



Historical values, social and environmental responsibilities: The next generation of family businesses is leading the way

Rania LABAKI

***Director, EDHEC Family Business Research Centre
Professor of Management, EDHEC Business School***



Introduction

Family businesses as a reference point to resilient capitalism

At a time when initiatives and calls to (re-)define responsible capitalism are constantly multiplying, family capitalism is proving more than ever an inspiring model for the businesses of the future. Recent speculation tends to see the current crisis as an opportunity to rethink the model of capitalism in search of a better world. Two years after the start of the Covid-19 pandemic, we seem to be heading towards a new business landscape of the 21st century, the contours of which remain to be clarified. We are witnessing, in fact, a proliferation of think tanks, research centers, white papers and press releases by academics, business leaders and other experts, putting forward concepts in the era of time such as "*responsible ownership*", "*responsible governance*" or "*responsible capitalism*". While this stream finds a favorable and growing echo among investors and public policy makers during the current social and environmental challenges combined with those of Covid-19, its assertions seem to be based on alleged discoveries of a new world of capitalism. It goes without saying

that family capitalism, having survived over the centuries and having distinguished itself by its resilience during the recent crisis, offers an inspiring model that can be articulated as a reference to respond to current concerns.

This report shows insights of the study of the future model of family capitalism, initiated by the Association Les Hénokiens and Château du Clos Lucé and conducted by Rania Labaki, professor of management and director of the EDHEC Family Business Research Centre, on the occasion of the 10th anniversary of the Leonardo da Vinci Prize which will be awarded to a French family business on 28 October 2021. Conducted among multigenerational and century-old family businesses that have survived a multitude of crises, this study explored their virtuous model, sometimes wrongly decried as traditional or outdated, in the face of current mutations and changes. It highlights the specificities of family businesses that have distinguished themselves in this crisis as resilient organizations and captures how they view their future model and prepare to lead in the post-Covid19 world. The main learnings offer avenues of reflection on the pillars of the responsible businesses of tomorrow, whether they are non-family, family or in the process of becoming family businesses.

The next sections present the methodological approach of the study followed by the main findings.

Methodological approach of the study

A qualitative study was conducted to address the “how” and “why” questions (Yin, 2009) of the family capitalism model and its development in the face of the Covid-19 crisis. The data was collected through in-depth and semi-structured interviews with owners and executive family and non-family members of ten multigenerational family businesses ranging from the fifth to the seventeenth generation and which are at least century old. Founded in Europe, including Belgium, France, Germany, Italy and The Netherlands, these family businesses operate nationally and internationally in diverse industries ranging from manufacturing to services.

The family businesses were selected as illustrative cases lending themselves to a qualitative study of phenomena in environments where they naturally occur and of the human interactions and processes that constitute real organizational contexts, in line with Eisenhardt and Graebner (2007). They embody a resilient family capitalism model, having managed

to overcome several crises over one or more centuries, including the recent Covid-19 crisis, and successfully transferred the business to the next generation while being financially sustainable to date. The interviews were conducted with senior and younger generations as well as non-family members to capture the intergenerational and external perceptions and experiences of their family businesses navigating the pandemic as well as their outlook about the future of the family capitalism model. They were complemented, whenever available, by secondary sources such as press releases and articles in the media.

Following the approach of Eisenhardt (1989), the interviews transcripts and other documents were coded for emergent themes that appeared to be important and a cross-case analysis was conducted to identify patterns among family businesses regarding their capitalism model.

First, the main research observations highlight the fundamentals of the family capitalism model on the basis of which the senior and the next generation were aligned to navigate crisis. Second, they emphasize the evolving perspective of the next generation of owner-managers, who are strongly committed to perpetuate the family historical

values on the one hand, and on the other hand, to move the family capitalism model to higher ground with new orientations on the light of a fine analysis of the current challenges. Quotes from family business owners and managers¹ are presented to illustrate the findings in two acts.

Act 1

Building on the unwavering roots of family capitalism

The Covid-19 crisis has emerged as a revelation of the failures of financial capitalism, deemed as rational and oriented towards the creation of shareholder value, and of the strength of capitalism oriented towards the creation of stakeholders' value. An increased enthusiasm has seized investors in seeking their "raison d'être" or purpose and the meaning they wish to give to the shares they hold. This prompted them to consider going beyond their personal interest in order to encompass the interests of its stakeholders. This quest was, however, far from trivial for the senior and next generation owners of

¹ *Quotes are made anonymous throughout the report for confidentiality reasons. By « young » or next generation managers or board members, this report refers to family members who took over executive or board responsibilities in the family business in the past 15 years and who are usually aged between 30 and 50 years old while there is no younger family members to succeed to their position at the time of the study. Senior members are members who usually have more than 50 years and who have passed on the baton to the next generation or are in the process of doing so.*

family businesses, whether century or bicentenary-old such as The Hénokiens. Albeit a general agreement among the interviewed participants on the challenges and difficulties the current crisis have triggered, the solid roots of their family businesses helped them forge a growing resilience that has contributed to their outperforming and survival.

History imbued by values as a guide in crisis

The interviews with different stakeholders of family businesses, non-family and family members belonging to different generations, demonstrate an atypical capacity of their classically called "economic" model for resilience. Given the apparent entanglement between objectives encompassing social, environmental, and economic responsibilities, renaming it as the "economic and socio-environmental" model seems to better convey its actual nature.

The transmission of knowledge and values appears as unique in family businesses, with a process of socialization which starts from an early age allowing future leaders to gain accumulated experience over centuries while being soaked in

strong values. As a former CEO puts it, *“The stories passed on by my father at the dinner table made me develop a relationship with the family business at a very early age”*. The narratives that are told strengthen the next generation relationship with the business, stimulating their appetite for entrepreneurship and nurturing their proactivity in times of change. As a former chairman of the board of directors recalls, *“The values carried by families constitute both their 'way of thinking and acting' and the 'secret' (or 'recipe') of their longevity (...) Their duration or their "immortality" is elsewhere. It is based on "values" independent of the economic context and embodied in the "family", the best way of transmitting a culture, a religion, a knowledge, a generous ambition, a faithful attachment to the land of its ancestors and its inhabitants". We know well (...) that there is no sustainable industry whose prosperity is stable if it is based on bases other than love of neighbor, or on the common interest. Thus, the ability of our family to transmit a set of solid and generous moral values to its children for more than two hundred years appears just as important for the future of society as the quality or personality of its leaders"*. The storytelling is sometimes translated into a history book of the family as part

of the celebration of its achievements throughout the centuries. As a non-family CEO of a 5th generation family business puts it, *“The book provides a detailed investigation in a historical perspective about the family business by a historian and scholar, as a way for the family to learn about the history and to bind senior and next generation members around the project (...) It is an emotional book for the family”*.

Through the intergenerational transmission of history, in the form of stories and experiences imbued with family values, the next generation was well-equipped with a foundation of knowledge about how values permeate and contribute to family business decisions in times of crisis. As a young CEO of the 8th generation who places a strong emphasis on the well-being of his employees recalls, *“We have faced multiple crises. The family business had to reinvent itself every time (...) while taking care of its employees (...) In times of war for example, my father had to close the factory (...) but decided to build two buildings, which were not part of our activities, with the sole objective to preserve jobs for the employees (...)”*.

In turn, the history of the family business and the values derived from it can be also passed on to the employees to support them in the crisis, as a young CEO and member of the

the 15th generation explains: *"I have really used the history to reassure employees and give them peace of mind about the stability of the company in times of crisis and its ability to recover. I spoke to the employees by emphasizing our 360 years of history, the fact that we have survived several wars and pandemics and that we are oriented towards the long term. This resonated with employees despite the uncertainty of the pandemic which is unprecedented at that time."*

A stakeholders' view: People at the heart of priorities in crisis

"Looking at the people in the family business makes me proud". As this next generation CEO suggests, employees are a source of pride to family members as they take particular care of them, often viewing them as part of the extended family. Century-old family businesses have put people at the center of decisions during the current crisis. As evidenced by a director of the 6th (younger) generation of an industrial group, *"We have a social responsibility to continue to move forward despite the difficulties. There are so many families who rely on us. It was not possible for us to disappoint them by*

favoring, at their detriment, companies that are otherwise profitable during the crisis."

A former president of more than a bi-century old family business adds in the same line, *"This is what it is about today: moving from a capitalistic management model to a human management model based on strong values in which all those who depend on it, who live from it, or who make it live (employees, suppliers, customers, local environment ...) find their way around ».*

The long-term vision reinforces the importance given to the human factor as shared by a former manager of a 350-year-old family business, *"The long-term vision helps more in times of crisis. We are growing for continuity and not for profit, whereas financial capitalism aims for maximum profit even in times of crisis. For us, continuity always comes first. »*

The consideration of all stakeholders bears mutual fruit in times of crisis, such as banks that facilitate access to credit or family businesses that support their suppliers by revisiting payment terms to facilitate their access to liquidity. These businesses have a preference for self-financing, which appears sometimes as the result of experience in past crises. As a next

generation leader points out, "*family capitalism has a better future (...) It is characterized by a prudent financial policy that allows to have a 'buffer' in times of difficulties that can guarantee longevity.*"

Nurturing the emotional glue with the family business over generations

"I think all the time about the family business, it's my life, my baby, it gives meaning to my life". As illustrated by this quote, next generation members in leadership positions are characterized by high levels of identification with the family business. They also display strong emotional attachment to the family business which goes in line with their explicit adherence to the historical values, the long-term perspective, and to the importance of the human factor for the family business. Accordingly, they engage in embarking other family members on board as illustrated by a young leader's quote from a 15th generation family business, "*The more I work in the company, the stronger my attachment to the company becomes. This is where my heart beats the strongest. I want to make sure that this is the case for others as well*". Another

leader from the 8th generation explains, *“Belonging to the family business was very important to me. I joined the family business to instill back a soul and a meaning which started to fade away”*.

Albeit these motivational testimonials, a divergence of perspectives related to discrepancies in emotional attachment can exist among family members, with a tendency to widen with the passage of time and the number of family members. It becomes therefore necessary, in the eyes of both the next and senior generation, to engage in formal actions and set-up mechanisms to mitigate that risk by nurturing the emotional attachment of family members. As expressed by a young leader of the 8th generation, *“It is necessary to understand the meaning of a robust company that can survive through the centuries (...) To have a robust company at all levels, with the suppliers, bankers, customers (...), we must create a favorable terrain for passing on the company to the new generation”*. As one of the senior executives explains in a similar line, *“The challenge is to make sure our family shareholders do not become dependent on dividends as a source of income, which may shorten our vision. It is then a question of promoting shareholders who are committed to their shares, who see in*

these shares a share of inheritance and not a financial investment, and who are attached to the family business".

Family governance appears as one of the major mechanisms that family businesses refer to towards this endeavor, including different forms, whether informal particularly for those who have the control of the capital concentrated in the hands of a small number of family shareholders, or formal such as a family charter or dedicated structures for those who span many family shareholders.

Act 2

Charting the future path of family capitalism: The next generation's responsible entrepreneurship as a red thread

Following the keys for resilience that seem unwavering, how is the future of the family capitalism model being crafted with the new generation coming into play along an increasingly uncertain and evolving environment?

Exploring the perspectives of the next generation, the entrepreneurial spirit clearly transcends the dual

responsibility of the socio-environmental and economic model of the family business. Anchored in the family DNA, this family entrepreneurship is to be labelled as "responsible" in the light of the study, with the next generation determined to take it to a higher ground, moving fast forward from intentions to actions. The next generation proposes and initiates these actions in the form of innovation, reinvention, or transformation of the model to correspond to contemporary evolutions. Therefore, its commitment to the future of capitalism does not appear as a radical shift from the senior generation's views, but rather building up on "the shoulders of giants" to see farther and plan accordingly.

As one of the family members and former president of an industrial Hénokien company points out, "*We are currently seeing growth explode in rich countries, the poorest countries become even poorer, the prices of food and raw materials explode (...) and perhaps finally, give birth to a new model of entrepreneurial or "family" capitalism*". Another senior member of the 14th generation adds in the same direction, "*It has been a habit that every generation brings something new and sustainable. Although this may not always work, every generation has to take the challenge of adding something and*

leaving something behind. We dream about what will happen with the next generation and the ones after”.

In the family businesses of the study, the next generation imbues the family business with its entrepreneurial identity, which facilitates both the succession process and the development of the business. Each era has its challenges, and each generation needs to reinvent the business model or to propose a business model up to the challenges of its time.

Confronting intergenerational perspectives on the future family capitalism model, three imminent paths seem to be emerging.

Accelerated path to environmental responsibility with one voice

Discussing the future, the next generation members systematically refer to the initiation or pursuit of environmental initiatives. They often play an entrepreneurial role in their introduction or in their further dissemination in the family business. As a next generation executive notes, *“We offset CO2 emissions for all our transportation, our ingredients*

are environmentally friendly and our products help people feel healthy (...) We need to ramp up, accelerate the energy transition in new markets, and be a pioneer with green and biodiversity-friendly innovations." The next generation also highlights the role of partnerships, including governmental relations and other relevant global organizations, to have more impact on these issues.

As suggested by a senior generation member, *"the younger are more purpose driven than we were. It is more natural for them to refer to environmental impact. Their sensitivity to this topic is higher"*. Rallying all members of the family around this cause is, however, not necessarily a bet won in advance. While the interviews comparing intergenerational experiences show that the relationship quality between generations tends to improve as compared to those of past generations, one of the salient elements of discord that has sometimes been raised between different generations or even between members of the same generation (belonging to different branches) concerns the extent or the nature of environmental considerations. Some members tend to attach relatively less importance to these considerations than others, given their

experience associated with their past roles or their current position in the family business. Therefore, it is important to speak with one voice on these dimensions, which are often particularly important to the new generation. As one non-family executive shared, "*The issue of renewable energy and a greener industry is a strategic underlying issue because it has implications not only for the image and the market but for the very continuity of the company (...) at the level of family cohesion and family succession (...) There is a real work of alignment to be done on these issues between the family shareholders.*" The next generation is aware of this challenge and simultaneously actively engages in plans and actions to overcome it. As observed by a non-family executive, "*The next generation is much more collaborative when making decisions including environmental considerations. They try to engage with everybody and engage everybody*".

Balanced local and international strategic engagement

Given the various disruptions caused by the Covid-19 pandemic, the next generation seems determined to revise the family business international strategy by strengthening its

role at the national, regional or local level. As a 9th generation CEO illustrates, *"This is the end of a cycle and the beginning of a new cycle (...) Another reflection has emerged during the pandemic (...) A large part of our production is sold for export from 80 countries. I'm thinking about the meaning of having products elsewhere. What is the logic in terms of carbon footprint and sustainability beyond the fact that it is rewarding? I said to myself, we must make a strategic shift, we will put France and Europe back at the heart of our development project because we must seek value here (...) I would like to think more locally. I've been thinking about it for a while now, but it's accelerated (...) So I created a project (...) to define the potential of industrial tourism and cultural experience around the history of the company (...) We have a story to tell with our know-how of 250 years (...) We created a collection with a heritage department ten years ago (...) and listed a lot of archives, prototypes, engravings; the idea is to create a pole of attraction to live an experience around the history and know-how of the family business (...) »*. A 15th next generation CEO also explains, *"This pandemic made us reconsider our internationalization strategy, and working on*

moving from having a lot of locations far away to having closer locations”.

This path seems all the more relevant for companies that have a large number of family shareholders who did not grow up in the region or city where the company was founded. As a 10th generation executive and board member notes, *"I grew up with my cousins in the village where the first factory was built (...) Now the family is scattered. We still manage to hold the local activities (...) We want to transmit this territorial and heritage anchorage."* While the territorial embeddedness is a well-known characteristic of family businesses in general, the crisis seems to have further highlighted its importance, particularly prompting the new generation to take a closer interest in it and act upon it.

Digitalization in a “measured opportunity” mode

Most family businesses recognize that over the course of their history they have faced different technological shifts and adapted accordingly. While the next generation highlights digitalization as a new technological challenge, it insists on the difference it conveys as compared to the past, such as in terms

of acceleration speed. It thus sees it as an important area of development for the company and the transformation of its business model.

As an executive partner of a 17th generation family business notes, *"The digital process has been accelerated, it not only about teleworking or even zoom meetings, but also we realized the power of digital tools to connect with consumers, in terms of customer care, or to retain them. They made me aware of the potential to use the customer base in the future in a broader way, and looking into business models which might be differing from what we are doing now and serving added value (...) We made a number of changes in our business model, most of our companies are working with apps and developed programs, some tools for the cash process with a customer group. But this has to be probably updated and done in a different way. The digital process in our company is in a good sense homegrown, it is not about looking for a digital officer, doing a strategic plan with an expensive consultancy company... but rather looking into problems in the business fields and thinking how can we solve them, modernizing them and making them better (...) We are working with an interesting company (...) which helps family businesses to find*

business models and digital projects (...)." This crisis therefore allows the next generation to identify digital opportunities and to pursue this path.

Beyond the advantages of living together two worlds, one physical and the other virtual, which are constantly evolving, family businesses are aware of the dangers that an excess in one or the other can bring. As the senior manager of a family business puts it, *"We must ensure that we keep control over the management of the virtual and continue to invest in people"*. Similarly, a next generation member of the 15th generation suggests, *"Digitalization in on the agenda. The Covid-19 pandemic has proven we need to look deeper into this. We need to think about it critically and develop digitalization further but without putting our fundamentals at risk"*.

The next generation then seeks to seize this crisis as an opportunity for learning and innovation in the digital field, which makes it possible to develop a resilience to which the "augmented" attribute can be added. The construction or development of the "augmented resilience" of century-old family businesses allows alternating virtual and non-virtual aspects and injecting considerations relating to the evolution

of the environment and of the expectations of the next generations.

Conclusion

From giants to giants across generations

Following Isaac Newton's famous expression, our study on multigenerational family businesses invites multidisciplinary experts to *“see further by standing on the shoulders of giants”* namely, to gravitate their reflections about the future capitalism model around these family businesses as a reference point.

The lessons derived from the study confirm the robustness of the long-term entrepreneurial model to navigate the storms with a new generation who is leading the way. Quoting a young family CEO of the 8th generation, *“I am convinced that the right combination of elements for a sustainable capitalism in the future lies in finding the right balance between the development of the “economic” dimension of the model to grow and innovate the business activities and the “social” dimension around the human factor (...) as well as the*

“environmental” dimension around the products, rather than to seek profit at the detriment of the stakeholders (...) Building a robust model creates a favorable terrain to transfer the family business to the next generation”. A 15th generation member suggests in the same line, *“I inherited a family business with a value. My objective is to enhance its value and pass it on to the next generation”* while a next generation CEO of the 12th generation emphasizes, *“As long as the family members have the desire and passion, the family business has a future”*. The financial and socio-emotional value stands as the main and distinct objective of family capitalism in the eyes of the next generation.

Family businesses have once again demonstrated their strength of character in the face of crises and are prepared to adapt and contribute to reinventing the world of the future, as dreamed by the next generation of family owners and managers. Emphasizing history and values that are centered on the human factor, in a stakeholders’ view, and the power of the emotional glue as the roots of resilient family capitalism, the next generation members in the study showed a strong commitment to perpetuate them to generations to come. Their outlook particularly embraces initiatives and

ongoing strategies to balance the local or regional and international development of the family business, to leverage digitalization in their business models "in a measured way", and significantly strengthen their position in investments and initiatives integrating social and environmental considerations.

Family businesses will continue to play a decisive role in the economic landscape that will emerge in the post-crisis period, knowing that the next generation are likely to position them as the "champions" of a new generation of fully responsible entrepreneurial companies around criteria as important as the human, the local, and the environment; so many values fully integrated into the DNA of family businesses.

Selected references

- Eisenhardt, K. M. (1989). Building theories from case study research. *Academy of management review*, 14(4), 532-550.
- Eisenhardt, K. M., & Graebner, M. E. (2007). Theory building from cases: opportunities and challenges. *Academy of Management Journal*, 50(1), 25-32.
- Yin, R. K. (2009). *Case study research: Design and methods* (4th ed.). Thousand Oaks, California: Sage Publications.