in the future.

Knowing and assimilating the competitive advantages of the company.

Part of the preparation of a successor will involve the chosen person having an in-depth understanding of where the main driving force of the business lies and knowing what moves it forward. Successors must be very aware of the business vision of the previous generation if they are to balance that vision of the future with their main responsibility, which is executing the strategies that will move the firm towards that future.

Showing that they are up to the task.

Once the main task of the firm has been understood, successors should be given an opportunity to show that they will be able to carry it out. How? By allowing them to participate in the execution of strategy through specific and measurable jobs in which they can display their skills.

Leading to prove their leadership qualities.

If a possible successor has been able to show that he or she is capable of achieving results when given the right resources, they must be given an opportunity to head a business unit as soon as possible. Even if the predecessor is still fit and well and has not envisaged an imminent succession, the successor must continue to develop and evolve his or her career. It is not a good thing to leave people with the feeling that they will have to wait a lifetime for their opportunity. They can be offered various steps and stages during which they can gradually show their skills and take on increasingly complex tasks until the day arrives when they can naturally take over the leadership of the firm.

Teaching the profession of director.

Once the successor has reached the senior managerial level, he or she must start participating in the task of running the firm. Learning how to be a director from very early on will provide an opportunity to open new spaces in the governance of the business to be occupied by the following generations in the still distant future.

Doing all this while the predecessor is still fit and well.

As we have seen, this process is a long one, and it consists of different stages that possible successors can pass through from a very early age and continue throughout their lives. For various reasons, it is essential to implement the part of this process during which the successor joins the firm and learns the business while the predecessor is still in tip-top shape. On the one hand, this is important because the process requires backing and accompaniment, while on the other, the existing authority of the predecessor is precisely what will give legitimacy to the successor when the moment arrives.

How do we prepare the business?

The succession process will be more complex or simpler depending on how the company has been organized during the mandate of the predecessor. A company with well-organized governance and management structures - and therefore somewhat dependent upon the personality of the business leader - will be better prepared when the time comes to replace that person with another, no matter how different their ways of being and their leadership styles may be. People move on, while institutions remain,[41] and a succession process is one of the situations that unequivocally shows the convenience of having well-organized governance and management structures in place.

This need usually surfaces when a firm is moving from the "owner controller" stage to the "sibling team" phase. When everything is organized around the leadership style of a single person, who also enjoys the loyalty and trust of his or her team and the staff of the firm, the arrival of a successor may seem more contrived. This is why the process of preparing the succession must take how the company is organized into account, and make the necessary adjustments to ensure that there are coordination mechanisms beyond the founder to facilitate the generational handover. If these structures do not exist, they will have to be created, and this is something that the successor should do as soon as he or she takes over the position.

At the same time, it is important to define management functions: to decide who does what and how it is done; to decide who is responsible for each task; to decide how we coordinate them, etc. To do this, it will be necessary to create a formal organization chart, which will probably not have existed in the previous generation because the founder will have controlled and coordinated everything in his or her own way. In addition to this new architecture, it will also be necessary to make sure that all coordination mechanisms work, and classic management systems will have to be developed.

41. For further information see "Why do we need a system of governance even more than other companies do?", p. 54.

A communication system.

An organization without communication will never be efficient.

An information system.

If everybody is to assume responsibility for their role within the business, there must be adequate systems to provide information on results and accountability.

An assessment system.

The business needs to have systems that make it possible to evaluate the performance of people in order to be able to compensate them in a consensual, transparent and objective manner.

A compensation and promotion system.

In a family business, the compensation and promotion systems provide the objectivity necessary to allow emotions and personal relationships to be put to one side.

A system for retaining talent.

The family firm has one essential advantage when it comes to retaining talent among its ranks, and this is the capacity to generate emotional bonds which would not be possible in other companies. However, while this is very evident in the first generation where the founder is present, it could pose a challenge to the successor. This is why it is important to make the most of these advantages when preparing the company for the succession, and to add others to them in order to create a truly effective system for retaining talent.

The company's preparation for a succession process culminates when structures such as the Board of Directors and the Management Committee are created; these will make it possible to manage the business while depending less on the person in control, and this will help to facilitate the changeover from one generation to the next[42].

42. For further information see "Why do we need a system of governance even more than other companies do?", p. 54.

How do we prepare the family?

Succession processes inevitably affect the family and even more so if the succession coincides with the predecessor's death. Money issues, but also questions related to work and power[43], emerge quite naturally and they can prove uncontrollable and unpredictable if the family has not been prepared.

Who will occupy certain positions of power? Who is going to work in what positions? What will the dividends policy be? The best way of ensuring some probability of success is to prepare the family for important processes such as a succession by equipping it with structures and tools in time.[44] These will help the family to anticipate these questions and channel them when they occur, and they will also make it possible to establish controlled relational frameworks for the members of the family.

Structures such as a Family Council[45] or other instruments such as a Family Office[46] or Family Constitution[47] will allow the family to provide itself with spaces for reflection as well as communication mechanisms that can prepare them to undertake a process as complex as a succession with the highest expectations of success.

43. For further information see "How can we improve personal relationships in an environment that is affected by questions of money, work and power?", p. 130.
44. For further information see "Does the family also need to have governance structures?", p. 66.
45. For further information see "What does having a Family Council offer us?", p. 69.
46. For further information see "What should we expect from a Family Office?", p. 72.
47. For further information see "Do we need a Family Constitution?", p. 82.

How do we prepare a predecessor to deal with his or her retirement?

Although it may seem obvious, if there is going to be a succession, there must be a predecessor who is willing to pass on the baton. This situation is certainly not a simple matter and it carries a myriad of implications, some of them quite emotional. Therefore, preparing a predecessor to deal with his or her retirement is one of the key issues in terms of making sure the succession in a family business is a success. This is vital no matter what stage the business is at, but experience shows that this preparation is of the utmost necessity during the transition from the first to the second generation, when the person who is retiring is the founder of the company. Those leaders who try to hold on tightly to the position of power tend to create frustration among the following generations, who start to believe that their opportunity will only come in the unfortunate event of the founder's death.

To avoid such situations - involving a much faster and more forced succession process, and therefore one subject to errors that the following generation can end up paying for over a long period at both a business and a family level - it is important for the predecessor to prepare for his or her eventual retirement. At the same time, he or she should reflect on this process and start it with total calm and normality. There are several recommendable practices that can help to achieve this:

Learning to manage oneself.

Towards the end of his long professional career, the renowned management expert Peter Drucker used to say: "I have spent years teaching others how to manage and I have now finally come to realize that the most important thing is to learn how to manage oneself". In the case of a business leader facing retirement, this self-management is key to making the right decisions. How am I? What are my expectations in this new stage? Am I prepared to leave the company in the hands of other people? Fully understanding what one wants will allow us to act in a consequential manner, and ultimately, this will help to prevent any conflicts that might arise due to secretiveness or a lack of transparency. A succession process with a hidden agenda is dangerous and detrimental for both the business and the family itself. Even if the predecessor is more in favor of selling the firm than leaving it in the hands of a future generation, this idea must be declared, and it must be put on the table in order to look for maximum consensus when proceeding with any of the options that open up when the predecessor is about to retire.

Starting to develop different activities.

Making way for the following generation does not mean becoming inactive, but it does involve the development of different and complementary activities. This does not mean finding a new hobby to pass the time. When you have spent a lifetime devoted to your business, you might not have any other motivations or projects beyond that, and retirement is not the moment to suddenly take them up. The possibilities that open up at this new stage could be associated with the family business, but the perspective will be different. If the business and the family have built governance structures (something very desirable), the predecessor will find in them a wide variety of spaces where his or her experience and knowledge can be very valuable. Business experience both in terms of entrepreneurial skills and management capacity can be placed at the service of all the bodies of the company itself[48] such as the Board of Directors, or any trusts or foundations or institutions linked to the firm. On the other hand, the predecessor's close association with the values, vision and mission of the business family[49] can be placed at the service of all those institutions and tools[50] that the family can avail of to strengthen its unity.

Separating management from governance.

The temptation to maintain an informal link with the everyday activities of the firm can be detrimental despite seeming harmless at first. The habit of "taking a stroll around the company each morning" can send a negative message both to the following generation, which may feel that it does not enjoy the trust of the predecessor, and to the rest of the work force insofar as this feeds into the dichotomy between the old command and the current leadership. If the predecessor has decided to maintain links with the governance of the business, this does not imply a visible presence in its day-to-day activities. The same happens if the predecessor opts to sever links with the family institutions: his or her new role within the family business must not interfere with the succession process, and it is important to leave some space to allow the new leadership to consolidate itself.

48. For further information see "Why do we need a system of governance even more than other companies do?", p. 54.
49. For further information see "Values, vision and mission: the importance of knowing where we are going", p. 41.
50. For further information see "Does the family also need to have governance structures?", p. 66.

What are the virtues that need to be strengthened to ensure the success of the process?

The succession process affects many people from many different areas. In addition to the processes that help to prepare all these people, there are some transversal values that contribute to making this process a success.

FORESIGHT

Anything done "badly and in too much of a hurry" puts everything that has been created up to then at risk both in terms of business wealth and in terms of family unity and wellbeing. Therefore, all those who are involved in the succession process should manage their time properly and choose the right moment to pass on the baton to the next generation. This is especially important from the point of view of the person who is retiring, because when this notion is first mooted, he or she will almost certainly still feel fit enough to continue, and this is precisely the optimal moment to begin a good succession process.

SINCERITY

All the members involved in the process must be able to express their expectations in the most sincere manner possible in order to avoid any misunderstandings that might have negative consequences for both the business and the family.

COURAGE

Once the ideal moment to start the change has been chosen, and all the members involved have been able to state how they see things, it will be necessary to press ahead and make a start. Changes usually cause anguish and they can generate conflict. The succession process is a complicated path along which many individual emotions and desires converge, but it is necessary to have the courage and bravery to bring it to a successful conclusion.

7

GOOD AND BAD PRACTICES

the importance of knowing and recognizing the most common successes and errors of family businesses

7

GOOD AND BAD PRACTICES

What are the five golden rules for avoiding conflicts?

After three decades studying family businesses and their peculiarities, we have been able to identify some patterns that have tended to repeat themselves. These have consequences within the family arena as well as within the business one. What we call "the five golden rules" are without doubt the best lessons that we can take from all these years of study. Knowing these rules and applying them acts as a preventive treatment against crises, conflicts, and governance and management difficulties that can pose a threat to family businesses because of their very nature.

1

Treating the business as a business and the family as a family[51].

The objectives of a business are not the same as those of a family. In a business, the objective of generating a profit implies a need to stand out from the competition, and to attain this, it is necessary to have the right talent in the right place. Therefore, the only rule for progressing within the business should be the merits that each person can prove beyond whether or not that person belongs to the family, and the place that they occupy in the family tree. An objective and measurable meritocracy should be imposed as part of the selection criteria. The family is another world.

Its fundamental objective is to remain united and to keep adding new generations to the family tree. Within the family, personal relationships are not measured on the basis of each person's merits but rather they are founded on subjective, intangible and innate matters such as the bonds of affection between people.

Appointing a person to a business position simply because of that person's place in the family, or underestimating or undervaluing a family member because of the position that he or she occupies in the business, would be a mistake and a source of conflict. One that could put the survival of both the family and the business at risk.

2

Planning ahead to prevent surprises.

Surprises are the chief enemy of family firms, and experience has shown that the most successful family businesses have something in common: they have up and running conflict-resolving mechanisms in place and even when there are no signs of a possible conflict. These mechanisms, which would be key in any type of organization, are even more so in an environment such as that of a family business where there are far more emotions and sensitivities at play. The probability of conflict is much higher when there is a greater personal involvement, and accordingly, it would be reckless not to introduce such mechanisms.

51. For further information see "How can we prevent family relationships from interfering in the composition of the corporate governance bodies?", p. 57.
52. For further information see "Corporate governance", p. 53.
53. For further information see "Family governance", p. 65.
54. For further information see "What are the five typical errors that we should avoid?", p. 124.

3

Having structures.

The number of implications that arise from sharing business and family means that it is highly recommendable to have governance and management structures for almost everything. On the business side[52], and as with any other company, it is important to have a Board of Directors and a Management Committee to head corporate matters, while on the family side,[53] it is advisable to have tools such as a Family Constitution and to create governance bodies such as a Family Council, Family Assembly and Family Office. These structures can help the business and the family to protect themselves against the threats that arise because of their very nature.

4

Paying attention to growth rates.

With the passing of the years, the normal thing is for families to continue growing. On the company side of things, if the strategy is the correct one and is well executed, it will reap success, and this will be accompanied by a certain growth. But what rate do the business and family grow at? This question contains one of the golden rules behind the continued existence of a family business. If the growth rates of one and the other are different, or if one is more accelerated than the other, this can lead to problems. This is particularly evident when the family is growing faster than the company. It is necessary to look for a way that can allow all the members of the family to find their place in the company - although not necessarily in an active way - by working in different jobs (which might be in a senior management capacity or in a governance role). The members of the family who remain as owner-shareholders have a significant role to play and we need to pay full attention to their rights.

5

Avoiding mistakes that others have made in the past[54].

History has taught us that there are a number of mistakes that can have disastrous consequences for a family business. Being aware of these and making sure they are not repeated is a good way of protecting ourselves and saving our energies for other conflicts that might not be so easy to prevent or avoid.

What are the five typical errors that we should avoid?

The very nature of family businesses can cause them to fall into particular errors that have repeated themselves time and time again throughout history. These are mistakes related to hereditary questions, questions of affection, questions of money, or even questions of attitude that set people against each other, and which end up affecting both the family and the business. Being aware of these errors can help us to identify them before they appear. This is the only way that they can be avoided. Let us now look at these errors.

1. *DNA Syndrome.*

This is surely the quintessential error in family firms. The children of a good businessperson do not necessarily make good businesspeople. They can be and indeed must be responsible owners of the part that they hold in the family business as shareholders, and they may be good employees in a job that is suited to their skills and abilities, or they can be good executives if they have been prepared for such a position. However, it should be clearly understood that the skill of leading, governing or managing a business is not transmitted genetically. This error is perhaps the most typical error in a family business and it is also the easiest to understand, given that for the leader of a family business – especially one from the first generation – both the company and the family represent a life's work, and that person will want to pass this on as a legacy to his or her most direct descendants so that they can continue it. For this reason, it is important to have the right equipment in place to prepare the succession process,[55] even several years before the succession is going to happen. In this way, we can get to know the members of the family better, identify their vocations, respect their wishes, and then, when the time comes, choose the person who is best prepared for the job.

2. *Confusing bonds of affection with contractual ties.*

Relationships in a family are governed by love and affection. Family members love each other for who they are and not because of what they know how to do. In a business, on the other hand, employees are hired on the basis of their experience, their competences and their skills. It is necessary to know how to separate the two areas in order to make sure that there is no confusion between family love and professional skill or competence.

3. *Not respecting market rules.*

In the capital market, shareholders expect a distribution of dividends and hope to see the value of their shares grow. The exact same criteria should apply in an unlisted family business. Even though the following generation knows that it will inherit the business in the future, this does not mean that it should not create value in the present and distribute a part of that value in the form of dividends. Not all family members are directly linked to the activity of the business, and those who are not must also have their motivations and incentives to feel involved and become responsible shareholders[56]. In the same way, it is of utmost importance to respect the rules of the market regarding the time for establishing remunerations. Being a member of the owning family should not result in pay discriminations of any type, and to avoid this, the most practical solution is always to align pay with the remuneration systems used in the labor market.

4. *Delaying the succession.*

Beyond the age of the current leader of the business, experience shows that it is normally difficult to accept the fact that the time has come to hand over the reins to the next generation. There is always some "excuse" or other to hold on to the job and delay the start of the succession process until the right moment arrives, which will obviously never arrive of its own accord. Delaying the succession is one of the most common mistakes and the error that brings the most problems. Carrying out this process in advance and with planning and efficiency is one of the best practices to ensure the survival of the family business.

5. *"That won't happen to us".*

Feeling that one is safe from committing these mistakes only increases the probability of them being repeated one after the other. Humility, honesty, and the ability to detect the weaknesses of the firm or the family are all key in terms of preventing problems, identifying them if they already exist, and finding a solution to them before it is too late.

55. For further information see "Succession: the importance of preparing for a change of cycle", p. 99.
56. For further information see "Shareholders: the importance of making sure that all owners can feel a sense of responsibility", p. 87.

What are the key elements to enduring over time?

There is a widely extended belief that family firms rarely extend beyond the third generation, but there are no data from any recent or global study to back this up.

Like all companies, family firms have a life cycle: they are founded, they grow, and they consolidate themselves, or decrease before finally dying out. The duration of each stage simply depends on the successes that the firm manages to achieve.

The book "The Living Company"(Harvard Business School Press, 1997) contains the results of a research study into how many companies from the Fortune 500 ranking for 1970 had ceased to exist by 1988. Some of these were family firms while others were not, but all of them were consolidated and successful companies that were worthy of inclusion in one of the world's most exclusive rankings. Even so, the result indicated that 30% of the 500 most important companies in the USA had disappeared over the course of those 18 years. Thus, companies, regardless of their form of ownership, have a high risk of disappearing or ceasing to exist. In the case of family firms, this threat carries significant emotional weight because the end of the business also marks the end of a very personal project involving loved ones, and this occasionally implies an extra motivation to try and overcome crisis situations and keep the company afloat.

How many firms achieve this and how many do not? In 2005, we conducted a study of a sample of Spanish firms with a turnover of more than 50 million euros. In total, there were 3,196 companies with 2,254 groups of owners, and 1,275 of these were family businesses. This first piece of data tells us that there are more family businesses than non-family ones at the head of the Spanish economic fabric, and this fact is relevant in itself.

When we examined the longevity of these firms, we noticed that of the 1,275 family firms with a turnover of more than €50 million, 14% had been in existence for more than 60 years. When we contrasted these data with the data for the remaining 979 non-family firms, the percentage dropped to 11%. The difference is slight, and the small number of companies that have been around for more than 60 years also confirms that longevity is a tough and complex challenge. However, these three percentage points also tell us that the determination of family businesses to endure is higher because of the feeling of involvement and transcendence compared to other companies in the market.[57]

When we study this motivation in greater depth, we see that the longest-living family businesses have based their survival on the same practice: putting people and their wellbeing at the center of all their decisions. This anthropocentric vision of business has allowed them to have the necessary support during difficult times, and the necessary motivation and determination to grow when circumstances have been favorable.

57. Further information can be found in the book: "Empresa familiar: ni tan pequeña ni tan joven". Pdf available at empresafamiliar.iese.edu.

How can we improve personal relationships in an environment that is affected by questions of money, work and power?

Unlike families that do not own a business, in a business family personal relationships are affected by matters from the business environment, and these are essentially the effects of money, work and power.

MONEY

The economic question is one that affects owners, employees and executives alike. We will look at the case of the last mentioned of these in the following section. In this section, we will consider the case of shareholders. As we might expect, all shareholders in a family business expect some payment or reward. The fact that the shareholders are members of the owning family offers the advantage of patient capital, but this does not mean that market criteria should not be strictly applied when dividends are being distributed: the family members who govern the firm must keep in mind that every shareholder is entitled to receive a dividend and to see the value of their shares grow from year to year. In turn, it is important for all owning shareholders to have basic financial training that can allow them to understand the economic flows of the company. Only in this way will they be able to understand what they can and cannot expect as shareholders of the firm of which they are owners.

WORK

The fact that an employee - regardless of his or her job - is part of the owning family should not affect that person's pay. It is important for labor income to be established on the basis of market criteria. To prevent decisions of this nature from causing conflicts, this task can be entrusted to external professionals who objectively set the various pay levels within the firm in accordance with current labor market rates. Access to employment is another issue that has become something of a hobbyhorse for family firms. Professional mechanisms should be created to regulate this aspect.

POWER

Power struggles are undoubtedly the most difficult source of conflicts to regulate in any firm. However, in a family business, they also pose a serious threat to family unity. A business family must make sure it transmits the value of power as the ability to do things rather than the capacity to rule others. If power struggles are to be prevented, values need to be passed on. This allows the members of the family to grow up understanding power as a service to the firm and as the ability to get the best out of people so that they can contribute to the good of the business that sustains them all. All jobs, no matter how senior, should be at the service of the business, which is what is really important. The firm must be preserved beyond the time that any one person spends at its head.

8

HAPPINESS

the importance of making sure that all family members can find their space

How can we get all family members to feel involved even if they do not actively participate in the business?

When a member of the family is not involved in the firm at a professional level, it is easy for this separation from everyday activities to end up creating an emotional distance. Communication is a powerful tool that can be used to lessen this risk: sharing, informing, and transferring the most important events that happen within the company to all the members of the family is the best way of maintaining their involvement and keeping them linked to the project.

The cohesive power of communication is insuperable, and the risks that occur when it is absent - secretiveness, a lack of transparency - are a source of conflict and they can threaten both family wellbeing and family unity as well as the continued existence of the business.

But what can we do to keep these communication channels open? Once more, the answer lies in having suitable governance structures on the corporate side as well as within the family[58].

The family and the business each maintain different rhythms in their day-to-day activities, and it is normal and even healthy for each of these realities to run in parallel without any cross contamination. Governance structures represent the bridge linking the two realities: The Board of Directors and the Family Council can - and indeed must - transfer news, concerns, and all kinds of key information about decisions that affect everybody. Tools such as the Family Office or the Family Constitution represent all family members regardless of whether or not they are linked professionally to the company, and just as they defend the rights of all family members, they can, and must, also remind them of their obligations as owners of the family business. This can help to reinforce the involvement of all family members and their links to the business, irrespective of the position that they hold in it.

58. For further information see "Family Governance: the importance of creating institutions", p. 65.

What can we do to prevent the family business from becoming a gilded cage?

Except for the persons who founded the company, members of the family will have landed directly in the business family with all that this implies.

If family unity and the bonds linking all the members to the company are to be preserved, it is important for everybody to feel free to look for their own space. They should be able to ask themselves whether or not they want to be part of the family business, and in what capacity and to what level of involvement. They should also ask themselves if they have their own plans outside the family business.

A family that has organized itself and provided itself with governance tools such as a Family Council[59] can channel these matters properly, and this will help to make sure that each person's individual liberties are respected.

These liberties include the option of disassociating oneself completely from the family business project. This is not such a desirable option, but even in this case, both the family and the business must be prepared to facilitate changes to the ownership of the capital. Knowing that this possibility is open, and that it is a right envisaged by the various tools that represent family members, such as the Family Constitution, can help to prevent the business from becoming a gilded cage for those who for some reason or other have lost interest in the shared project.

59. For further information see "What does having a Family Council offer us?", p. 69.

How can we manage the expectations of the members of the family?

Generally speaking, as human beings, the more we see our expectations fulfilled in any order of life, the happier we are. In a business family, the normal situation is for these expectations to be associated with the family company and to how each member expects to participate in it. The business might be a place where they can develop their professional careers, or an asset that can provide them with some economic return, or even a vehicle through which they can channel their own life, philanthropic or professional projects.

The first step towards managing all these expectations is as simple as it is powerful: listening. If the family has not equipped itself with structures[60] that allow all the members to express their expectations, these will rarely be satisfied. The Family Council or other spaces defined in the Family Constitution can provide all the members of the family - no matter how extended it may be - with a forum where they can express their concerns and expound their expectations.

Knowing what family members expect from the business will make it easier to respond to these expectations. To achieve this, it is important to resist the temptation to make commitments or promises simply for the purpose of keeping people happy: nothing generates more conflict and disassociation that an unfulfilled promise.

For those who want to get involved in the day-to-day running of the business, the criteria used to fulfill their expectations should be based purely and objectively on meritocracy. The family will have a greater respect for decisions relating to jobs and the governance of the family business if they follow a single criterion: people's merits. "Favoritism" is a source of conflict and dispute, and it can generate a direct rejection of everything that comes from the business. The family is the territory for personal matters while the business area should be ruled on the basis of objective and measurable criteria.

60. For further information see "Does the family also need to have governance structures?", p. 66.

As the family grows, the number of people who want to participate in it or use it as a platform for their own projects can also grow. If we are to manage expectations, we must consider the rhythm of growth of the family at all times, as well as that of the business[61] in order to prevent it from becoming too "small" as far as integrating new members of the family is concerned. The diversification of activities, for example, can facilitate the incorporation of new family talent and create new spaces that can meet the personal expectations of some family members.

The reasoning here is very broad, but managing expectations – and consequently, the happiness of the family – lies in placing the emphasis on people, listening to them, and trying to identify ways that the business can respond to the needs of all of them. In doing this, we should always make sure that these do not run contrary to market rules, and our decisions should always be based on business logic.

61. For further information see "What are the five golden rules for avoiding conflicts?", p. 120.

How can philanthropy help to give meaning to the family firm beyond a strictly business dimension?

Family businesses usually have a natural and very direct connection with the community that has seen them grow and develop. The family roots are also the roots of the family business, and these are consolidated from generation to generation until they form part of the identity and the pride of belonging of the members of the family. Historically, this close link has meant that family firms do not just look after the wellbeing and prosperity of their own family; they also look after the wellbeing and prosperity of the community in which they operate.

This philanthropy, which occurs quite naturally, must be structured and strengthened in an active and conscious way. This will help to make the most of its potential as a binding element that brings all the members of the family - especially the youngest ones - together around something that extends beyond the business project.

Philanthropy offers everybody an opportunity to build a true family project together. Younger generations have been showing an increasing interest in activities of this type that seek to give back to society part of what the business family has obtained from it. If articulated properly, philanthropy can offer a valuable opportunity to put family values into practice, build a *raison d'être* for the continuity of the family project and strengthen cohesion and the pride of belonging to the family.

On some occasions, the intensity of the philanthropic work of the family makes it advisable to set up a legal structure such as a foundation, which not only helps to consolidate the philanthropic intentions of the family, but also acts as an expression of its long-term commitment.

How do we know when the moment has come to leave the family business?

All companies have a life cycle and they may eventually come to an end[62]. Naturally enough, this reality also applies to family businesses. When it comes to analyzing the reasons why family firms end their activity, these can be divided into two types:

62. For further information see "What are the key elements to enduring over time?", p. 126.

Those that have their origins in the market.

Any business that competes in the market can lose its position of sustainability. In the case of a family business, the family must remain alert and respond to such situations as swiftly as possible in order to prevent the family wealth from being lost or affected negatively. Clinging on to a business just because it is the work of the family is an understandable instinct, but sometimes, the family itself should be the priority, and every attempt should be made to try and save its wealth even if it is too late to save the business. A merger, a sale, or any type of positive movement is preferable to having the business face insolvency proceedings or going into administration.

Those that have their origins in the family.

A lack of family unity and a lack of commitment to the project are two signs that should put a business family on red alert. A family where there is an open conflict that cannot be channeled to try and restore family unity will not be able to successfully execute a business project in the long term. The close relationship between the family and the firm needs to have all the members of the family rowing in the same direction as far as the business is concerned. If this is not the case, the most recommendable option is to put forward some business-exit strategies that can prevent the family conflict from dragging the business down. On the other hand, family unity will be of no use in the long term if there is no true commitment to the project.
In addition to remaining united, the family must also maintain the motivation and desire to participate in the family business. If this does not happen, and if there is no commitment to the business from the family side, the most usual outcome is for the company to gradually lose its competitive position to the point of placing its continuity at risk. Before this is allowed to happen, we should be sincere with ourselves and jointly establish a strategy to bring the life cycle of the business to an end in the best possible way for all the family.

What comes after the family business?

The end of the family business does not necessarily mean the end of the family's activity in the business world. If the finalization process has been carried out correctly and successfully[63], this will generate economic wealth, and the family can then decide how it wants to manage this wealth.

One of the decisions could be for each shareholder to receive the liquidation of their participation and then decide individually about how they want to manage their new wealth. However, if the intention of the family is to maintain a joint activity, there is also the possibility of establishing a Family Office[64] as a tool for managing the family wealth, with this wealth being understood not only as financial capital but also as all the other types of capital[65] (human, social, relational, etc.) that one finds in a business family.

Moreover, the Family Office can, and should, act as a powerful element to bring the family[66] together around a common project and keep all the family values and principles active in this new activity, notwithstanding the fact that the original family business no longer exists.

63. For more information see "How do we know when the moment has come to leave the family business?", p. 142.
64. For further information see "What should we expect from a Family Office?", p. 72.
65. For further information see "Apart from financial capital, what other types of capital should the Family Office look after?", p. 74.
66. For further information see "How can a Family Office contribute to maintaining family unity?", p. 78.

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Coinciding with the 30th anniversary of the launch at IESE of the first Family-Owned Business Chair in Europe, in this brief publication we wanted to compile the singularities that must be taken into account when managing and governing companies of this type, which account for a very high percentage of companies in almost every country in the world.

A family business is different from another type of company because ownership, the company and the family all interact within it. This is the reason why the institutional set-up cannot be the same as it would be in a non-family company.

There are no magic formulas for successfully managing a family business, but three decades of study and direct contact with family enterprises have allowed us to identify some good practices, which we want to share in this "pocket manual". We hope that these recommendations will make it easier to understand the idiosyncrasies of the family business and the keys to its survival.

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