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In June 2011, 480 executives gathered at IMD for the week-long Orchestrating Winning Performance (OWP). The OWP program stimulates participants by challenging beliefs and existing practices. It provides a platform for the exchange of insights on global trends and how these will impact organizations and individuals in the future. Based on these trends, individuals need to decide how to harness complexity to their advantage to find the "sweet spot" on the wave of global trends.

To find out more about OWP, go to www.imd.org/programs/oep/owp.

Family Secrets: Proacting on Emerging Global Trends to Sustain Long-term Performance

While often less visible in the public arena, recent research indicates that family-controlled public firms often have higher total returns to shareholders than do leading indexes such as MCSI Europe, MSCI World and S&P 500.[1] Their long-term perspective, sustainability focus and decision-making agility may offer some clues into this phenomenon. Yet, how are family businesses able to maintain their long-term view in the face of short-term expectations by the financial markets and analysts and their own financial performance needs? They are often perceived as traditional and conservative, so it seems natural to assume most family businesses would tend to be reactive rather than proactive when it comes to responding to emerging global trends. Yet our research tells a different story.

We define family businesses as "one or several families that control or influence a business – whether it is publicly traded or privately held – with the intention of passing the business on to the next generation." Compared to some other narrower definitions, this definition stems from the principle of "substance over form" because we believe that a family business's DNA, intrinsic value and behavioral characteristics are deeply embedded in firms where there is an intention of passing business ownership regardless of whether the firm is publicly traded or privately held.

In the first article in this series of three articles,[2] we classified firms into three categories in terms of their responses to global trends: reactors, analyzers and prospectors. Reactors wait passively until the external environment forces them to change. Analyzers have a compliant attitude, closely watch their competitors and adopt best practices quickly without disrupting their organizations. Prospectors constantly search for new tools and practices that could drive the whole industry; they create best practices and they are the most proactive when it comes to responding to emerging global trends.

Our research is based on 172 responses to our global trends survey that we received from 480 executives attending IMD's 2011 Orchestrating Winning Performance (OWP) program. After separating the family business data (29 responses) from the non-family business data (143 responses), we conducted a statistical analysis and found that there are some differences between these two groups.

Prospector trends for family businesses

As you can see from **Table 1: Top 5 prospector trends for family businesses**, more than 40% of the family-business respondents are classified as prospectors when it comes to *understanding their*

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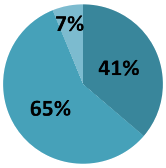
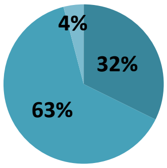
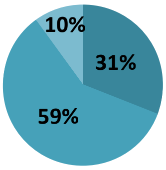
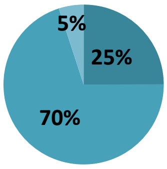
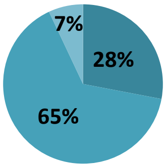
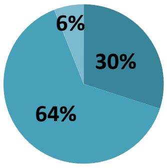
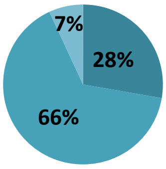
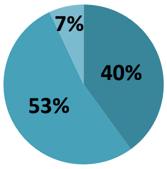
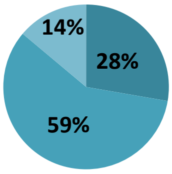
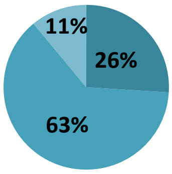
[1] Caspar, C., A. K. Dias and H. Elstrodt. "The five attributes of enduring family businesses." *McKinsey Quarterly*, January 2010. Anderson, Ronaldo C. and David M. Reeb. "Founding-family ownership and firm performance: Evidence from the S&P 500." *The Journal of Finance*, 58(3), 2003: 1301–1327.

[2] Büchel, Bettina and Sorrell, Michael. "Proactively Riding the Global Waves." *insights@imd*, 2011.

Table 1: Top 5 prospector trends for family businesses

	FB	Non-FB
My company encourages all employees to understand customers' wants, needs and ideas.		
My company manages the impact of new regulations on the business and business units		
My company is implementing the right processes to get, develop and retain talent around the world.		
My company ensures that we are at the forefront of the technology curve.		
My company is managing the changing balance of economic power and competitive-ness in order to maintain the company's long-term competitive advantage.		

Prospector Analyzer Reactor

customers, almost 10% higher than the non-family respondents. Many family businesses strongly value their ability to deliver excellent service to customers as was echoed by one participant, "The global trend in our business is all about how to deliver excellent tailored service to our clients. This is our only objective." IMD Family Business Professor, Joachim Schwass, confirmed this by revealing that a client-centric approach is clearly an area that family businesses focus on strongly. Based on his rich family business experience, he told us that family businesses have traditionally tended to be closer to their clients and they have taken measures to ensure that all of their employees realize the importance of understanding their clients' needs.

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Family businesses also show higher proactive behavior (31%) than non-family businesses (25%) when it comes to *meeting with local and international political leaders to discuss the impact of future industry regulations on their businesses.* This also appears to be the only dimension for which family businesses exhibit a statistically significant higher proactive level than non-family businesses. There are several possible explanations why family businesses have developed closer relationships with the political arena. First, the founding family, particularly the founder, is often the public communicator for the company, and the founder's long tenure allows him or her to maintain a long-term relationship with politicians. A family business participant from an emerging economy revealed that he lobbies the government on policy making in order to exert a positive influence on the industry. In some circumstances, this is done to avoid unwise decisions by the politicians who lack knowledge about the industry. Second, this close relationship with local authorities strengthens the ties family businesses have with the local community giving them a small edge in business negotiations. But the benefits are mutual. In return, the local community's environment and economic businesses have an advantage when it comes to the gradual process of regional development because their need for short-term returns on their investment is less pressing.

Almost one-third of the family-business sample is acting proactively with regard to *talent management, technology leadership and maintaining long-term competitive advantage*. Rockwool International, for example, is a Danish company with operations in the BRIC countries where the labor market is very competitive and the number of qualified candidates is limited. As a result, the best talent tends not to be very loyal. Frustrated, some companies might blame this on the disloyalty of the employees, while others, like Rockwool International, have a more proactive approach. As its division managing director Henrik Frank Nielsen revealed, their HR department has developed a tool to quantitatively and qualitatively measure managers' performance. One of the performance evaluation criteria is the number of managers and expatriates a senior manager develops. They also conduct an employee perception survey annually that measures managers' qualitative achievement with a particular focus on development. Mr. Nielsen believes these tools help to effectively develop and retain talent. Yet, he admitted that the same measures cannot be duplicated in all cultural contexts and they are still adapting them to better fit their local businesses and cultural environments.

Analyzer trends for family businesses

As **Table 2** indicates, in terms of absolute numbers, being an analyzer is the entire sample's most common response to global trends – a "safe" choice for many firms in the global economy's current context. Copying competitor practices quickly in areas that are deemed less crucial also allows organizations to incorporate previous learning thereby causing less resistance within the organization.

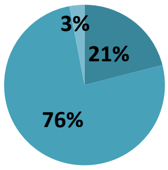
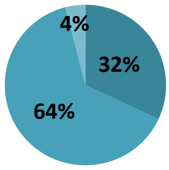
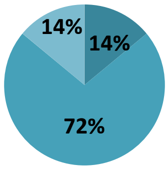
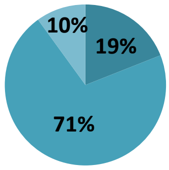
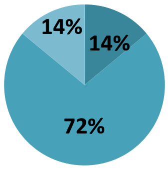
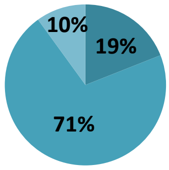
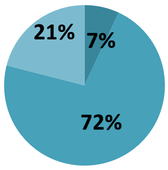
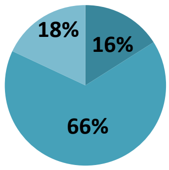
Consumer dynamics, cost-saving practices, technology talent and global trends are the highest analyzer trends for family businesses. A potential reason family businesses are prospectors in customer dynamics but analyzers in consumer dynamics is that the family businesses in our sample were business-to-business (B2B) firms for the most part. As Louis Chen from Taiwan told us, "As a manufacturer, our job is to fulfill our clients' orders. Dealing with end consumers requires a completely different business model and expertise."

Reactor trends for family businesses

As you can see from the top three reactor trends in **Table 3**, it is noteworthy to point out that 38% of the family business respondents have a relatively passive attitude towards developing women for leadership positions. This might be due to the strong attachment that family businesses have to the family's history and traditions, where a woman's traditional role is amplified.[3]

The explanation for the increased level of reactiveness on the topic of global leadership in technology is less obvious. However, family businesses do not seem to be less proactive than non-family businesses when it comes to hiring highly skilled people in critical growth markets. As Louis Chen explained, his company is a pioneer in this regard, "We have a close relationship with the professional schools in China and Vietnam. We offer scholarships to students who agree to come and work for us once they finish their studies. Around 200–300 students are joining us each year, and the turnover rate in the subsequent three years is 50%, which is quite good. This percentage of turnover is healthy for our industry because manufacturing needs enthusiasm; it is more important than experience."

Table 2: Top 4 analyzer trends for family businesses

	FB	Non-FB
My company works to meet changing consumer dynamics and expectations in order to ensure its long-term competitive advantage.		
My company is pursuing cost savings through conservation efforts.		
My company has technological training programs to ensure that we have highly skilled people in critical technology areas.		
Using the internet as a tool, my company is developing processes so that employees are aware of the latest global trends.		

Prospector Analyzer Reactor

[3] This conclusion potentially could be biased by the industry, region, culture and religion of the family business sample.

Table 3: Top 3 reactor trends for family businesses

	FB	Non-FB
My company is working to identify and train top talented women for leadership positions.	38% 17% 45%	24% 23% 53%
My company works to be a global leader in technology.	31% 17% 52%	17% 34% 49%
My company is developing processes to hire highly skilled people in critical growth markets such as the BRIC countries (Brazil, Russia, India and China).	24% 14% 62%	26% 20% 55%

Prospector Analyzer Reactor

Family businesses: Working for the next generation

While there are always pros and cons to every strategy, being too long-term focused can also lead to short-term myopia. As Henrik Frank Nielsen of Rockwool International put it, "The fact that we are very much long term but locally focused might punish us for paying too little attention to the environment around us at the moment." And the bigger and older the family business, the longer-term their view seems to be However, time has witnessed the success and longevity of many family businesses and perhaps the most viable explanation is, as John Varley, the estates director of The Clinton Devon Estates, a UK-based business for 22 generations, put it, "At public firms, people are working for the next shareholder meeting. At Clinton Devon, it is the next generation. Our long-term view allows us to invest in projects that others wouldn't dare touch."

To be proactive on a long-term basis requires top-management support, which is often difficult in purely public firms that face short-term results pressure from financial markets and find their senior management replaced at short intervals. One OWP participant told us that the family's long-term focus drives the company to view sustainability as a priority. This allowed the company to engage in green label and environmentally friendly products twenty years before the green trend emerged. John Varley told us his company is proactively reacting to climate change, water supply and population growth. Whether it is in construction, habitat management or cutting-edge vertical axis wind turbines, the company always holds energy efficiency and local environmental protection as a priority. He thinks family businesses have a natural advantage in acting responsibly because they don't do it only to please the government, shareholders and consumers; they do it because they believe it is the right thing to do for the next generation.

Long-term proactiveness is about vision and risk taking with the expectation of returns in the long run.

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